

A business with  
social objectives

Southern  
Housing  
Group   
[www.shgroup.org.uk](http://www.shgroup.org.uk)



**Group Financial Statements and  
Annual Review 2015-16**

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





# Contents

Performance KPIs	4
Chair and CEO introduction	7
Who we are and what we do	8
Our business model	10
Corporate Strategy	14
Employer of opportunity	19
Sustainability	21
Market overview	23
How we are responding	26
What sets us apart	30
Value for money	34
Development	37
Governance	38
Committees	40
Risk	49
Financial performance and position at end of year	52
Audit Committee Report	60
Afterword	63
Group Financial Statements	64
Report of the Board	65
Independent Auditors' Report	68
Statement of Comprehensive Income	76
Statement of Financial Position	77
Statement of Changes in Reserves	78
Consolidated Statement of Cash Flows	79
Notes to the Financial Statements	80

*The consolidated financial statements of:*

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

# Performance KPIs



**£218** ▼

Average repair cost per unit

**£222** in 2014/15



**81.8%** ▼

Satisfaction with last repair

**94.3%** in 2014/15



**99.98%** ▲

Gas servicing

**99.5%** in 2014/15



**27.8 days** ▼

Voids average re-let time

**30 days** in 2014/15



**1.81** ▲

Interest cover

(lowest covenant 1.15)

**1.73** in 2014/15



**£57.5m** ▼

Surplus on operations

**£59.3m** in 2014/15

The above KPIs provide an overview of key parts of the business and give an overall indication of how we are performing as a business. While there are areas where we could improve, the Group's performance throughout the year has been good and we have either maintained a steady path or delivered improvements in many areas of the business.

The average cost of repairs has decreased, as have our voids average re-let time, while the work we have done to increase our capacity to deliver new homes has improved so that we can now realise our development potential. Likewise, we have maintained a high rate for our gas servicing and through a concerted effort we managed to hit 100% certification over a number of months during the year.



**18.3%** ▲  
Staff turnover  
**14.5%** in 2014/15



**73%** ▼  
Overall  
customer  
satisfaction  
with service  
**75%** in 2014/15



**100%** ▲  
Units vs capacity  
on site  
**39%** in 2014/15

Our financial performance has also been good; we continue to operate well within the covenants our lenders have set. The underlying surplus on operations has reduced by £1.0m and reflects an increase in planned maintenance investment of £1.4m.

The decrease in satisfaction with last repair is due to poor performance from some contractors and has led to a decrease in overall customer satisfaction.

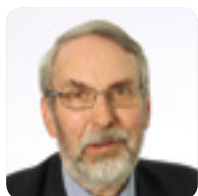
We expect to see improvements in both of these areas as our transformation programme embeds an increasingly strong focus on customer service and streamlines processes. Similarly, our transformation programme has introduced a number of changes that has resulted in a temporary increase in staff turnover in some areas.



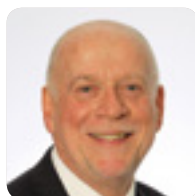




# Chair and CEO introduction



**Malcolm Groves**  
Chairman



**Tom Dacey**  
Chief Executive

The proposed extension of the Right to Buy policy to charitable housing associations consumed a good deal of our time in 2015/16. After considerable debate the Board decided to sign up to the voluntary agreement brokered with Government by the National Housing Federation. We believe that this agreement is the best way to secure our future as an independent charitable business.

Our position remains that an organisation founded through a benefactor's bequest to provide housing for people in need should not be forced to sell property against its will. Similarly, we do not think it is appropriate to force local authorities to sell their highest value vacant stock to fund the discounts for housing association tenants. Neither measure does anything to enhance the supply of new homes that London and the South East desperately need.

The Chancellor's Autumn Statement of 2015 further emphasised the unambiguous shift of Government policy towards home ownership, with little recognition of the growing demand for sub-market rented housing. The sector's new 'affordable' housing programme for the three years from 2018/19 comprises 400,000 new homes, 335,000 of which will be for various home ownership schemes. We are justifiably proud of the work we have done to help applicants into home ownership and the work of our open market sale company, Southern Space Ltd, is an integral part of our rounded offer on home ownership. However, funding home ownership at the expense of a sub-market rent programme makes no provision for the needs of a large part of our population.

Our business outcomes from 2015/16 were, once again, very positive. We have retained our G1, V1 rating from the social housing regulator and similarly maintained our rating at A1 with Moody's. Our surplus on operations of £57.5m, although down on last year's result is encouraging as significant one off costs were incurred in the year.

The transition to the new accounting framework under FRS 102 has been particularly labour intensive, hopefully for one year only, and thanks must be expressed to our colleagues in finance and our auditors at PwC for their efforts on our behalf.

As a long term business we need to respond to our customers' current demand and anticipate the future needs of the communities with which we work. In this regard the Building our Future transformation project enters its second year building upon the solid progress made in 2015/16.

The unanticipated event of 2015/16 was the reclassification of the sector as public corporate, rather than private. We welcome the Government's de-regulation agenda that will hopefully result in the reclassification of the sector as private corporate in the near future.

Our challenge is to provide excellent services for our customers, develop a range of new homes for a spectrum of needs, remain an employer of choice, and continue to build on our financial strength. We believe that succeeding in meeting these challenges will fulfil the needs of all our stakeholders.





# Who we are and what we do

Since the Group was founded in 1901 as the Samuel Lewis Housing Trust, we have been providing homes to people in housing need across London and the south east of England. Our commitment to this purpose has remained steadfast over time and, as our business has grown, we have augmented our offer to deliver a range of services that benefit not just individuals, but entire communities. Today, Southern Housing Group manages around 27,000 properties and provides a home to more than 66,000 people across London and the South East. With a commitment to building and providing high quality, affordable homes, we are one of the UK's leading housing associations.

As a business with social objectives, our commitment extends beyond providing affordable, high quality homes to the traditional social housing customer base. We offer homes and services to customers who need support or have disabilities, the elderly and other people in housing need. Those in low paid employment in particular are a growing market and provide an often-overlooked group with low-cost quality homes and, at the same time, deliver a stable income stream that can be reinvested in our housing stock and services to benefit all of our customers. We also work with our

customers to provide a range of support services. Our financial advice, IT literacy, employment readiness and community improvement activities deliver significant value and have a positive impact on our customers' lives.

We are in a strong position and are poised to grow more quickly than in the recent past. We can focus on building and developing a wide range of products and services for all our markets, with a specific focus on the financially disadvantaged. This strength also ensures we are well placed to respond effectively to the passage of the Housing and Planning Act 2016, the Welfare Reform and Work Act 2016 and other changes the future may bring.

We have never distributed our profits; every penny of surplus we make is reinvested in our business and used to build new homes, improve existing properties, and to provide services to help residents. This ensures we can continue to increase both the number of homes available and the opportunities we offer to our customers to improve their lives. As we continue to develop and support more customers, we seek to balance the risks of growing our business with the opportunities this presents.





## Helping residents into employment

As part of our commitment to providing services beyond a home, last year we invested almost £30,000 to deliver employment skills training alongside football sessions for residents in the Brighton and Hove area.

Working in partnership with the charitable arm of Brighton and Hove Albion FC, Albion in the Community, the money was used to hold football training each week and personal well-being sessions. These one-to-one sessions focused on areas such as motivation, confidence building and awareness of mental health and addiction issues.

Residents were also offered one-to-one support with skills that will help them find work such as CV writing, different interview techniques, job searching, and mentoring through home visits and online.

We delivered a similar project with Albion in the Community last year in Durrington where more than 105 residents took part. The appeal of the football training combined with the work readiness training makes this a hugely popular initiative.

The project has benefited everyone involved, from the young people taking part and their families to local employers and the community in general.

One resident who took part in the programme, Marcus Moore, said that he had seen a huge change in the people who were taking part.

"Since I've been doing it I've known half the guys to stop going out and getting into a bit of trouble. Almost all of us have gone out and got jobs, and we've grown as a group of friends.

"It has been great to get out and meet new people and learn new skills. Not just football skills but life skills, communication skills. I think there's only about two people who haven't got jobs since we started."

Anthony Sutherland also said that he had found it a great experience and that he had really experienced the benefits.

"The training is a safe place to meet new friends – basically, it's a different social life. It boosts your confidence around working, your self-esteem. It's all about the help you can get. I've got lots of new certificates through college that can go on my CV to help me find work."





# Our business model

As a long-term landlord we believe that if we maximise the value we can gain from our resources, we can provide high quality housing and support services for our customers and create effective, long-term relationships with our partners.

## Our approach

We take a commercial approach to business and have a broad asset base across a wide variety of areas. We offer a diverse range of

products and services that ensure we remain financially robust and flexible enough to meet both our customers' and employees' needs as they continue to develop.

## Delivering value

By offering high quality, affordable homes to people who need them, we support and improve the lives of our many customers throughout London and the South East.





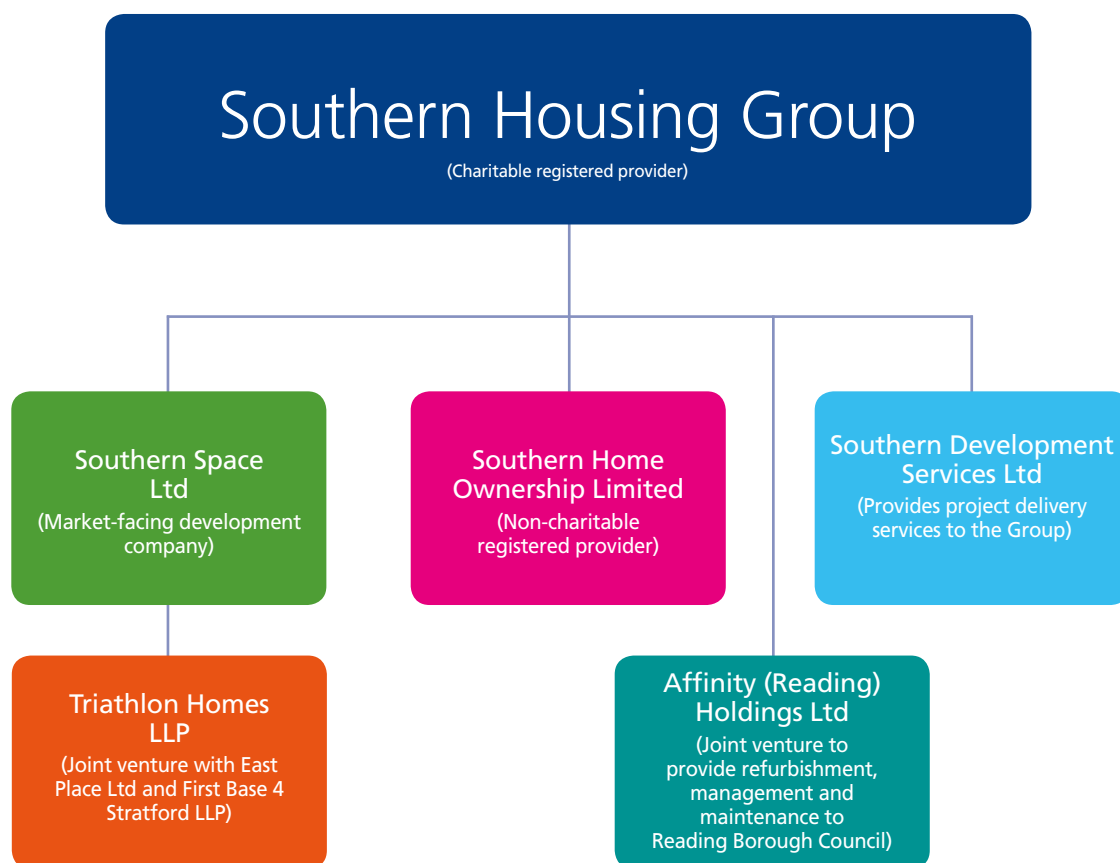


We offer a range of activities and assistance to enhance our customers' lives.

## How we are organised

Southern Housing Group Limited (Southern Housing Group or the Group), the parent company, is a charitable organisation and both it and Southern Home Ownership Limited are registered providers of affordable housing and are regulated by the Homes and Communities Agency. Southern Housing Group focuses principally on providing homes for rent through a variety of tenures, while Southern Home Ownership operates our shared ownership portfolio.

Southern Space Ltd develops properties for outright sale, generating profits for the Group to reinvest 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. Southern Housing Group has a 50% share in Affinity (Reading) Holdings Limited, a Private Finance Initiative in Reading, which manages 1,318 homes, while Southern Development Services Limited provides project delivery services for companies in the Group.







## Celebrating 10 years of Southern Space Ltd

In October 2015 the Group celebrated the 10th anniversary of its open market sale arm, Southern Space Ltd.

Southern Space Ltd builds private residential schemes on predominately brownfield sites throughout the south east of England. Since it was first launched, the Southern Space Ltd team has delivered almost 400 homes across London and the South East, generating more than £35m in surplus to reinvest in building homes and providing services for our customers.

Southern Space Ltd's most recent development, Fivash House, was originally the Group's regional office in Horsham, Sussex. The site was initially earmarked for open market sale, however the Group recognised its ability to create a steady and long-term income from an existing asset, so the decision was made to offer the properties for private rent.

Following an investment of almost £1.8m, the ageing office space has now been converted into 14 much-needed homes in the centre of Horsham.

The new homes themselves proved extremely popular, with almost 60% let within just six days and we expect them to deliver an excellent long-term return on investment.





# Corporate Strategy

Our aim to build on our foundations as a business with social objectives has progressed well this year, with a renewed focus on delivering customer service excellence and an increased emphasis on offering homes to customers who are working yet remain financially disadvantaged. Our history of providing homes to the low paid has meant that we have been able to build a financially strong and independent business that is progressing well on its journey to become a modern and customer-focused organisation.

This past year has presented the sector and our business with unprecedented challenges, with new government policies around housing that will have significant financial impacts on our bottom line and on the way we operate. We have maintained our strategy and refined our approach to meet these challenges, and this has provided the organisation with a strong financial position and an ongoing commitment to remain independent.

Our Group Board and Executive Team have worked together to anticipate and address a number of the key challenges these changes may present in the future.

## **Ensuring we prepare for and respond to changes taking place in the wider sector is a key factor to securing our business.**

We do this through a number of different approaches to ensure we mitigate our risk and exposure as much as possible. For example, this year the Board and Executive Team revised the Corporate Strategy framework to address the key challenges the organisation faces in anticipation of and

in response to changes taking place in the external environment. They also met with other housing providers and funders, and engaged with and lobbied Government decision-makers around key social housing issues on a regular basis.

With housing high on the Government's agenda and key policies featuring strongly in the 2015 general election, we have continued to develop our risk methodology to make sure we both understand and manage risk across the Group. The Board and Executive Team have also dedicated time to undertaking business plan stress testing to ensure our resilience in the face of combined external pressures and have implemented processes to meet increasing expectations from the housing regulator, including the creation of an assets and liabilities register to ensure transparency and easy access to business critical information.

We have taken the 1% reduction on social housing rents each year over the next four years into consideration in our business planning to ensure we can withstand the impacts this policy will have on our finances. Our financial modelling shows that this rent reduction will result in a cumulative £45m reduction in our cash flow over the next four years. To address this issue staff members are continuously encouraged to find ways to deliver greater value for money. There is also a clear and strong approach to procurement, ongoing budget monitoring, reviews of processes to cut waste and an effective asset management policy. These savings and efficiencies will ensure we remain a strong, viable and financially independent organisation.





Our Corporate Strategy helps us meet the challenges facing the sector.

### **Improving our ability to collect rental income remains a priority as Government changes continue to be implemented.**

Following the changes introduced through the Government's welfare reforms, we implemented a series of plans to ensure we can collect rent from our customers and support them through providing advice and assistance around ways to pay.

We continue to carry out comprehensive checks on new affordable housing residents and our arrears recovery process remains robust.

We have also sustained our investment in programmes to help residents find work, thereby reducing their reliance on benefits, and we offer customers access to a dedicated team that can provide financial assistance and guidance. In addition, we are proactively engaging with those at risk of the impact of welfare reforms and have implemented a system to identify at an early stage customers who may fall into tenancy arrears so we can offer them excellent preventative support, which has yielded significant results.



Our aim to develop new properties to provide more homes for people who need them has long been a key priority for the Group.

# 60

planned open market  
sale units converted  
into private rental and  
shared ownership  
properties

### **An additional key risk will be if we fail to offer value for money in our housing services.**

One of the key challenges the Group has identified through its Corporate Strategy deals with this risk and staff members are continuously encouraged to find ways in which they can deliver greater value for money. There is also a clear and strong approach to procurement, ongoing budget monitoring, reviews of processes to cut waste and an effective asset management policy.

### **The extension of the Right to Buy programme, which has the potential to erode the Group's asset base through customers purchasing their homes under the scheme**

As we are fundamentally a long-term landlord we have reluctantly signed up to the voluntary Right to Buy agreement. This will allow us to maintain a greater amount of control over the homes that will be available to purchase. Our approach to managing Right to Buy requests will continue to develop as Government policy becomes clearer.

### **Land supplies are limited and expensive and this could hamper our efforts to continue to build more homes.**

Our aim to develop new properties to provide more homes for people who need them has long been a key priority for the Group. The shortage of skilled labour is increasing construction costs, which in turn compounds the challenge of our aim to grow our development programme while maintaining affordability for our customers. With this in mind, we will carefully manage our approach to building new homes in historic core areas, especially inner London boroughs, and balance opportunities with the need to provide new homes in areas of significant growth. We are also looking for alternative delivery models to ensure we can continue to develop new homes, while at the same time building new relationships in growth areas so we can capitalise on future opportunities.





## Supporting affordability

One of our largest multi-tenure schemes in London is located at Bow River Village. With the site offering more than 300 properties for Londoners by 2018, it provides customers the opportunity to live in a highly desirable area at an affordable price.

Recognising the growing need for affordable housing in East London, the Group made the decision to convert more than 60 planned open market sale units into private rental and shared ownership properties.

This new approach leverages the Group's strong financial position to provide a greater amount of affordable housing and will provide ongoing income streams that can then be reinvested to build more homes for people who need them.

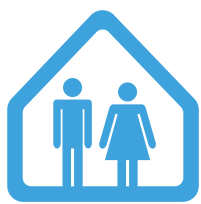
With an ever-growing demand for more rental homes and shared ownership properties in London, this change will also offset some of the risk of building properties for open market sale.



Bow River Village is one of our newest developments.



Our employees provide a range of services to our customers.



# Employer of opportunity

Our people play a critical role in our success and we invest in activities and programmes to ensure we can recruit, develop and retain talented people within our business.

## Induction and training

We offer an excellent induction programme to make sure our team members are given the best possible start to their career within the Group. We also deliver extensive opportunities and invest significantly in training in a variety of areas, which provides access to multiple career paths within the organisation and ensures that we create a strong pipeline of talented people. Our excellent internal learning and development function and access to technical and professional training ensures we can deliver outstanding career progression opportunities.

## Apprentice and work placement programmes

We believe in enhancing prospects for people just starting their careers and, as such, for the past five years the Group has offered four permanent apprenticeship posts each year across our care and support services. The apprentices each complete a Level 2 qualification in Health and Social Care on the Isle of Wight and, at the end of the programme, those who complete the course often find work within our team. This year we have also trialled a paid work placement programme with our residents to give them opportunities to gain both work experience and the confidence required to develop a career.

## Equal opportunity

Southern Housing Group is proud of its diversity as an organisation and advocates for equal opportunities for everyone. We are committed to offering equal pay for men and women and have a zero-tolerance

policy of discrimination and harassment of any kind. Our working arrangements include flexible and compressed hours, which supports a wide range of people to develop a rewarding career while continuing to balance other priorities.

We are particularly proud to have grown the number of women represented on our Board and among our leadership team. Recruitment and promotion within the Group is based on possessing the relevant skills, experience, qualifications, aspirations, potential and aptitude, and we treat all applicants in an equal and fair manner.

## Paying the Living Wage

This year we also began to introduce our commitment to paying living wage levels to our employees. The 2016/17 financial year will see this become Group policy for every employee.

## Leadership development

The Group has a strong history of offering leadership and development training to talented staff members. Managers are encouraged to identify those with leadership potential and to offer them opportunities to grow their skills and reach their career aspirations. As part of this programme, we saw a cohort of 12 team members graduate from our established management and leadership course, Aspire.

As we continue on our journey towards customer excellence through the Building our Future programme we will continue to enhance our leadership and management training offer to ensure we develop the leaders of the future. We will also further improve our training opportunities and will implement innovative people programmes to make sure we can continue to hire, retain and develop a high performing workforce.





## Chantee Jansen Van Rensburg, Assistant Coach Trainer

Chantee Jansen van Rensburg joined as a Customer Services Advisor in 2012, where she initially focused very much on providing front-line support to customers who telephoned and emailed with enquiries.

"I absolutely loved working in the Customer Service Centre. It's really rewarding knowing that when someone calls in with a question or a problem, we're there to help. Most of the time we can just deal with the issue there and then, although if we do need support, we've got great housing management teams who can help," said Chantee.

In 2014 Chantee started working in partnership with the Communications Team to manage the Group's social media accounts.

"I had been interested in social media for a while and could really see how our customers could use it, so when we were asked who was interested in working with Communications, I immediately volunteered!"

Chantee is now one of the Group's most skilled social media experts and offers advice and guidance to other colleagues about the best way to respond to customer enquiries through these channels.

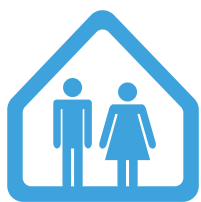
Her success in this area led Chantee to apply for a promotion to become an Assistant Coach Trainer in the Customer Service Centre.

"Getting this new role has been brilliant. On a typical day I'll be quality checking the advisors' work and training them on things like webchat and social media. I also help deliver the customer service induction for new starters.

"It's really the best of both worlds; I get to help my colleagues with training while coaching them towards providing our customers with an overall better experience, so I ultimately get to help everyone. There are always new things to learn and ways to progress. I honestly can't imagine working anywhere else."

"I absolutely loved working in the Customer Service Centre. It's really rewarding knowing that when someone calls in with a question or a problem, we're there to help."





# Sustainability

## Sustainability

Southern Housing Group's overall approach to sustainability is to reduce our impact on the environment and provide comfortable, energy efficient homes with low running costs. This applies to all of the properties we own and manage – both well-established and new build – as well as our offices and how we operate as an organisation.

Southern Housing Group is transitioning to becoming a low carbon organisation. We are being more efficient with the resources we use and are aiming to have a positive impact on the environment. These environmental aspirations align with the social objectives to make our customers' homes more affordable to live in through reducing heating, electricity, water and other running costs.

### Improving customers' homes

We take a wide variety of approaches to improving our customers' homes to ensure we are meeting the individual needs of both our residents and the local environment.

This year we have celebrated significant success as our first customers moved into Cameron Close on the Isle of Wight, our first ever PassivHaus development, an environmentally friendly approach to building design. The 28 homes on the site represent a new approach to building for the Group and in the first six months have delivered our customers with significant savings, particularly around heating costs. These homes will be monitored for 18 months and the results will be used to identify elements we would like to include and to shape our design standards for new-build homes in the future.

It is a more challenging process to make our existing homes more energy efficient, in part due to the diverse nature of our housing stock. Each building is unique and there is no 'one-size fits all' solution. In most instances customers remain living in their home while we are carrying out any work, so we need to limit the disruption any work causes to customers' lives.

Since 2014 we have had the Home Energy Advice Team (HEAT) in place, a group of advisors who visit customers in their home to offer guidance and support on saving money, energy and achieving a warm home at an affordable cost. This team has now visited more than 1000 homes and helped customers save more than £250,000. With a strong reputation among customers, this year the team also began delivering paid services for customers of another housing association.

While HEAT has been successful in its approach of taking referrals to the service, in future it will take a proactive approach and help set up new homes to ensure customers are as energy efficient as possible when they first move into their home. They will also work closely with customers who are in rent arrears to help them become more energy efficient and to save money on heating and water costs.

### Reducing our offices' environmental impact

Key to our overall Sustainability Strategy is to reduce the impact our offices and operations have on the environment. We have undertaken a significant amount of work to improve the efficiency of our head office in London through refurbishment, including the addition of solar panels to the roof. This means that 5% of our energy is solar powered and we only access electricity from the grid when we have used all that we are producing.

We are currently looking at how we manage our offices and operations to identify how we can become more efficient and meet our sustainability aspirations. This will include implementing an agile working approach to reduce staff travel, switching to digital communications where possible to reduce paper use, lowering energy and water consumption in our offices and recycling wherever possible.





A young boy with a joyful expression is climbing a bright yellow playground structure. He is wearing a red t-shirt, blue jeans, and a dark blue baseball cap. His right arm is hooked over the top bar, and his left hand is gripping a vertical post. He is also holding onto the post with his right hand. The background shows a clear blue sky and a residential area with modern houses and greenery.

# Market overview

With the general election in 2015, housing became a central issue for political parties. The Conservative Party was returned with a majority and there has been a significant shift in Government policy, with two bills that impact our work passed in 2016: the Welfare Reform and Work Act 2016 and the Housing and Planning Act 2016. With a focus on home ownership and the market providing ample opportunity to purchase homes outright, this Act does not meet the needs of those who cannot afford to take this step. This makes our role as a social landlord even more important as we provide high quality, stable homes to those who would otherwise not be able to afford them. Our financial strength and independence means we are able to meet the various challenges this new focus presents. However, Government policy has the potential to impact our customers significantly, both now and in the future.

## Right to Buy

The extension of the Right to Buy scheme received a great deal of attention when it was announced and it has the ability to offer a number of customers the opportunity to move into home ownership; an option that might not otherwise be possible. However, there may be unforeseen circumstances of the extension of this policy. This includes the potential erosion of affordable rent homes for those who cannot or do not want to buy and could have a significant impact on our future customers in areas where those homes are sold.

### 1% rent reduction

The rent reduction on social housing came into effect on 1 April 2016 and will see rent drop 1% each year for the next four years.

These decreases will impact our business and we have considered both individual schemes and overall financial viability as part of assessing the impact of these reductions. Our financial strength and stability has enabled us to flex our financial plans to continue to build more homes and to reinvest in our existing stock. Nonetheless, these reductions have slowed our growth plans and will have an ongoing impact on our growth beyond 2020.

As our surplus is reinvested in our business, customers will see differences in the types of homes we deliver and the range of services we provide.

### Benefit cap and Local Housing Allowance

Among the other changes taking place in the external operating environment, the extension of the benefit cap and amendments to the Local Housing Allowance in the coming financial year will profoundly affect our customers. In an effort to address these issues we have invested considerably to mitigate the risks these changes pose to both our business and our customers.

To date we have been extremely successful in implementing support measures to help overcome the impact of the benefit cap, such as support to get customers into work and looking at their finances to help them manage within their limits. However, the latest change brings different challenges, in particular its far broader impact on families, including small families and those living outside London, who will be affected for the first time.

Our internal systems already enable us to identify and engage with anyone affected to support them where we can, however we anticipate that many more families will need to make significant budgetary changes to remain in their homes.

### Further changes will continue to create financial uncertainty in an already changing environment.

Sadiq Khan's election as London's mayor in May 2016 could have implications for housing policy, especially as housing was a number one hustings issue. The UK's vote to exit the European Union has had a short-term impact on financial markets and could also impact the property market and social policy. Operating within an environment where many issues remain unclear emphasises the need to create plans that can flex as the implications of the above issues become clearer. Our decision to broaden our target market and make our services more flexible, efficient and effective is helping to mitigate some of these risks.









# How we are responding

With the many changes and continued uncertainty around aspects external to our operating environment, we have taken a proactive approach towards managing our business to withstand the pressures these are inevitably creating.

Last year we announced our intention to undertake a major transformation programme designed to prepare our business for the future. This has proven timely, as it has effectively positioned the Group to continue on its growth trajectory while managing risk.

## Building our Future

In April 2015 we launched a new organisational transformation programme called Building our Future. This programme has been designed to look at our operating model and how we deliver services to our customers.

Our transformation is also about modernising our business and meeting the ongoing demands and needs of our customers. The programme specifically addresses key areas such as technology, operational structure and resourcing, data management, performance monitoring, communications, processes, contractor management and organisational culture.

We are taking a planned, structured approach and are engaging internal and external stakeholders to ensure we can both respond to the external environment and deliver our own aims and objectives. This will help ensure we get services right for both customers and staff, and that we remain flexible and adaptable in the future.

## Operational changes

Following on from the launch of our transformation programme, we made some key operational changes during the year. Perhaps the most significant of these was to simplify our housing management operating model, moving from five regional teams to two. This has provided us with a more efficient management structure that holds clear accountability for service delivery across a region's functions, ensuring that we continue to enhance our customer service offer. To support this we have also created a new team that focuses on customer experience and have revised our complaints procedures to help to drive improvements in this area. These changes specifically link back to our aim in the Corporate Strategy of delivering excellence in customer service.

## In-house repairs service

In addition to the transformational change we are undertaking, we have also continued to improve the way in which we deliver our repairs and maintenance contracts. By taking a blended approach where this service is delivered through a combination of in-house and external contractors, we are able to create a sound risk management model and improve both the quality of our service and gain meaningful benchmark data for use when managing contractors. Extending the reach of our in-house facility, Southern Maintenance Services, has also created savings, which can then be reinvested into new homes and improving services for our customers.



**Building our Future**  
excelling at customer service

### Provide services not tenures

The way in which we manage our product portfolio has seen a significant shift this year and we are moving towards taking a more customer-focused approach to the range of services we provide. These changes are now combined with customer insights and segmentation data that helps us deliver our services more effectively and efficiently. We have also begun to move away from delivering specific services to particular tenures, instead using customer insights to signpost residents towards the most appropriate services to meet their wants, needs and demands. It is our aim to ensure we are providing the right services to those who need them at the right time.

This shift is exemplified through the work we undertook to convert our former office site in Horsham from the planned sale of all units to become our first dedicated private rent offer, Fivash House. This decision ensured a long-term revenue stream for the Group and offers flexibility should we wish to make changes to the tenures on offer in a highly desirable part of a growing market town.

### Market facing offers

We have chosen to hedge our risk and to shift the focus of our new build programme from selling properties to offering a greater proportion of private rent and shared ownership options. This will help to ensure we retain our long-term income streams, which is diversified beyond simple sales and will help to make sure we remain financially strong and resilient to face future challenges. It will also give us flexibility in the future around how we use our assets and an ongoing revenue stream, which outright sales would not deliver. Our healthy operating surplus can then be reinvested in our business to provide further rented homes and improved services for all of our customers.

The Building our Future programme is modernising our business and helping us to meet customers' demands

**60%**

Fivash House let within six days



Our shared ownership and private rent portfolios help to secure our long-term revenue streams



## In-house service team

In June 2015 we expanded our in-house repairs team, Southern Maintenance Services (SMS), to look after customers living in Waltham Forest, Tower Hamlets, Newham, Barking and Dagenham, Havering, Greenwich, Thurrock, Medway, Brentwood and Basildon.

The change followed the success of our introduction of an in-house repairs service delivered last year in Kent. More than 95% of customers in Kent rated the Group's service at 8 out of 10 or above, while an impressive 88% give the service a 10/10.

This change allowed us to continue to provide a full range of repairs services, including cyclical, responsive and out-of-hours repairs, with the added benefits of financial savings and higher customer satisfaction. By bringing our repairs service in-house, we have now saved more than £700,000 on customer repairs since April 2014.

To extend our in-house service to this new area we directly employed 23 new staff members, including managers, supervisors, trade operatives and customer service advisors, to deliver the new service, providing expanded employment opportunities in the area.

All of the money saved through implementing the in-house repairs service is now reinvested into providing other services for Southern Housing Group customers.







## Community project to honour residents killed in WWII

In September 2015, we supported a community war memorial project in East London to mark the 75th anniversary of the Blitz.

The project honours those residents killed when a bomb fell on Hindle House in Hackney on 18 September 1940, causing the five-storey block of flats to collapse and kill seven people.

The project is an important contribution to the local Hackney community and future generations who will live in the area in years to come.

When the war ended in September 1945, many families in the Hackney area had lost their relatives in the conflict and many were buried overseas or had no grave at all, so at the time a civic funded war memorial plaque was mounted on the wall of the Community Centre at Hindle House to pay tribute to those who died.

Residents applied for a Southern Housing Group grant to restore the original plaque that had been taken down 20 years ago, which lists the names of 14 soldiers, two sailors, a fire fighter and seven civilians who were killed.

The grant offers a great example of how the Group partners with its residents to support community projects and shows our commitment to improve and develop local communities.

The first stage of the project has restored the original plaque and will be displayed on the wall of the Hindle House community centre, while the second part of the project will deliver a Blitz memorial plaque to be mounted on the external wall of the estate where the bomb fell.

A final part of the project will make the stories of the people commemorated on the memorials available online so the local community and future generations can learn about their history and pay tribute.





# What sets us apart

With 115 years' experience, we are one of the oldest housing associations in the UK. We pride ourselves on our longevity and on our commitment to providing homes for people who need them.

Key to our success has been our financial independence and our ability to remain a robust and stable organisation. During 2015, Moody's credit rating agency once again awarded us an A1 rating, evidence of our financial strength and stability.

Using this financial strength as a springboard, we have been able to thrive at a time and in an environment when many organisations are facing a reduction in activities. For example, we have a growing development programme and our new strategy aims to build at least 2,500 homes between now and 2020. In the last financial year we completed 171 properties and have started construction on over 700 homes in London and the South East.

We have invested more than £80m in new land acquisitions and property construction and we are working in a number of areas that are being regenerated, which will deliver high-quality assets to continue to strengthen our already impressive base.

Over the next 12 months we expect the number of homes under construction to increase significantly as we start to build greatly needed new homes on many of the sites we have recently acquired. Over the next five years we will invest more than £700m to deliver new homes across London and the south east of England.

We are able to invest in these areas because of our financial strength and these new properties will also provide assets that will continue to contribute to our bottom line for many years to come.



During 2015, Moody's credit rating agency once again awarded us an A1 rating



## 2,500

The number of new homes we aim to build between now and 2020.

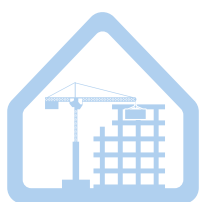
These are not the only areas where we are able to differentiate ourselves. We have also been able to identify growing calls for products and services in different areas and then target our approach according to need. London and the south east of England offer a huge variety in terms of affordability and we are aiming to meet the needs of a wide variety of customers. For example, our increasing focus on providing low-income working families in London with affordable homes is meeting the needs of an increasing market that few organisations cater for. Both our customers and our business are now reaping the benefits of our ability to provide quality homes at an affordable price to a new client base.

At a time when Government policy is introducing massive change to the sector, our financial strength and stability makes us resilient and will allow us to remain independent. It is this strength and the steps we are taking to ensure we work more efficiently that will help us to face the challenges introduced through policies such as the 1% rent reduction, Welfare Reform and Universal Credit.

This independence and our ability to adapt to challenges as they arise will ensure we can focus on our core purpose of providing homes to our customers and improving both the quality and reach of all of our services.

Our transformation programme, Building our Future, is helping us to meet these challenges and, as we continue to modernise and transform, we will deliver a highly customer-focused service and harness technology.

We consider our financial advice, and employment assistance and training programmes a core part of our business and continue to invest in these services. Our many and varied success stories achieved through these programmes is evidence of their importance to helping customers achieve their aspirations and improve their lives. This continued investment in providing our customers with more than just a home is a key differentiator for the Group.



# 700

The number of homes under construction in London and the South East



# £80m

invested in new land





## Success through Southern Works

Dylan Regan, who lives in West London, signed up to Southern Works to help him develop the skills he needed to get a job.

One of our construction contractors, Durkan Ltd, was working on refurbishing homes in Dylan's local area. He was interested in becoming a plumber and contacted the Group's Southern Works team, which worked with Durkan Ltd to offer Dylan an apprenticeship.

Durkan Ltd and Southern Works worked together to support Dylan's professional training and development.

Dylan said: "I started with Durkan Ltd in September 2015 and I was helping with all the trades. A few months later I moved to plumbing because I'd been studying this at college.

"I then did the NVQ [national vocational qualification] in Plumbing. The assessor came to

where I was working to go through it with me. It took six months to do the course but I've now passed the Intermediate level.

"I'm still working with Durkan Ltd and hope that with my new qualification, I'll be going on to work with them full-time.

"None of my friends are doing apprenticeships. I'm 19 and it feels great to have a career ahead of me."

Rajvinder Kaur, Employment Skills Development Officer who worked to help Dylan get his apprenticeship, said:

"Dylan's story shows how effective apprenticeships are for young people. This gives young people a head start on the employment ladder.

"We work with many of our contractors to offer apprenticeships and we're always open to more companies offering our residents a helping hand into full-time employment."





## Second Steps

In May 2015 we became the first housing association in the country to deliver a new service specifically for shared owners called Second Steps.

The Group worked with the Greater London Authority (GLA) to offer its existing shared ownership customers who would like to move home, but could not afford to buy a property outright.

This new service offered customers the opportunity to find a home on the open market and then receive support to purchase it on a shared ownership basis, and was designed to help shared owners buy a more suitable home that still remains affordable.

The GLA offered some funding to help purchase 50 properties as part of this pilot this year. We completed four sales with an additional six in the pipeline, which serves a growing need as the gap between incomes and house prices grows.

During the pilot, Second Steps was available to existing shared ownership customers in London and they could buy between 30% and 75% of their new property.











# Value for money

To gain a full overview of how Southern Housing Group delivers value for money, read our full Value for Money report at: <http://www.shgroup.org.uk/about-us/our-performance/annual-reports>

Part of our overall aim is to make sure that we gain value for money across all of aspects of the work we do.

Our objectives from 2015/16 are listed below and the improvements we achieved against each area are also highlighted.

To ensure we focus on the areas we would like to achieve greater value in, each year we set specific objectives and outline how we anticipate we will meet them.

2015 objectives	Anticipated value for money improvements
Start work on our transformation programme, Building our Future, to develop an efficient customer-focused, digital by design housing service	 <p>The programme has delivered a new high level operating structure and significant operational improvements. Including clearer accountability, improved business and customer focus and rationalised operating regions from 5 to 2. We are now into the next stage, which will see further structural reforms and linked service improvement and efficiencies. Likely cost savings once implemented are expected to be in the region of £500,000 each year.</p>
Continue to rationalise our use of office space	 <p>We remodelled the fourth and fifth floors of our head office in Clerkenwell, London and have leased space we have vacated to an external organisation, which will generate £400,000 each year. Our strategy for 2016/17 will see us become an agile working organisation. We will reduce our main operating offices to London, Horsham and the Isle of Wight, and will develop existing local facilities into working hubs for mobile staff. This is a long term programme and while there will be initial set up costs, we expect these changes to start delivering significant financial savings from April 2018.</p>
Generate development funding by moving 160 homes each year from social to affordable tenure	 <p>We converted 213 homes from social to affordable rent, exceeding our target by 53 homes. We have now converted 661 homes from social rent to affordable rent, generating additional rental income of £250,000 per year. This, combined with our excellent financial performance, means we have been able to increase our projected new home building target from 300 to 500 new homes each year to 2020.</p>
Expand Southern Maintenance Services' (SMS) work into our Thames Gateway region, saving money and improving service quality	 <p>This project was completed successfully, generating additional cost savings of £300,000 per year and increasing satisfaction from around 85% to 95.59%. We are now considering whether we expand Southern Maintenance Services further.</p>
Procure two new value for money repairs contracts	 <p>We completed procurement work on one new contract. The billing structure is radically different to the previous contract, so we do not yet have comparative figures. We expect a cost saving. To reduce operational risks, we extended an existing contract with a view to re-procuring in 2016-17.</p>
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	 <p>We now have 85 private rented homes with more in our pipeline. This type of property currently generates £622,000 each year and produces a yield of 4.9% on our investment. This is an expanding area of our business so we have set up a new team to manage market-facing housing products. In time we hope that it will contribute to our surpluses and enhance our ability to build more homes.</p>



## Better purchasing

One of the main ways we seek to gain better value for money is through better purchasing practises. After revising our Procurement Strategy in the 2014/15 financial year we have implemented our new approach and invested in our Procurement Team, which has provided the ability to deliver an improved focus on quality practices. This has resulted in better purchasing – and thus greater value – in a number of areas.

Project type	Number of contracts	Overall spend (excl. VAT)	Annual spend (excl. VAT)	Estimated savings	% Savings
EU Compliant	11	£4,143,540	£3,340,572	£391,175	9.44%
Routine Non-EU	29	£1,663,810	£915,983	£3,177	0.19%
Estate Services Tendersrs	7	£637,155	£190,871	£310,575	48.74%
<b>Total</b>	<b>47</b>	<b>£6,444,505</b>	<b>£4,447,427</b>	<b>£704,927</b>	<b>10.94%</b>

During 2015-16 the Group entered into 47 contracts for a total contract value of £6.4m. Our procurement activity generated estimated savings of £705,000.

## Maximising income

This year, Southern Housing Group has placed a greater focus on maximising income in a number of areas. In particular we have sought to maximise the value we gain from our assets and this has resulted in us renting out additional space in our Horsham office to existing tenants. We are making better use of the space we have at the Group's head office in London after investing significantly in the building. We have rationalised the space we occupy to vacate a floor of this building, and are now seeking a tenant in this highly attractive part of London.

## Learning

We have already achieved a great deal against the aims we set out last financial year and we seek to take the learnings forward into new projects to ensure we continue to gain value for money.

Our overall transformation programme, Building our Future, aims to improve services to residents and make the business more efficient, which will create further savings.

For more detail and examples of how we achieve value for money at Southern Housing Group, visit

<http://www.shgroup.org.uk/about-us/our-performance/annual-reports/>



# 10%

Reduce our running costs by 10% over a five year period



Greater number of private rented property contributing to our financial viability



Generate development funding by moving 180 homes each year from 'social' to 'affordable' tenure.



Our development programme provides much-needed housing across London and the South East.





# Development

The past 12 months has seen the Group reposition itself in terms of development and lay foundations for future success. Having taken a conservative approach to generating a development pipeline over the past few years and engaging in a period of stabilisation, we are now poised to increase our development programme and take advantage of new opportunities.

We have refreshed our strategy and modelling tools, and introduced a dedicated New Business Team to help us secure new schemes in future.

Our principle focuses this year have been on gaining planning permission to bring long-term land bank projects to fruition and engaging in a significant land acquisition programme across the south east. As such, we saw work begin on new sites in London in the boroughs of Hackney and Islington, and the acquisition of a site in the area of Shoreham-by-Sea, which is earmarked for regeneration and has a growing housing requirement. Now that we have consolidated our base, we are well positioned to increase our development programme and deliver a greater number of homes.

Such an approach has seen us begin working on a total of 705 new homes in addition to the 199 new homes delivered this financial year. We received £5.9m in both new and recycled grant to support the building of these new homes. This year the Group also invested more than £81.5m of the cash generated through shared ownership sales, rental income and gift-aid from Southern Space Ltd to acquire new land for the future and to build new homes for customers. Over the life of the current programme, for every unit we build we will invest £36,000 of our own money to support the development of affordable and social housing for our customers.

With the buoyancy of the housing market in the UK, especially in London, we have continued to see a high number of shared owners staircase to 100%. Our focus on building new homes for this market will continue to meet the growing need and provide an excellent revenue stream for long-term investment.

Among the new homes we have built this year is one of our biggest new multi-tenure developments in London, Bow River Village. Forming part of the regeneration of the area, Bow River Village showcases our commitment to providing quality affordable and open market sale homes and represents our desire to positively impact local communities. We expect to deliver the first phase of the project in mid-2016. This site has already proved popular, with the entire shared ownership allocation already reserved and affordable rent properties proving popular.

The second phase of our redevelopment of Lisgar Terrace in London was completed in this financial year, which created 48 new homes for social rent, ranging from one to four bedrooms. With a further three phases to be delivered between now and 2020, the works will deliver larger flats for residents, install lifts, including much better insulation, double glazed sash windows, new kitchens and bathrooms, and landscaped courtyard areas while preserving some of the original features.

With around 80 new homes delivered in London, the past financial year has also seen us hand over more than 90 new homes across the south east of England, including in Reading, Crowborough, Dover and on the Isle of Wight.





# Governance

## The Board

The Group Board oversees and directs Southern Housing Group's activities, including formulating future strategies and plans, and maintaining an overview and monitoring its subsidiaries' and committees' work. The Board meets at least four times a year to address operational and business activities, and holds at least one annual seminar to discuss strategic issues.

The Board has overall responsibility for the administration of sound corporate governance throughout the Group and recognises the importance of a strong reputation. Southern Housing Group Ltd has applied the principles of the UK Governance Code (the Code) issued in 2012 (and re-issued in 2014) on a comply or explain basis.

## Provisions not applicable to the Group are set out below:

Code paragraph reference	Code requirement	Explanation
B7.1	Annual re-election of directors	Governed by the rules of Southern Housing Group Ltd
B7.2	Election of non-executive directors by shareholders	Governed by the rules of Southern Housing Group Ltd
C3.3/D2.1	Availability of terms of reference	These will be made available during the course of 2016/17
D2.4	Long term Incentive Plans	Not applicable
E1/ E2	Dialogue with shareholders	Not applicable

Southern Housing Group Ltd confirms that the annual report has been prepared in accordance with the principles set out in paragraphs 4.6 and 4.7 of the 2014 Statement of Recommended Practice for registered social landlords. The Board confirms that the Group has assessed its compliance with the Governance and Financial Viability Standard at least once during the year and certifies that the Group is in compliance with it.

The Board members who served during the year are listed and attendance at meetings is recorded on page 46. Board members serve as independent non-executive directors, with the exception of the Group Chief Executive, and following the adoption of the Code they may serve a maximum of two continuous terms of three years.

### The current annual payment rates 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
Independent Committee member	£1,000
Resident Service Panel/Customer Voice Forums Chair	£1,500
Resident Service Panel/Customer Voice Forums Member	£1,000

Board and Committee appointments are made on merit, against objective criteria and with due regard to the benefits of diversity, including gender. The Board reserves the right to amend the maximum term in specific circumstances, such as an internal appointment to the position of Chair or where it is unable to recruit new members with specific skill sets.

The Board and each of its subsidiary Boards and Committees has detailed terms of reference that the parent Board has established and monitors. This includes meeting frequency, which is generally four times a year.

Southern Housing Group Limited Board members are paid for their services. This increases our ability to attract and retain high-calibre members and to improve mechanisms for their performance appraisal and development.

The Remuneration and Nominations Committee last reviewed Board member remuneration during 2014/15. The next review will take place in 2017/18.

## Committees

### Audit Committee

The Audit Committee meets four times each year. It recommends the appointment or reappointment of our external auditors, considers the audit approach taken and reviews findings. The appointment of the external audit firm is re-tendered every seven years and the current firm was appointed in 2012/13 and have not provided any non-audit services. The Committee receives and reviews in detail the annual financial statements, budgets and the business plan before recommending them to the Board. The Committee considers reports on 'top risks' twice each year on behalf of the Board and looks at other risk awareness documentation. It also considers all internal audit and similar reports and provides constructive challenge to the executive team on internal audit findings. The Committee also receives reports on fraud and leads the consideration of the annual Value for Money Statement.

### Customer Services Committee

Under delegated authority from the Board, the Customer Services Committee is responsible for considering all matters relating to services provision for our customers. This includes considering strategic policies, reviewing operational performance covering all aspects of services provided, and the way in which residents are involved in service delivery. The Chair of the Committee is also a member of the Group Board. The Committee's terms of reference allow for its membership to include up to six resident members and up to six independent members.

To enhance links between the Group and our residents and better understand residents' views, the Group has launched Customer Voice Forums to replace the existing Resident Service Panels as part of a new approach to resident scrutiny, listening to and acting on what our customers tell us. The ultimate objectives of the Forums are to ensure a greater clarity of focus, increase customer impact on service improvements, make a difference to the Group's service delivery and modernisation, facilitate customer-focused involvement, provide an annual Customer Voice Summit, and support the delivery of our Corporate Strategy.

In line with the Group's governance framework, the Customer Service Committee reviews significant issues the Customer Voice Forums raise and the Chair of each Forum is a member of the Customer Services Committee. These are then reported to the Group Board as part of its oversight function of delegated authorities. This enables non-executive Board members to develop an understanding of resident views about key issues affecting them.

### Group Development Committee

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



## Remuneration and Nominations Committee

The Remuneration and Nominations Committee considers 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, and non-contractual benefits for all staff. It also looks at the board's, committees' and non-executive directors' performance. Succession planning helps to balance the composition of the boards and committees to reflect our residents' profile and to ensure there is the correct combination of skills on each committee and board.

The Committee met four times during the year and was active in the appointment of the Group's new Chair, Arthur Merchant, who will succeed Malcolm Groves from the conclusion of the Group's Annual General Meeting on 18 July 2016. In total, three of the currently serving independent non-executive directors had put themselves forward for consideration as candidates for the role and it was not necessary to engage an external search consultant or use open advertising. In addition, the Committee was active in the appointment of Simone Buckley, a resident member who joined the Board on 20 July 2015, having previously been Chair of the Group's South Region Resident Services Panel and a Customer Services Committee member.

## Treasury Committee

The Treasury Committee considers in detail all aspects of treasury management, ensuring funds are available to deliver the Group's business objectives, both in the short and long-term. It also sets the Group's financial risk appetite. This Committee ensures that loan covenants are complied with and agrees intra-group lending arrangements. The Committee met three times during the year.




## Board Performance Evaluation

During 2016 the Board commissioned an independent external facilitator, George Bartlett Limited, to carry out a performance evaluation of the Board, its principal standing committees and individual members. No other connection either exists or has existed in the past between George Bartlett Limited and Southern Housing Group Limited or any Board member.




The evaluation took place between March and June 2016 and involved each Board member completing a tailored questionnaire covering the Board, its standing committees, a self-appraisal, and an appraisal of each Board member by the Chairman. The output from each questionnaire was used as the basis for subsequent structured one-to-one interviews with Board members. The process also included the observation of a Board meeting and feedback from the evaluation was presented to the Board in July 2016, which discussed the findings and recommendations.

The evaluation concluded that overall the Board, its committees and individual members were operating effectively and that, collectively, the Board has a broad range of the necessary skills and competencies to carry out its governance duties in relation to the Group's activities.

## Board member biographies and attendance records in 2015/16



Southern Housing Group Limited								
		Number of meetings attended out of (total number possible for individual)						
		Southern Housing Group Board	Remuneration and Nominations	Treasury Committee	Customer Services Committee	Audit Committee	Group Development Committee	Other Directorship
 <p><b>Malcolm Groves</b> (Chair)</p> <p>Malcolm is a communications professional with a financial services background. He has a particular interest in sustainable communities and chaired a Low Carbon Communities Project for the Ellen MacArthur Foundation. Malcolm is a Fellow of the Chartered Institute of Bankers and a member of the Chartered Institute of Public Relations.</p> <p>Appointed September 2011</p>	4(4)	4(4)					RBS Pension Trustee, RBS CIF Trustee Limited, Sustainable Chale Limited, Isle of Wight Country Club Limited, Osborne Court Management Limited, Island Cottages Limited, Chale Recreation Ground Limited	
 <p><b>Justin Chittock</b> (Chair of the Treasury Committee)</p> <p>Justin has 25 years City experience in lending to UK businesses for a number of European banks. He currently works as a Corporate Relationship Manager in a Swedish Bank that has a large operation across the UK, where he specialises in property lending and banking and treasury solutions for key customers.</p> <p>Appointed July 2011</p>	4(4)		3(3)		4(4)		Linden Business Consulting Ltd.	
 <p><b>Maureen Corcoran</b> (Chair of the Customer Services Committee)</p> <p>Maureen has over 30 years' experience in housing and community development, including working as Head of Housing for London in the Audit Commission's inspection service. She is a member of the Chartered Institute of Housing and Chair of another housing association. She works as a Blue Badge qualified tourist guide.</p> <p>Appointed July 2013</p>	4(4)			4(4)			Kingston Churches Housing Association, Maureen Corcoran Associates, Political Skills Forum, Blackheath Society	

## Board member biographies and attendance records in 2015/16



Southern Housing Group Limited							
		Number of meetings attended out of (total number possible for individual)					
		Southern Housing Group Board	Remuneration and Nominations	Treasury Committee	Customer Services Committee	Audit Committee	Group Development Committee
							Other Directorship
	<p><b>Tom Dacey</b> (Group Chief Executive)</p> <p>Tom joined the Group in 1995 after 25 years working in the housing sector in the north of England. He is a Chartered Member of the Institute of Housing, a member of the Institute of Management, and a former Chair of the G15 group of London's largest housing associations.</p> <p>Appointed July 1995</p>	4(4)	4(4)	1(3)	1(4)	4(4)	3(4)
	<p><b>Jim Hitch</b> (Chair of the Remuneration and Nominations Committee and senior independent director)</p> <p>He helped to create the award-winning Manda Wilderness eco-project in Mozambique, before setting up Incomr Limited in 2007 after 10 years in the language training sector. He is also a Trustee of The Pixel Fund, a mental health charity.</p> <p>Appointed March 2007</p>	4(4)	4(4)				
	<p><b>Steve Johnson</b></p> <p>Steve is Chief Executive of AdviceUK. He has worked in the private, public and charity sectors and has over 30 years' experience of charity and community activity at local and national levels. He is currently also a trustee of the Access to Justice Foundation, LawWorks and the School for Social Entrepreneurs.</p> <p>Appointed September 2012</p>	4(4)			3(4)		4(4)
							<p>Southern Space Ltd, Southern Development Services Limited, Triathlon Homes LLP</p> <p>Income Ltd</p> <p>Independent Advice Services Limited, VCS Insurance (Guernsey) Limited, Advanced Case Management Solutions Limited, Change Account Limited, Advice Services Alliance Limited, LawWorks (Solicitors Pro-Bono Group Limited), Southern Space Ltd, Southern Home Ownership, Access to Justice Foundation, The School for Social Entrepreneurs, Street UK Foundation</p>



## Board member biographies and attendance records in 2015/16

Southern Housing Group Limited							
		Number of meetings attended out of (total number possible for individual)					
		Southern Housing Group Board	Remuneration and Nominations	Treasury Committee	Customer Services Committee	Audit Committee	Group Development Committee
							Other Directorship
 <p><b>Arthur Merchant</b> (Chairman designate)</p> <p>Arthur is a former partner and Head of Housing for Grant Thornton UK PLC. He specialised in providing audit and advisory services to the housing sector for over 20 years and has also worked in the local authority, NHS and education sectors. He is a member of the CIPFA Housing Association Panel and sits on the Boards of two other registered providers. Until the end of 2014, he served as a Board member of the Hertfordshire Chamber of Commerce for more than seven years.</p> <p>Appointed March 2013</p>		4(4)		3(3)		4(4)	
							Aster Group Limited, (Aster Communities and Synergy Housing, Aster Property and Aster Homes), Raven Housing Trust, Raven Developments Limited
 <p><b>Paul Rees</b> (Chair of Audit Committee)</p> <p>Paul has recently retired from a career of over 30 years with PricewaterhouseCoopers LLP, where he led their Global Telecoms Industry team. He is now a Trustee of Greensleeves, which runs a group of care homes. He chairs his local Citizen Advice Bureau and is the Chairman of the Audit Committees of Surrey Police. He is a Chartered Accountant.</p> <p>Appointed July 2012</p>		4(4)				4(4)	
							Southern Development Services Limited, Citizens Advice Waverley, Citizens Advice Surrey, Surrey Police, Green Sleeves Homes Trust

## Board member biographies and attendance records in 2015/16

Southern Housing Group Limited							
		Number of meetings attended out of (total number possible for individual)					
		Southern Housing Group Board	Remuneration and Nominations	Treasury Committee	Customer Services Committee	Audit Committee	Group Development Committee
							Other Directorship
 <p><b>Tim Richards</b> Tim is a Director and founding member of Aston Rose Ltd, Chartered Surveyors. He has over 30 years' experience of advising commercial property developers, owners and occupiers, especially registered social landlords, charities and friendly societies, across London and the UK. Tim is a Fellow of the Royal Institution of Chartered Surveyors (FRICS) and a former Chair of both RICS London and RICS England. Appointed July 2011</p>		3(4)	4(4)			4(4)	Aston Rose (West End) Limited, Aston Rose Limited, Brookgate Securities Limited, Southern Space Ltd, Southern Home Ownership
 <p><b>Simone Buckley</b> Simone was previously Chair of the Group's South Region Resident Services Panel and a Customer Services Committee Member. She has over ten years' experience working within blue chip organisations both in the UK and Australia, specialising in change management, communications and business integration. Appointed July 2015</p>		3(4)			4(4)		
Members who resigned during the year: 1							
Preth Rao (resigned June 2015)		1(1)	2(2)	1(1)			

External auditors	Principal bankers	Secretary and registered office
PricewaterhouseCoopers LLP Chartered accountants and statutory auditors 1 Embankment Place London WC2N 6RH	National Westminster PLC Corporate Banking Second Floor, County Gate, 2 Stacey's Street Maidstone Kent ME14 1ST	John Price Southern Housing Group Fleet House 59-61 Clerkenwell Road London EC1M 5LA

Board member biographies and attendance records in 2015/16

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 (resigned January 2016)	1(1)
Kate Smith (appointed January 2016)	1(1)
John Crowther (appointed January 2016)	1(1)

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 (retired July 2015)	1(1)
Alan Townshend (appointed July 2015)	3(3)

Southern Space Ltd

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

Tim Richards	4(4)
Steve Johnson	4(4)
Yvette Morgan	4(4)
Hugh Stebbing	4(4)
Dale Meredith	1(1)
Tom Dacey	3(4)
Alan Townshend	3(3)
Rosemary Farrar (resigned January 2016)	3(3)
Dale Meredith (retired July 2015)	1(1)



<b>GST at meetings at which not members</b>	<b>Board</b>	<b>Audit</b>	<b>Customer Services</b>	<b>Development</b>	<b>Remuneration and Nomination</b>	<b>Treasury</b>
Tom Dacey	Member	4(4)	1(4)	3(4)	4(4)	1(3)
Dale Meredith	1(1)			1(1)		
Rosemary Farrar	3(3)	3(3)		3(4)		2(2)
Kate Smith	4(4)				3(4)	
Alan Townshend	2(4)			4(4)		
Chris Harris	4(4)		4(4)			
John Crowther	1(1)	1(1)		1(1)		1(1)



Our customers benefit from our strong governance.







# Risk

Managing risk is fundamental if the Group is to meet its corporate objectives. We have embedded a risk management culture that identifies and mitigates current risk while engaging in planning to manage potential future risks.

## Risk governance and risk appetite

Risk oversight is the Board's responsibility, with the Audit Committee undertaking a more detailed review of risks that might adversely affect the business' viability or reputation. While the Board accepts some risk is inevitable and that perfect risk avoidance is neither possible nor necessarily desirable, we believe that risks related to health and safety, financial viability and reputation must be managed and mitigated actively to minimise their likelihood. The potential cost and reputational damage a risk could have on the Group determines our risk appetite and we expect high-level controls to be set out clearly, implemented and reviewed. More operationally, staff and managers weigh the mitigation costs against the likely risk impact to determine our risk appetite and controls may be formal or informal, depending on need and appropriateness. The external environment (legal, regulatory, economic and political), our internal strengths and areas for improvement, and our financial capacity also influence our risk appetite.

## Risk and assurance framework

The Compliance Department leads the Group's combined risk and assurance framework and provides a systematic risk and assurance service. In early 2016 the Group created a role dedicated to ensuring risk mitigation, control enhancements and audit recommendations are implemented to a high standard to provide a high level of transparency to the Board.

## Risk management

The Group ensures that risks are owned and managed by the departments in which they are most evident. Financial risks are analysed and managed through the budgeting, planning and financial reporting processes, and staff manage operational risks on estates based on estate inspection procedure. Our dedicated Health and Safety Team manages risks to our residents and employees while the IT and Company Secretariat Teams manage risks around data and cyber attacks, backed up by dedicated insurance cover.

A KPMG internal audit in April 2016 looked at wider risk management across the Group and the results were positive at all levels, finding that there is a strong culture of risk management embedded within the Group. The internal auditors made six improvement recommendations, none high level, and concluded that the Board could take 'adequate assurance' from the risk management function.

Our Risk and Assurance Strategy sets out how we map and score significant risks to the Group. Risks are recorded on a risk register, together with existing mitigation control and potential control improvements. The Group Strategy Team considers the key risks to the Group twice each year and may add to the register at other times. Existing risks are considered in light of current circumstances and changes in controls. The Audit Committee reviews the top risk register in May and November each year, while the Board reviews it annually.



## Key risks

The following table sets out what the Group believes to be the current top risks to be managed at the date of this report.

Risk	Mitigation
Failure to understand and respond appropriately to changes to the external political and economic environment.	We have developed a plan to mitigate risk based on the changes the Government announced in 2015 and have introduced enhanced stress testing of the business plan. We are also finalising our assets and liabilities register and our current transformation project will prepare the business for the future with an increased focus on delivering customer service excellence.
Wide ranging Welfare Reform impacts negatively on our income.	We have undertaken extensive financial analysis and planning around the welfare reform impacts and have created a specific working group to look at this issue as it relates to residents. We continue to identify those who will be affected and work closely with them to provide advice, guidance and support.
Rent reductions planned between 2016/17-2019/20 may not be offset by cost savings or increased earnings elsewhere.	We have identified areas where we can make savings and have revisited our Development Strategy, which focuses on producing a long-term income stream.
Government's view of our sector leads to unfavourable legislation and loss of independence.	We have signed up to the voluntary Right to Buy scheme and are being clear about the financial and political barriers that make success difficult. We regularly engage with Government decision-makers and others in the housing sector in a bid to influence outcomes.
The Group's disaster recovery and business continuity plans fail to work in the event of a major incident.	We have a strong crisis reporting procedure that allows for rapid response, which is tested with colleagues regularly. We also have a dedicated website that holds business continuity plans, which IT and service providers test.
Failure to comply with financial standing orders and other internal control arrangements increases the risk of internal and external fraud and inappropriate use of Group resources.	The Group has strong and clear policies around issues such as whistleblowing and bribery and internal and external audit arrangements improve protection measures and detect potential/actual fraud. We also inspect contractor works and residents check quality. We are planning future improvements around fraud awareness training, expenditure and company credit cards.
Repairs contractors fail to perform leading to poor service and negative impact on reputation.	The Group does not rely on a single contractor for repairs across the business and provides this service directly in some areas. We also have additional support contractors in place to provide contingency cover.
Supply chain risks impact our ability to build new homes as a result of limited contractors, higher prices and schemes not being delivered on time.	We are piloting a new construction management approach and exploring options around how best to deliver current development pipeline and enable future growth.

## Key risks (continued)

Risk	Mitigation
Poor service delivery to our customers results in a failure to comply with the homes standard.	We monitor service standards and carry out resident satisfaction surveys, and learn from complaints. Our transformation programme has embedded customer service excellence as its goal.
Inaccurate source data and/or inconsistent ways of reporting casts doubt on our ability to properly monitor, control and report on our performance.	We are undertaking a programme to review and clean our data and have agreed appropriate data sets to report from. Our transformation programme also has a specific sub-set to look at data and this is an area of focus for internal audits.
Failure to deliver effective agile technology solutions delays the business realising efficiencies.	We have a number of technologies embedded across the business to enable agile working and improvements are ongoing.
Uncertainty from the UK's vote to exit the European Union is likely to impact pension liabilities, investment returns, cost and availability of funds, and the property market.	We have a robust treasury policy to ensure we have interest cost certainty with contracted facilities for the foreseeable future. We also have a flexible development programme, that allow tenures to be swapped as market and operational requirements change. Our management and Board will continue to closely monitor the implications of the exit.

## Risk scenarios and stress testing

The Group uses enhanced risk scenarios to stress test the business to determine where financial, operational and reputational weaknesses might occur in extreme adverse operating conditions. The outcome from this testing enhances our internal processes in mitigating these risks. Clear disaster recovery and business continuity arrangements are communicated to all staff through an externally hosted website and these are regularly tested. Key improvements identified are to have clearer plans in the event of a disaster and mitigation of reputational damage resulting from some scenarios.

## Internal audit

Each year the Audit Committee agrees a programme of internal audit for the forthcoming financial year, which is designed to ensure discrete areas of the business and areas of significant risk are audited regularly. KPMG carries out the Group's audits however specialist firm, Echelon Consultancy, reviews our gas safety and maintenance contract and house repairs team.

## Internal controls assurance

In addition to our risk management and audit work, the Group keeps a register of key control areas and details of the controls in place, which is reviewed and updated annually. Each year the Board reviews the internal controls assurance report and framework.

## Assets and liabilities register

This is the first year there has been a regulatory requirement to maintain an assets and liabilities register. The Group's internal auditors, KPMG, has reviewed the register's development, which provided comfort that we have complied with the regulatory requirement to maintain a record of its assets and liabilities. The Group's Executive Team will regularly review the register and make ongoing updates to it, and the Audit Committee and Board will now review it on an annual basis. Maintaining and improving the assets and liabilities register is now an embedded requirement in the transformation of our service provision and IT infrastructure.



# Financial performance and position at the end of year

## Accounting policies

The Group has adopted FRS 102 this year for the first time, which has a material impact on both the annual financial performance presented in the Statement of Comprehensive Income (formerly the Income and Expenditure Account) and of the Group's assets and liabilities, presented in the Statement of Financial Position (formerly the Balance Sheet). These changes reduce the Group's 2014/15 surplus by £16.7m.

The most significant of the changes is in the way in which we present Government grants and how we report non-cash impacting market valuation movements on our investment properties and interest rate hedges.

Historically, the social housing grant we received was netted off against the gross cost of building or acquiring properties built using this funding. We now report the gross cost of the property in the Statement of Financial Position and the depreciation is based on this gross cost and charged to the Statement of Comprehensive Income. The social housing grant is presented as a long-term liability and is amortised through the Statement of Comprehensive Income over the anticipated building life, should this property be sold or staircased the historic grant amortisation will be written back. The net increase on our surplus before tax is £3.4m in 2014/15 (re-stated).

Economic and cash flow hedges previously taken out to provide interest cost certainty for our variable rate loans are now reported at their market value. The change in value is included in the Statement of Comprehensive Income as a below operating surplus movement and has the potential to create material differences in our reported net surplus. This change is a reduction of £18.9m in 2014/15.

Market valuation adjustments on our listed investments and investment property portfolio reflect the effect of both the rising residential and commercial property market and also the Group created through enhancing its head office in 2015. These combine to deliver a £4.7m increase in the accounting surplus.

The FRS 102 adjustments resulting from Triathlon's derivative instruments valuation has resulted in it declaring overall negative reserves. This means that the Group's £9.3m profit share of its investment in Triathlon is no longer included in the reported surplus. There is no impact on Triathlon's underlying ability to trade or Triathlon's directors' assessment of it as a going concern.



## Financial performance

	2015/16 FRS102	2014/15 FRS102	2013/14 UKGAAP	2012/13 UKGAAP	2011/12 UKGAAP
	£m	£m	£m	£m	£m
Turnover from rental activities	160.4	156.4	139.4	133.4	124.7
Operating costs from core activities	(110.0)	(103.8)	(96.80)	(97.9)	(95.9)
<b>Surplus from core operating activities</b>	<b>50.3</b>	<b>52.6</b>	<b>42.6</b>	<b>35.50</b>	28.7
Rental activity margin	31%	34%	31%	27%	23%
Sales income	53.1	74.1	57.9	84.1	37.6
Cost of sales	(26.7)	(41.6)	(32.1)	(52.3)	(24.7)
<b>Surplus on non-core activity</b>	<b>26.5</b>	<b>32.5</b>	<b>25.8</b>	<b>31.8</b>	12.9
Surplus from revaluation of investments	5.2	4.7	-	-	-
<b>Operating Surplus on operating activity and disposal of assets</b>	<b>82.0</b>	<b>89.8</b>	<b>68.4</b>	<b>67.3</b>	41.6
Surplus from Joint Ventures	0.1	0.1	2.4	0.0	1.1
Corporate costs	(32.0)	(55.2)	(33.5)	(28.6)	(24.8)
<b>Net surplus for the year</b>	<b>50.2</b>	<b>34.7</b>	<b>37.3</b>	<b>38.8</b>	17.9
Total Units	24,542	25,665	25,920	25,437	25,088
Operating margin core activity	31.4%	33.6%	30.6%	26.6%	23.0%
Operating surplus per unit core activity (£)	2,051.46	2,049.09	1,644.21	1,397.49	1,145.33



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

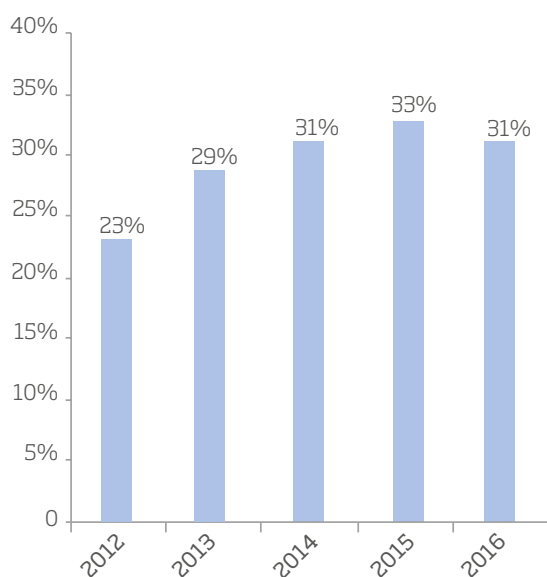
## Rental turnover trend

Our strategy to broaden our product range has continued to bring benefits. Our 3.5% rental income growth is greater than the former regulatory rent settlement of CPI +1% for social housing and reflects the impact of increasing our private rent and affordable rent portfolios. These two products represent growing areas for our business and offer a consistently high quality product to a new customer base. Our approach of re-assessing rent levels as properties become vacant ensures rents are both affordable and that they maximise possible rental income for the Group.

All of our social tenures continue to deliver healthy operating surpluses, with affordable rent now gaining critical mass and starting to show an improved surplus per unit over other social rented tenures.

	2015/16			2014/15		
	Units	Operating surplus on lettings £000	Operating surplus on lettings £ per unit	No. of units	Operating surplus on lettings £000	Operating surplus on lettings £ per unit
All social rented housing	19,831	36,113	1,821	20,452	33,811	1,653
Shared ownership housing	2,762	4,965	1,798	3,535	5,302	1,500
Affordable rented housing	926	1,722	1,860	635	961	1,513
Intermediate rented housing	953	4,305	4,517	987	4,697	4,759
Private Rent	70	144	2,057	56	24	429

### Operating margin on core activities



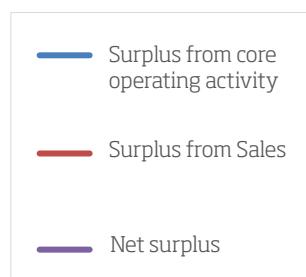
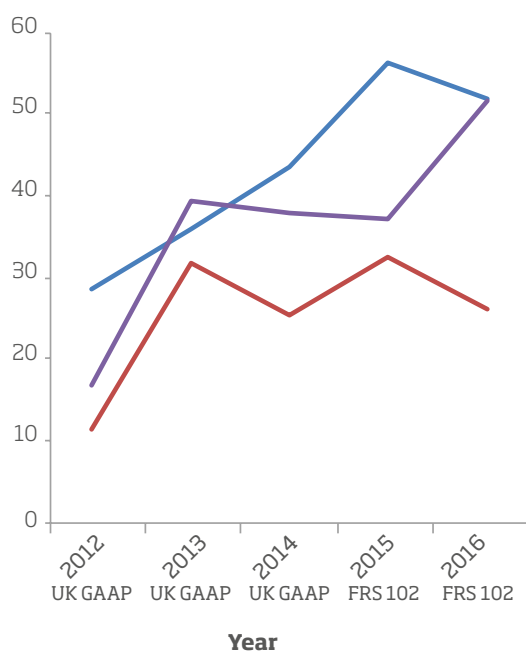
### Core margins

Core margins have decreased this year, as a result of costs relating to pension deficit contributions, early stage work on new long-term development projects, and moving costs from capital to revenue to invest in infrastructure. Our IT strategy is increasingly employing the benefits of cloud based services, which transfers cost away from upfront capital investment into revenue costs.

The Group has been able to absorb these costs and continue to deliver a strong financial performance. This demonstrates the Group's long-term viability and our ongoing non-reliance on proceeds from one-off sales allows us to take a more flexible approach to our development pipeline.

This strength in underlying performance is key to our ability to respond to changes in legislation and the overall market without having to make reactive cuts. At the same time it allows us to continue to invest in the quality of our existing stock and to building new homes. The requirement to fair value our financial instruments is the primary reason for the increase in net surplus, despite falling surpluses from core and sales activities.

### Group surplus (£m)



### Sales performance

The continued buoyant property market across London and the South East has once again driven strong staircasing of shared ownership properties, which has improved our surplus per unit and increased our margins on these sales compared to previous years. The rising property market has also seen a huge demand for shared ownership properties, which has once again delivered strong results for first tranche sales.

In line with the business plan and expectations, the Group's surplus on its sales and staircasing activity is £6.0m less this year. Last year's surpluses included benefits from the final year of the Group's stock rationalisation programme and significant sales within London. The surplus was also affected because of the focus on long-term growth over short-term sales. For example, Southern Housing Group retained units at Fivash House for use as private rent properties to deliver long-term returns rather than selling them on the open market.



Benchmarking					
	UNDER FRS 102	UNDER UK GAAP			G15 2014/15 Average
	2015/16	2014/15	2013/14	2012/13	
Management cost per home	£1,560	£1,303	£1,230	£1,184	£1,408
All maintenance costs per home	£1,062	£960	£845	£860	£913
Total operating cost per home	£3,959	£3,446	£3,320	£3,412	£3,802
Service costs per home	£571	£567	£540	£566	£251
Operating margin for social housing lettings	31%	31%	30%	26%	30%
Rent loss between lettings	0.4%	1.1%	1.5%	1.5%	0.4%
Average re-let days for empty homes	28	30	43	23	35

## Benchmarking

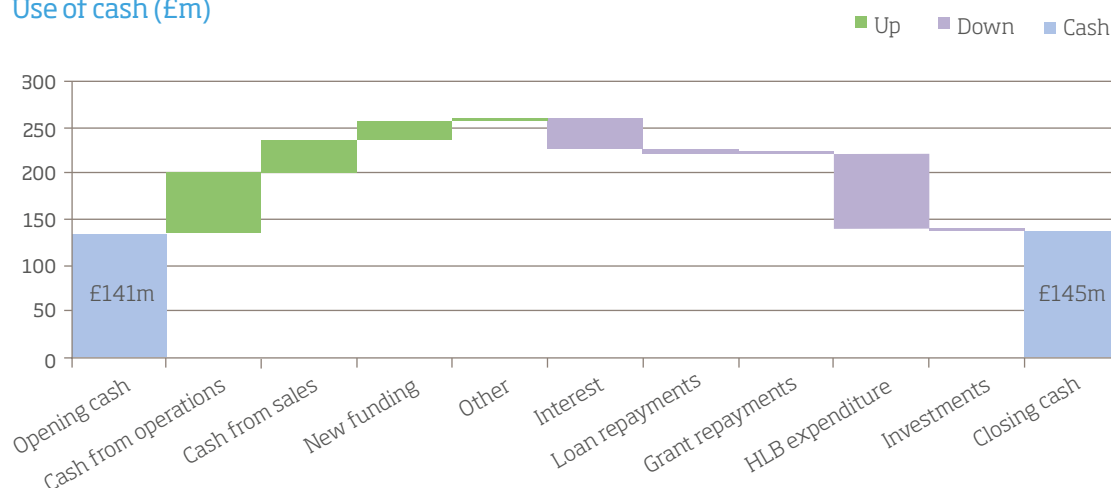
The Group's cost per unit has grown this year because of the one-off and investment activity noted above. However, despite these cost increases the Group has maintained its operating margin in line with sector averages. This is in part due to a focus on improved letting performance, minimising the time taken for new residents to move into their home.

HouseMark G15 benchmarking summary 2014/15					
Indicator	Southern	Quartile	Upper	Median	Lower
Housing management £ cost per general needs property	557	2	488	589	665
Cost of finance dept as % of turnover	2.17%	3	1.78%	2.07%	2.17%
HR costs as % of turnover	1.44%	3	0.90%	1.21%	1.50%
Cost of IT as % of turnover	3.03%	M	2.72%	3.03%	3.14%
Central support functions as % of turnover	4.46%	2	3.02%	4.81%	5.51%

The HouseMark G15 Benchmarking data for 2014/15 shows the Group's costs are generally in line with the average across the sector. While this is satisfactory, we continue to use our internal service improvement team to review and improve our processes. A wholesale review of the way finance supports the Group's operations is well under way and the Building our Future transformation project will deliver benefits.

## Cash flow

### Use of cash (£m)



## Investment strategy

### Asset management

This financial year represents a renewed focus on increasing our investment in existing properties, in particular around providing new windows, kitchens, and bathrooms to ensure we continue to offer a high quality home to our customers. With increasing customer expectations and our focus on transforming our business to deliver customer service excellence, our investment in existing properties will continue to increase. In part this reflects our approach to providing more properties to working families at an affordable price, as with the increased level of rent comes a greater expectation around the quality of the property.

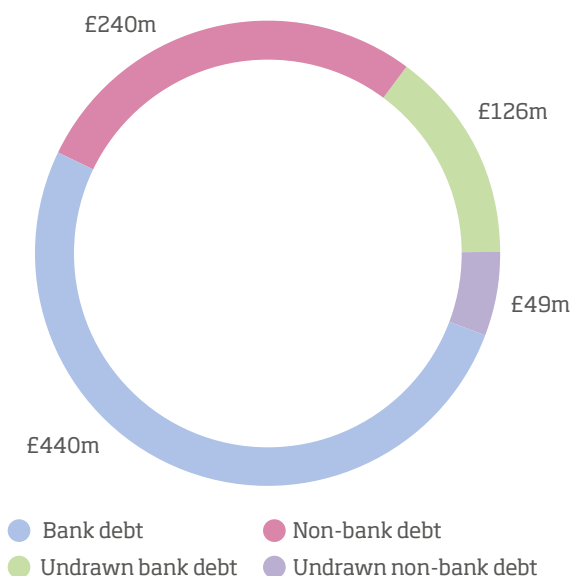
## Treasury strategy

The Group's treasury strategy focuses on risk management to ensure cash resources are available to deliver day-to-day customer services or to spend on investment activity.

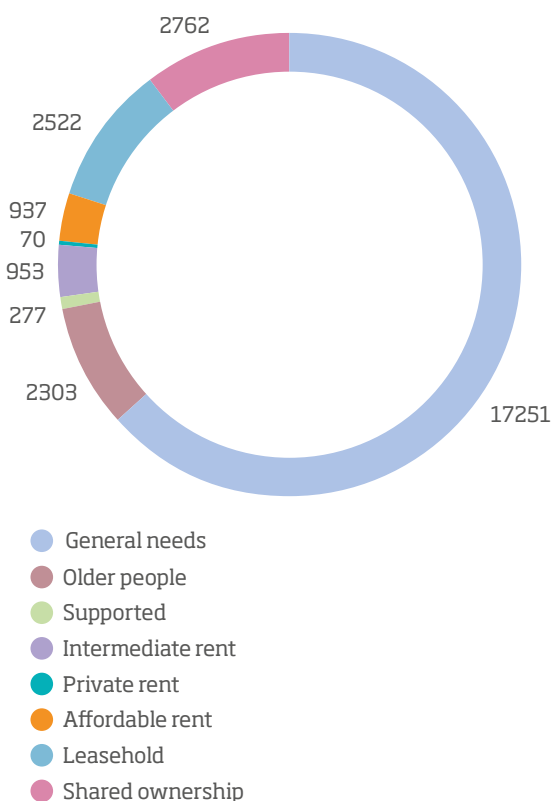
Since 2013 the Group has proactively sought to reduce its reliance on bank and building society funding and in 2015/16 we reduced this from 68% to 66%. This year a local authority, we have strong strategic ties with, lent the Group £20m to further diversify our access to funds. This investment took the form of a cash deposit at attractive rates to both parties and has established an alternative funding route for the future.

The Group's unrestricted year end cash balance of £136.5m and the £126m of instant access credit facilities in place provide sufficient liquidity to cover operational and planned investment cash flows for at least two years. This is well in excess of the 18 months the Homes and Communities Agency requires.

## Group funding profile as at 31 March 2016



## Southern Housing Group Limited owned and managed units



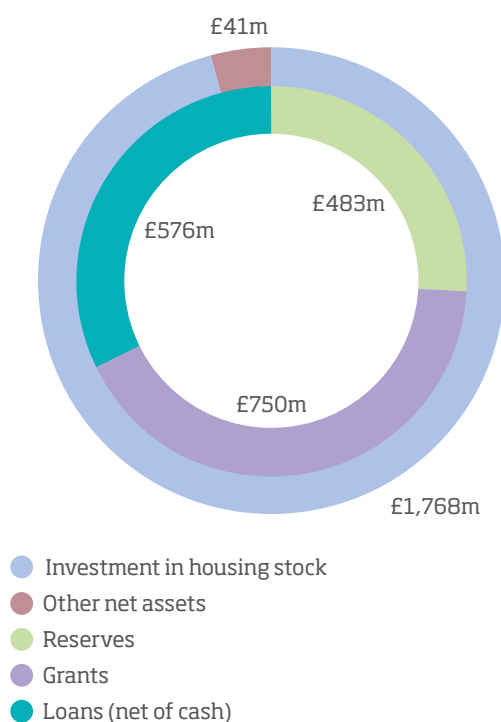
### Asset base

We have continued to reinvest all of our profits in our assets. Since 2014/15 the proportion of our own resources invested has grown from 23% to 26%. As grant rates have fallen dramatically, we will see this trend continue as we drive our growth and investment objectives. Diversifying our product and service offerings is key to delivering robust surpluses and having strong reserves in the future.

### Debt repayment

The Group has limited re-financing risk in the next five years, with just over 10% of our debt maturing in this period. To mitigate medium-term refinancing risk as part of our 2014 bond issue, the Group contracted to issue £49m of bonds in 2019 to match bank debt that matures at this time. We also have the option to issue the £50m retained element of the 2014 bond before 2019.

### Funding of assets



### Interest structure

We only use derivatives to manage the risks associated with changes in interest rates and some of the impacts of inflation. Southern Housing Group does not enter into arrangements for speculative purposes.

Under FRS 102 accounting framework we now have to record any such arrangements within the accounts at market or fair value rather than the face value.

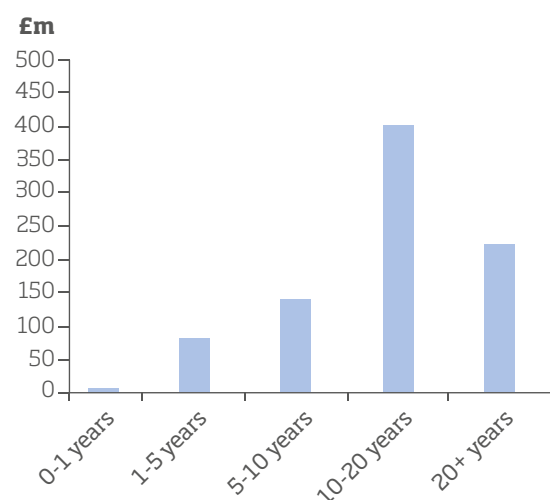
Our Treasury policy states we should hold a combination of fixed, variable rate and index linked interest rate loans. Fixed arrangements can either be embedded within specific loans or directly through Bond arrangements or delivered by separate derivative instruments. Not less than 50% of the total debt at any time should be fixed by one of these methods.

The recent low interest rate environment means we have fixed the interest rate on a higher proportion of our debt than usual.

Looking forward as we draw down variable rate debt under our committed facilities to fund our growth, we will see the proportion of variable rate debt increase but we will always see fixed rates exceed 50% of our total commitments.

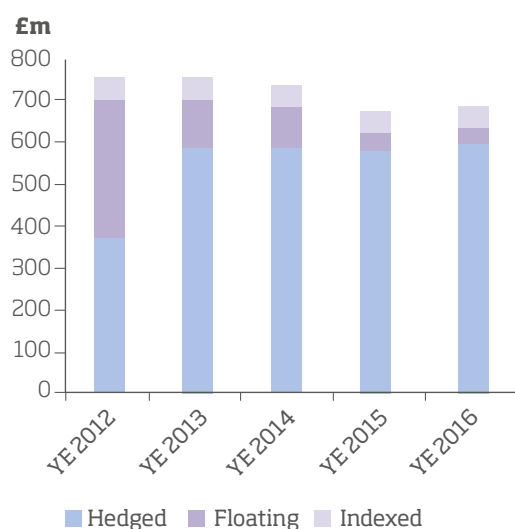
The average interest rate for the Group during the year was 5.1% (2014/15: 4.9%), which is a slight increase as a result of re-paying £50m of predominantly low rate variable loans at the end of 2014/15 taking advantage of surplus cash at year end. £35m of this is available for redrawing should it be required in the future.

### Group debt maturity profile at 31 March 2016





### Interest exposure profile



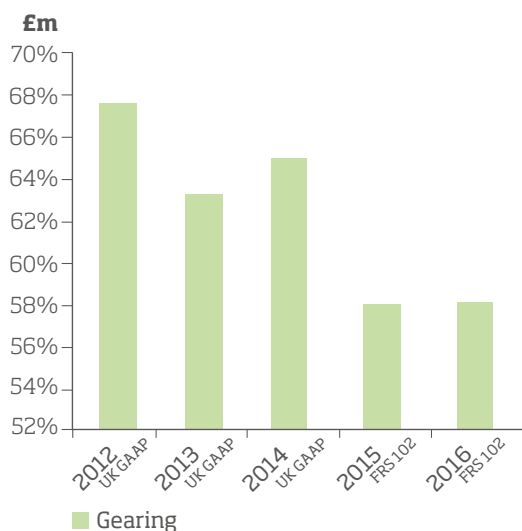
### Gearing and interest cover

Within our bank and building society loan agreements the principal two covenants monitored are gearing and interest cover.

Over the last two years we have restored gearing to a position where we can invest more ambitiously to deliver our growth aspirations and still operate within our gearing covenants. We consistently operate well within our interest cover covenants.

All of our borrowings are secured against our underlying property assets. At year end we had over 9,200 properties uncharged.

### SHGL - Gearing



### Southern Housing Group's A1 credit rating

Southern Housing Group's steadfast position in the sector has been endorsed by credit rating agency Moody's Investor Services, which again rated us as A1 after carrying out a detailed credit analysis.

The strong rating is a vote of confidence in the way that we organise our finances and manage risk, as well as our guardianship of the legacy left by our founder, Samuel Lewis, over 100 years ago.

Despite the widespread financial challenges over recent years, we have kept focused on improving performance and worked hard to increase efficiency and to strengthen our financial position.

The Moody's rating will give additional confidence to our stakeholders that in uncertain times, Southern Housing Group remains independent, reputable, financially sound and well managed.





# Audit committee report

## Purpose of the report

The Audit Committee has the delegated authority from the Boards of Southern Housing Group Ltd and its subsidiaries to oversee the Group's audit function, monitor the integrity of the financial statements and review the Group's internal control and risk management systems. The Group adopted the 2014 UK Code of Governance with effect from the 2015/16 financial year.

## Committee composition

The Committee had three standing members who are members of the main Board; Justin Chittock, Arthur Merchant and Paul Rees. Karen Penney, General

Manager and Vice President of American Express Commercial Payments UK, is a fourth committee member. Her role at American Express oversees Sales and Account Management, Partnerships, Finance, Product Development, Marketing and Strategy, together with Account Management and Strategy for small - mid-sized companies in Europe.

Paul Rees is the nominated member of the Committee and has significant, recent, and relevant experience.

Board member biographies can be found on pages 42 to 45.

## Compliance with the terms of reference

Principal areas of responsibility for the Audit Committee	Issues addressed in the year
Ensuring the systems of internal control the Group employs are satisfactory and work effectively	<ul style="list-style-type: none"> <li>• Risk strategy, top risks and management mitigations reviewed twice</li> <li>• Areas and instances of potential fraud and whistleblowing were reviewed, together with control and process improvements</li> <li>• Reviewed a report on internal control assurance</li> <li>• Reviewed compliance with UK Code of Governance</li> </ul>
Monitoring and reviewing the work of the internal audit function (outsourced to KPMG LLP)	<ul style="list-style-type: none"> <li>• Reviewed the annual cycle of internal audit reviews, aligning to the corporate risk map and timing of previous reviews</li> <li>• Reviewed progress against previous internal audit recommendations</li> <li>• Commissioned additional reviews to address the specific regulatory requests for the creation of Asset and Liability registers and to perform stress testing</li> </ul>

Principal areas of responsibility for the Audit Committee	Issues addressed in the year
Selecting the external auditors, monitoring their performance and approving the provision of non-audit services	<ul style="list-style-type: none"> <li>• Recommended the re-appointment of PricewaterhouseCoopers LLP</li> <li>• Reviewed the management letter the auditors presented and management's responses to this</li> <li>• Reviewed compliance statement</li> <li>• No non-audit services were provided this year</li> </ul>
Monitoring the Group's financial performance	<ul style="list-style-type: none"> <li>• The Group's long term business plan was reviewed regularly during the year in response to external changes</li> <li>• Reviewed the annual budget and recommended its adoption to the Group Board. The budget is consistent with the long-term plan and supports the delivery of the Board's objectives for the Group</li> <li>• Each meeting of the Committee reviews financial performance with explanations of key variances</li> <li>• Received regular updates on the adoption of the FRS 102 framework and approved the adoption of new accounting policies</li> <li>• Reviewed the production, content and format of the annual financial statements and recommended its acceptance to the Group Board.</li> <li>• The Committee reviewed the Group's value for money performance</li> </ul>
Regulatory compliance	<ul style="list-style-type: none"> <li>• Reviewed regulatory compliance. The Group is regulated by the HCA Regulation Committee, which uses in-depth assessments as its key regulatory tool. The Group was not chosen for one of these assessments during the year and maintained its G1 V1 ratings</li> </ul>
Other	<ul style="list-style-type: none"> <li>• The Audit Committee's Terms of Reference was reviewed in line with the annual review cycle</li> <li>• The Group's financial regulations were reviewed in line with the annual cycle and minor changes were made to the delegated authorities to reflect changes to the organisational structure</li> </ul>

### **Review of the Group's external auditors**

The appointment of the Group's external auditors is re-tendered every seven years. Following best practice and in accordance with its Terms of Reference, the Committee annually reviews the Group's external audit requirements and considers, the external auditors' independence and performance before recommending to the Board their re-appointment.

A detailed audit plan was received from the auditors and its appropriateness for the needs of the Group was considered and approved. PricewaterhouseCoopers LLP raised no significant issues during the course of its audit.

### **Internal audit**

The Group outsources its internal audit requirements to KPMG LLP, which has expertise in both financial audit and the Group's regulatory environment. A specialist company, echelon Consultancy Ltd, also provided specialist audit review of the work of the in-house repairs team. In accordance with the audit plan 11, the Committee received audit reports with all but one report achieving one of the two highest levels of assurance. No reports indicated 'No assurance'. The internal auditors also performed a stress testing review and the production of the asset and liabilities register outside of the audit plan in response to developing regulatory requirements.

The Committee receive periodic updates on the progress of the implementation of the recommendations the internal auditors made.

### **Accounting policies**

The Committee, together with the external auditors, considered the requirements of the FRS 102 framework and Statement of Recommend Practice for registered housing providers adopted by management to ensure the financial statements present a balanced and appropriate view.

### **Priorities for 2016/17**

The Committee welcomes the appointment of James Francis, the incoming Finance Director, who will work with the Committee to focus on the continual improvements needed to meet the requirements of the evolving regulatory framework and in ensuring the Group's financial position can deliver the needs of existing and future customers.



**Paul Rees**  
Chair of Audit Committee





# Afterword

## Malcolm Groves

As I step down as Chair following the Annual General Meeting, I have been reflecting on the significant changes that have taken place during my leadership of the Board and how the business has responded to continue to achieve its social objectives.

We have left behind an environment that, with the benefit of hindsight, appears to have been a period of generous grant support to enable us to build and local authority funding payments to help us provide an extensive programme of care and support. Now we are seeking to do more by using our own resources and being more effective in everything we do as the needs we seek to meet have not gone away. London in particular has massive unmet demand for decent affordable homes.

For me, the strength of the Group is in constantly adapting and improving the way we work and the way we create our own funds to continue to grow and fulfil our charitable purposes.

I have been fortunate to have such a skilled and hardworking Board to provide clear support and direction as well as an organisation full of people who are enthusiastic, committed and adaptable. As a result, we have been able to continue to prosper.

I would like to place on record my thanks to you all with the confidence that Southern Housing Group will continue to succeed.

A handwritten signature in dark ink, appearing to read 'Malcolm Groves'.

**Malcolm Groves**  
Chair of the Board



# Financial Statements

During 2015/16 the Board fully supported and complied with the principles set out in the National Housing Federation's Code.



## 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 its financial position. This is designed to enable the Board 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 2015. The Board 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

From 1 April 2015 the Board has adopted the UK Corporate Governance code.

### Internal controls

The Board is responsible for the Group'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 2016 and up to the date of the approval of the Annual Report and the Financial Statements. The Board reviews processes at least annually, while the Audit Committee reviews them twice a year.



## Main policies established to provide effective internal control

### Risk assessment

The Group's objectives are established within the context of the Group's Corporate Strategy. 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. The Audit Committee fulfils this function.

### 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 that 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 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 Compliance Team. KPMG LLP meet quarterly with the Group 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 the Audit Committee.

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 2016 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 Group.

### Statement as to disclosure to auditors

Each individual who is a director at the date of approval of this report confirms that:

- They consider the annual report and accounts as a whole to be fair, balanced and understandable, and that they provide the information necessary for stakeholders to assess the Group's performance, business model and strategy
- So far as the directors are aware, there is no relevant audit information of which the Group's auditors are unaware
- They have taken all the steps they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

### Malcolm Groves

Chairman  
On behalf of the Board  
18 July 2016



## Report on the financial statements

### Our opinion

In our opinion, Southern Housing Group Limited's Group and Parent Association financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Parent Association's affairs as at 31 March 2016 and of the Group's and of the Parent Association's income and expenditure and of 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 Private Registered Providers of Social Housing from April 2015.

### What we have audited

The financial statements comprise:

- the Group and Parent Association's Statements of Financial Position as at 31 March 2016;
- the Group and Parent Association's Statements of Comprehensive Income for the year then ended;
- the Group and Parent Association's Statements of Changes in Reserves for the year then ended, and
- the Group and Parent Association's Statements of Cash Flows for the year then ended;
- 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 the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

### Our audit approach

#### Context

Our audit for the year-ended 31 March 2016 was planned and executed having regard to the operating, economic and political environment the Group and Parent Association operated in during the year. This included the impact on the financial statements due to changes to government policy and welfare reforms, which we considered as part of our areas of focus on impairment of assets; the adoption of Financial Reporting Standard 102 (FRS102) for the first time; and the house building and property market in the areas in which the Group provides housing services.

#### Overview



- Group materiality was £2.2m which represents 1% of total revenue.
- The Group comprises four trading entities and two trading joint arrangements.
- We conducted a full scope audit of the four trading entities. We engaged a component team to conduct a full scope audit of one joint arrangement while the other joint arrangement was not significant from the perspective of the Group.
- These audit procedures covered 80% of group revenue and 95% of group total assets.
- Risk of fraud in revenue recognition;
- Transition to FRS102;
- Impairment of assets;
- Capitalisation of internal costs; and
- Fair value of financial instruments.



## The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK and Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
<p><b>Risk of fraud in revenue recognition</b></p> <p>See note 1 to the financial statements for the Group's disclosures of significant accounting policies, judgements and estimates relating to the recognition of revenue, and note 2 for further information.</p> <p>The three main sources of revenue for the Group are rental income, surpluses on sales of housing properties, and other income.</p> <p>We focused on this area because there is a heightened risk in the following areas:</p> <ul style="list-style-type: none"> <li>• rental income – the risk of a fictitious property being set up or amended on the housing management system, as well as the application of incorrect rent or rent weeks during the financial year. This consideration applies to both social and commercial rental income.</li> <li>• surpluses on sales of housing properties – the recognition of sales potentially being recorded in the incorrect period around year-end in order to meet certain sales targets.</li> <li>• other income – this includes management fees, support costs and revenue grants. The recognition of other income is heightened due to the risk that revenue may be deferred into the next year once the likely year-end position is known to be in line with expectation for the Group.</li> </ul>	<p><b>Recognition of revenue</b></p> <p>We evaluated and tested the accounting policies for revenue recognition to ensure they are consistent with the requirements of FRS102 and the Statement of Recommended Practice "Accounting by Registered Social Landlords" updated in 2014 (SORP) and we noted no issues in this respect.</p> <p>Rental income is recorded through journal entries due to the interfacing between the general ledger and the housing management system. We traced a sample of journals to the housing management system to establish the amounts were supported by a rental agreement. We also tested a sample of rent accounts on the housing management system to ensure they had been set up, amended and terminated correctly with reference to rental agreements. Lastly, we tested a sample of rents recognised around year-end by tracing to rental agreements. We noted no material issues in these respects.</p> <p>For surpluses on sales of housing properties, we tested a sample by tracing the transaction to underlying records to determine whether the revenue was recognised in the correct period. The underlying records included invoices, contracts, correspondence and management's working papers where applicable. We noted no material issues in this respect.</p> <p>For other income, we tested a sample by tracing the transaction to underlying records to determine whether the revenue was recognised in the correct period. The underlying records included invoices, contracts, correspondence and management's working papers where applicable. We noted no material issues in this respect.</p>



Area of focus	How our audit addressed the area of focus
<p><b>Transition to FRS102</b></p> <p>See note 1 to the financial statements for the Group's disclosures of the related accounting policies, judgements, estimates, and note 31 for further information on the Group's transitional adjustments.</p> <p>The first time adoption of the new UK GAAP reporting framework FRS102 has been a significant change to the Group's financial reporting. This has included changes to accounting policies, additional disclosure in the financial statements and terminology.</p> <p>We focused our work to consider that firstly the Group had identified all the required adjustments and secondly those adjustments were made using the correct judgement and recorded at the correct value.</p> <p>The key areas affecting the Group during the transition were as follows</p> <ul style="list-style-type: none"> <li>• valuation and classification of investment properties;</li> <li>• valuation of financial instruments;</li> <li>• recognition of social housing grant liability to the statement of comprehensive income over the life of the housing properties;</li> <li>• bringing a pension deficit funding agreement onto the statement of financial position as a liability; and</li> <li>• presentation of disclosures in the financial statements.</li> </ul>	<p><b>Valuation and classification of investment properties</b></p> <p>We obtained and read the relevant sections of the valuations performed by the Group's surveyors. We used our own valuations experts to evaluate the assumptions and methodology applied in the valuation exercise.</p> <p>We found the assumptions and methodology applied to be consistent with our expectations.</p> <p>We checked that the surveyors had a UK qualification, were part of an appropriate professional body and independent of the Group.</p> <p>We tested the underlying data (upon which the valuation was based) back to rental agreements for a sample of properties. We found the valuation to have been based on up to date rental agreements.</p> <p>We tested the disclosure of investment properties to ensure they were classified correctly. No issues were noted.</p> <p><b>Valuation of financial instruments</b></p> <p>This is covered separately in the area of focus "Fair value of financial instruments" below.</p> <p><b>Recognition of social housing grant liability to the statement of comprehensive income over the life of the housing properties</b></p> <p>Section 24 of FRS102 sets out the accounting requirements for all government grants. A social housing grant is received by the Group to assist with the cost of development of their housing properties, and therefore there is an ongoing linkage between the cost of constructing housing property and government grant. Where housing properties are measured at cost the accrual model for recognising the associated grant reflects the substance of the overall transaction as the grant is matched to the life of the underlying asset.</p> <p>We tested the underlying useful economic life over which the social housing grant was amortised to check it was consistent with the useful economic life over which an asset was depreciated. This was done by checking that the useful economic life agreed to the life assigned on the fixed asset register. No material issues were noted.</p> <p><b>Bringing a pension deficit funding onto the statement of financial position as a liability</b></p> <p>We checked that the for the Social Housing Pension Scheme ("SHPS") pension deficit funding agreement was recognised on the Group's statement of financial position. This was by agreeing the deficit recognised to the pension deficit funding notification. No material issues were noted.</p> <p><b>Presentation of disclosures in the financial statements</b></p> <p>We checked that the transition to FRS102 was disclosed in the Operating and Financial Review and the financial statements.</p> <p>This was to ensure accounting policies were disclosed within note 1 with significant accounting estimates and judgements clearly set out due to it being a new requirement. In addition, the effects of the transition to FRS102 are disclosed within note 31. We noted no material issues.</p>





Area of focus	How our audit addressed the area of focus
<p><b>Impairment of assets</b></p> <p>See note 1 to the financial statements for the Group's disclosures of the related accounting policies, judgements, estimates, and use of experts relating to the impairment review undertaken, and note 10 for further information including the determination of the Cash Generating Unit and calculation of Recoverable Amount for social housing properties.</p> <p>The Group has £1,750 of property, plant and equipment as at 31 March 2016 (31 March 2015: £1,709m), which is the largest asset on the Group's balance sheet. This is measured at cost less depreciation and is subject to impairment reviews if a trigger event occurs.</p> <p>Although market prices have continued to increase, particularly in London and the South East, careful monitoring of impairment exposure continues to be necessary. The Group's development plans also carry financial risks where contractor or development issues are experienced and land is held without planning permission or approved scheme development appraisals.</p> <p>In particular, the rent reduction in the Welfare Reform and Work Act 2016 ("the Act") was an impairment indicator on social housing properties. The Act required registered providers of social housing in England to reduce social housing rents by 1% a year for four years and to comply with maximum rent requirements for new tenancies.</p> <p>This required an assessment of Recoverable Amount of social housing properties across the Group. The SORP requires that, firstly, the Recoverable Amount is determined by calculating the value-in-use by calculating a net present value ("NPV") of future cash flows based on the current rental values of the units. In some cases, the value-in-use was lower than the carrying amount. Where this happens, the SORP allows for an alternative calculation method to be used for those social housing properties, being depreciated replacement cost. This is the lower of the cost of constructing an equivalent asset or acquiring one on the open market. The key assumptions used in this analysis were the discount rate, inflation, the percentage change in social housing rents and the average construction cost per unit. Overall, this result identified that no impairment was required.</p>	<p>We obtained the Group's impairment assessment for social housing. A Cash Generating Unit was defined at a scheme level, being a housing property development. For the discount rate, we compared it to the Group's weighted average interest rate for borrowing. For inflation, we compared it against external forecasts. For the percentage change in social housing rents, we compared it against the Act. For the average construction cost per unit, we checked it to the audited year-to-date construction cost. We found the assumptions and methodology applied to be consistent with our expectations.</p> <p>We considered, based on our knowledge of the Group, whether the Group had any future plans that would impact on the usage (and, hence, valuations) of the properties. We noted no issues.</p> <p>We checked that the Group correctly disclosed details of the impairment process in the financial statements. We noted no issues.</p>



Area of focus	How our audit addressed the area of focus
<p><b>Capitalisation of internal costs</b></p> <p>See note 1 to the financial statements for the Group's disclosures of the related accounting policies, judgements and estimates, relating to the capitalisation of expenditure, and note 7 for further information.</p> <p>The Group continued to develop a large number of housing property schemes during the financial year across London and the South East, with the Group's largest ongoing developments being at Bromley River Village, Shoreham, Moorfields, and London Lane. As part of that, the Group capitalised internal costs related to the construction of housing.</p> <p>The percentage rate at which borrowing costs are capitalised on developments is an area of judgement. The Group capitalised interest on properties under construction using its weighted average interest rate for borrowing. This was 5.1% for 2015/16 (2014/15: 4.9%).</p>	<p>We evaluated and tested the accounting policy for the capitalisation of expenditure, with a focus on internal and borrowing costs, to check the policies were in accordance with the requirements of the SORP and FRS102. We found no issues.</p> <p>We also tested the Group's weighted average interest rate for borrowing. This was done by testing a sample of the interest rate and loan balances used to calculate the Group's weighted average interest rate for borrowing. We noted no issues.</p>
Area of focus	How our audit addressed the area of focus
<p><b>Fair value of financial instruments</b></p> <p>See note 1 to the financial statements for the Group's disclosures of the related accounting policies, judgements and estimates, relating to the fair value of financial instruments, and note 19 for further information.</p> <p>The Group applied the recognition and measurement methodology of sections 11 and 12 of FRS102 for financial derivatives for the first time.</p> <p>There is a risk of material misstatement due to the decision in the classification financial derivatives as either basic or other upon recognition, as well as the valuations of the respective financial derivatives.</p> <p>The classification of a financial instrument stems from whether a contract results in a financial asset arising in one entity and a financial liability arising in another. As such, the key conditions to consider are what form of return the lender will receive and the contractual terms. The key assumptions in the valuation are with reference to market inputs.</p> <p>We considered the key areas of focus to be the:</p> <ul style="list-style-type: none"> <li>• accounting policies;</li> <li>• assumptions used to estimate the valuation of derivatives; and</li> <li>• disclosure of financial instrument transactions.</li> </ul>	<p><b>Accounting policies</b></p> <p>We evaluated and tested the accounting policy for the valuation of financial instruments to ensure that it is consistent with the requirements of FRS102. This was to determine the classification of instruments as either basic or other after reviewing the underlying agreements in place. This was with reference to the criteria detailed within FRS102 sections 11 and 12. We did not identify any issues.</p> <p><b>Assumptions used to estimate the valuation of derivatives</b></p> <p>The Group uses bank valuations to determine the fair value of the swap portfolio. We reviewed and re-performed a sample of valuations based on the assumptions available from the banks and market data to check they were materially correct. We noted no material issues.</p> <p>We used our own valuations experts to reperform the valuations. We found no material differences.</p> <p><b>Disclosure of financial instrument transactions</b></p> <p>We read the disclosures of the Group to check the disclosure of the key financial instruments and that they were compliant with FRS102. We noted no issues.</p>



## How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the environment in which the Group operates.

The Group comprises four trading entities. We scoped all trading entities to audit for group reporting purposes because they all required individual statutory audits.

For one component, we performed group level analytical procedures over the out of scope components to re-examine our assessment that there were no significant risks of material misstatement within these. In addition, for one further component, a non PwC component team performed a full scope audit under our instructions. The full scope audits by the group and component team covered 80% of Group revenue and 95% of Group total assets.

The Group audit team instructed the component auditor as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group audit team approved the component materiality having regard to the size and risk profile of the component. Telephone conference meetings were held with the component auditor to discuss the findings reported to the Group audit team in more detail, and any further work required by the Group audit team was then performed by the component auditor.

## Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<b>Overall Group materiality</b>	£2.2m
<b>How we determined it</b>	1% of revenue
<b>Rationale for benchmark applied</b>	We applied this benchmark, which is a generally accepted measure when auditing not-for-profit organisations, to calculate overall materiality. We believe this to be the most appropriate financial measure of the performance of the Group and the measure used by the users of the financial statements.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £109k as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## Going concern

The directors have chosen to voluntarily report how they have applied the UK Corporate Governance Code (the "Code") as if the Parent Association were a premium listed company. Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group and Parent Association have adequate resources to remain in operation, and that the directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and Parent Association's ability to continue as a going concern.



## Other required reporting

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

#### We are required to report to you if, in our opinion:

<ul style="list-style-type: none"> <li>information in the Operating and Financial Review is: <ul style="list-style-type: none"> <li>– materially inconsistent with the information in the audited financial statements; or</li> <li>– apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Parent Association acquired in the course of performing our audit; or</li> <li>– otherwise misleading</li> </ul> </li> </ul>	We have no exceptions to report.
<ul style="list-style-type: none"> <li>the statement given by the directors on page 67 that they consider the Operating and Financial Review taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group and Parent Association's performance, business model and strategy is materially inconsistent with our knowledge of the Group and Parent Association acquired in the course of performing our audit.</li> </ul>	We have no exceptions to report.
<ul style="list-style-type: none"> <li>the section of the Operating and Financial Review on page 60 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.</li> </ul>	We have no exceptions to report.

## The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

### As a result of the directors' voluntary reporting on how they have applied the Code, under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

<ul style="list-style-type: none"> <li>the directors' confirmation on page 49 of the Operating and Financial Review, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.</li> </ul>	We have nothing material to add or to draw attention to.
<ul style="list-style-type: none"> <li>the disclosures in the Operating and Financial Review that describe those risks and explain how they are being managed or mitigated.</li> </ul>	We have nothing material to add or to draw attention to.
<ul style="list-style-type: none"> <li>the directors' explanation on page 52 of the Operating and Financial Review, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.</li> </ul>	We have nothing material to add or to draw attention to.

## Adequacy of accounting records, system of internal 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:

<ul style="list-style-type: none"> <li>a satisfactory system of control over transactions has not been maintained; or</li> <li>we have not received all the information and explanations we require for our audit; or</li> <li>proper accounting records have not been kept by the Parent Association; or</li> <li>the Parent Association's financial statements are not in agreement with the accounting records.</li> </ul>	We have no exceptions to report arising from this responsibility.
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## Other voluntary reporting

### Matter on which we have agreed to report by exception

#### Corporate governance statement

The Parent Association voluntarily prepares a corporate governance statement in accordance with the provisions of the UK Corporate Governance Code.

The directors have requested that we review the parts of the Corporate Governance Statement relating to ten further provisions of the UK Corporate Governance Code specified for auditor review by the Listing Rules of the Financial Conduct Authority as if the Parent Association were a premium listed company. We have nothing to report having performed our review.





## Responsibilities for the financial statements and the audit

### Our responsibilities and those of the directors

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 Parent 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 & 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 Group's and Parent Association'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 and Annual Review 2015-16 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

(Senior Statutory Auditor) for and on behalf of  
PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
21 July 2016

- (a) The maintenance and integrity of the Southern Housing Group Limited website is the responsibility of the directors; 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.



## Consolidated Statement of Comprehensive Income

	Note	Group 2016 £000s	Group 2015 (Re-stated) £000s	Association 2016 £000s	Association 2015 (Re-stated) £000s
<b>Turnover</b>	2	<b>177,508</b>	184,853	<b>163,954</b>	165,079
Cost of sales	2	<b>(9,962)</b>	(21,709)	<b>(5,642)</b>	(11,507)
<b>Gross profit</b>		<b>167,546</b>	163,144	<b>158,312</b>	153,572
Operating costs	2	<b>(110,041)</b>	(103,808)	<b>(109,031)</b>	(102,655)
<b>Surplus on operations</b>		<b>57,505</b>	59,336	<b>49,281</b>	50,917
Surplus on revaluation of investments	2	<b>5,198</b>	4,700	<b>5,198</b>	4,700
<b>Operating surplus</b>		<b>62,703</b>	64,036	<b>54,479</b>	55,617
Gain on disposal of fixed assets	5	<b>19,328</b>	25,732	<b>8,613</b>	23,146
Share of operating surplus in joint ventures	15	<b>118</b>	122	-	-
Interest receivable and similar income	6	<b>3,179</b>	1,349	<b>1,921</b>	1,956
Interest payable and similar charges	7	<b>(35,150)</b>	(53,225)	<b>(35,442)</b>	(53,591)
Gift aid received		-	-	<b>20,235</b>	7,000
<b>Surplus before tax</b>		<b>50,178</b>	38,014	<b>49,806</b>	34,128
Taxation	9	<b>12</b>	(3,283)	-	-
<b>Surplus for the year</b>		<b>50,190</b>	34,731	<b>49,806</b>	34,128
<b>Other comprehensive income</b>					
Actuarial gain/(loss) in respect of pension schemes		<b>629</b>	(2,040)	<b>629</b>	(2,040)
<b>Total other comprehensive income</b>		<b>629</b>	(2,040)	<b>629</b>	(2,040)
<b>Total comprehensive income for the year</b>		<b>50,819</b>	32,691	<b>50,435</b>	32,088
<b>Total comprehensive income attributable to:</b>					
- the association		<b>50,701</b>	32,569	<b>50,435</b>	32,088
- jointly controlled entities accounted for by the equity method		<b>118</b>	122	-	-
		<b>50,819</b>	32,691	<b>50,435</b>	32,088

\* Certain amounts shown here do not correspond to the 2015 financial statements and reflect adjustments made, refer to Note 31.

All results for the current and prior years are attributable to continuing operations. The notes on pages 80 to 129 form part of these financial statements.



## Consolidated Statement of Financial Position

	Note	Group 2016 £000s	Group 2015 (Re-stated) £000s	Association 2016 £000s	Association 2015 (Re-stated) £000s
<b>Fixed assets</b>					
Property, plant & equipment	10	1,750,319	1,708,931	1,669,342	1,621,110
Investment properties	11	47,401	39,011	47,637	38,895
Investment in social homebuy	12	8,330	8,758	300	300
Listed and unlisted investments	13	12,517	12,867	12,517	12,867
Investment loans	14	-	-	9,140	24,651
Investment in joint ventures	15	84	816	25	25
		<b>1,818,651</b>	1,770,383	<b>1,738,961</b>	1,697,848
<b>Current assets</b>					
Stock	16	37,942	34,684	21,954	7,943
Trade and other debtors	17	13,666	16,505	31,457	17,544
Cash and cash equivalents		144,894	140,998	109,263	118,152
		<b>196,502</b>	192,187	<b>162,674</b>	143,639
Less creditors: amounts falling due within one year	18	(51,491)	(56,112)	(41,212)	(41,128)
Net current assets/liabilities		<b>145,011</b>	136,075	<b>121,462</b>	102,511
Total assets less current liabilities		<b>1,963,662</b>	1,906,458	<b>1,860,423</b>	1,800,359
Creditors: amounts falling due after more than one year	19	(1,480,979)	(1,473,724)	(1,414,900)	(1,404,412)
Provisions for liabilities and charges	21	(131)	(142)	(25)	(25)
Post employment benefits	25	(8,326)	(9,185)	(8,326)	(9,185)
Total net assets		<b>474,226</b>	423,407	<b>437,172</b>	386,737
<b>Reserves</b>					
Retained equity		<b>473,737</b>	422,686	<b>436,742</b>	386,307
General reserve		<b>430</b>	430	<b>430</b>	430
Share of joint venture reserves		<b>59</b>	291	-	-
<b>Total reserves</b>		<b>474,226</b>	423,407	<b>437,172</b>	386,737

\* Certain amounts shown here do not correspond to the 2015 financial statements and reflect adjustments made, refer to Note 31.

The financial statements on pages 76 to 129 were authorised for issue by the Board of Directors on 18 July 2016 and signed on its behalf by:

**Malcolm Groves**  
Chairman

**Paul Rees**  
Board Member

**John Price**  
Company Secretary

Southern Housing Group Limited is incorporated under the Co-operative and Community Benefit Societies Act 2014 (Registered Number 31055R)



## Statement of Changes in Reserves

Group	Retained equity £000s	General reserves £000s	Share of joint venture reserves £000s	Total reserves £000s
Reserves at 1 April 2014 (re-stated)	390,117	430	169	<b>390,716</b>
<b>Comprehensive income for the year</b>				
Surplus for the year from the Statement of comprehensive income	34,609	-	122	<b>34,731</b>
Total comprehensive income for the year	34,609	-	122	<b>34,731</b>
<b>Other comprehensive income for the year</b>				
Actuarial loss on pension schemes	(2,040)	-	-	<b>(2,040)</b>
Total other comprehensive income for the year	(2,040)	-	-	<b>(2,040)</b>
<b>Reserves at 31 March 2015 (re-stated)</b>	<b>422,686</b>	<b>430</b>	<b>291</b>	<b>423,407</b>
<b>Comprehensive income for the year</b>				
Surplus for the year from the statement of comprehensive income	50,072	-	118	<b>50,190</b>
Total comprehensive income for the year	50,072	-	118	<b>50,190</b>
<b>Other comprehensive income for the year</b>				
Actuarial loss on pension schemes	629	-	-	<b>629</b>
Joint venture distributions	350	-	(350)	<b>-</b>
Total other comprehensive income for the year	979	-	(350)	<b>629</b>
<b>Reserves at 31 March 2016</b>	<b>473,737</b>	<b>430</b>	<b>59</b>	<b>474,226</b>

Association	Retained equity £000s	General reserves £000s	Share of joint venture reserves £000s	Total reserves £000s
Reserves at 1 April 2014 (re-stated)	354,219	430	-	<b>354,649</b>
<b>Comprehensive income for the year</b>				
Surplus for the year from the statement of comprehensive income	34,128	-	-	<b>34,128</b>
Total comprehensive income for the year	34,128	-	-	<b>34,128</b>
<b>Other comprehensive income for the year</b>				
Actuarial loss on pension schemes	(2,040)	-	-	<b>(2,040)</b>
Total other comprehensive income for the year	(2,040)	-	-	<b>(2,040)</b>
<b>Reserves at 31 March 2015 (re-stated)</b>	<b>386,307</b>	<b>430</b>	<b>-</b>	<b>386,737</b>
<b>Comprehensive income for the year</b>				
Surplus for the year from the statement of comprehensive income	49,806	-	-	<b>49,806</b>
Total comprehensive income for the year	49,806	-	-	<b>49,806</b>
<b>Other comprehensive income for the year</b>				
Actuarial loss on pension schemes	629	-	-	<b>629</b>
Total other comprehensive income for the year	629	-	-	<b>629</b>
<b>Reserves at 31 March 2016</b>	<b>436,742</b>	<b>430</b>	<b>-</b>	<b>437,172</b>

The general reserve records funds that have been given to the Group for use on specific estates.





## Consolidated Statement of Cash Flows

		Group 2016	Group 2015 (Re-stated)
		£000s	£000s
<b>Cash flow from operating activities</b>	Note		
<b>Profit before tax</b>		<b>50,178</b>	38,014
Gain on disposal of fixed assets		<b>(19,328)</b>	(25,734)
Share of operating surplus in joint ventures		<b>(118)</b>	(122)
Interest and financing costs		<b>31,971</b>	51,876
<b>Operating surplus</b>		<b>62,703</b>	64,034
Adjustments for:			
Depreciation	10	<b>20,659</b>	20,100
Component write off		<b>839</b>	1,024
Revaluation surplus on investments		<b>(5,210)</b>	(4,700)
Distribution from joint venture		<b>(2,144)</b>	-
Government grants utilised in the year		<b>(9,582)</b>	(9,586)
Stock		<b>(1,339)</b>	264
Trade and other debtors		<b>3,689</b>	989
Trade and other creditors		<b>(1,284)</b>	(536)
Provisions		<b>(241)</b>	62
Corporation tax paid		<b>(3,194)</b>	(2,826)
<b>Net cash generated from operating activities</b>		<b>64,896</b>	68,825
<b>Cash flow from investing activities</b>			
Purchase of property, plant and equipment	10	<b>(78,599)</b>	(43,354)
Purchase of investment properties	11	<b>(2,889)</b>	-
Proceeds from disposal of property, plant and equipment	10	<b>34,931</b>	44,963
Repayment of loan capital by joint ventures		<b>500</b>	-
Distributions received from joint ventures		<b>2,494</b>	-
Government grants received		<b>(636)</b>	(1,929)
Proceeds from sale of investments		<b>913</b>	180
<b>Net cash used in investing activities</b>		<b>(43,286)</b>	(140)
<b>Cash flow from financing activities</b>			
Interest received		<b>3,238</b>	1,403
Interest received from joint ventures		<b>-</b>	40
Interest paid		<b>(35,384)</b>	(35,809)
Repayments of short term borrowings		<b>1,305</b>	(11,780)
Repayments of long term borrowings		<b>(6,873)</b>	(50,642)
New secured loans		<b>20,000</b>	55
<b>Net cash used in financing activities</b>		<b>(17,714)</b>	(96,733)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>3,896</b>	(28,048)
Cash and cash equivalents at the beginning of the year		<b>140,998</b>	169,046
<b>Cash and cash equivalents at the end of the year</b>		<b>144,894</b>	140,998

At 31 March 2016, restricted cash comprised balances on bank accounts held on trust for the Group's shared owners totalled £8,379,000 (2015: £7,652,000).



## 1. Principal accounting policies

### General Information and Statement of Compliance

The financial statements have been prepared in accordance with and are compliant with applicable Generally Accepted Accounting Standards in the United Kingdom including Financial Reporting Standard 102 (FRS 102), the Co-operative and Community Benefit Societies Act 2014, the Statement of Recommended Practice "Accounting by Registered Social Landlords" 2014 ("SORP") and the accounting direction for private registered providers of social housing in England from April 2015. They have been prepared on the historical cost basis (as modified by the revaluation of certain investments). The accounting policies have been consistently applied. The Association and the Group are public benefit entities.

### Key accounting judgements and estimation uncertainty

In the process of applying the accounting policies in preparing the financial statements, the Group is required to make certain estimates, judgements and assumptions. Estimates, and assumptions will by definition, seldom equal the related actual results. These are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable based on the information available.

The critical judgements and estimates made in these financial statements are:

### Property Assets

Properties held in line with the charitable objects of the Association; for the provision of social housing, other housing, accommodation and offices for the Group's use are held as property plant and equipment. All other properties are held as investment properties. Shared ownership properties are not depreciated as the leaseholder has the responsibility for property maintenance. Non-property and property plant and equipment assets are depreciated at a component level over their estimated useful economic lives based on management experience. Costs of development are allocated on a pro-rata area basis for individual units. The year-end stock element of shared ownership properties are allocated on an estimate of the first tranche sales based on scheme appraisals and past sales.

Impairment reviews are regularly carried out at cash generating unit level to ensure that values recorded in the financial statements reflect the values in use. Cash generating units are defined at scheme/estate level for our social housing properties as this is the basis on which the assets are managed and assessed against their service potential. Properties held for sale and in the course of construction are assessed against the net realisable value of the asset. The impairment assessment is detailed in Note 10 Property plant and equipment.

Investment properties are held for long term rental returns. The Group values these properties at market value either through the use of external professional valuers or the application of market based benchmark information.

### Financial Liabilities

Financial liabilities that are judged to be basic instruments are recognised at transaction price.

Debt instruments are utilised to provide long term funding for the Group's operations and not for speculative trading. Basic instruments are recognised at amortised cost. Where variable interest rates have been hedged, the effectiveness of the hedge is measured against market value. Facilities with cancellable embedded hedges and two-way break clauses are judged to be basic. Derivative financial instruments are non basic and are measured at fair value.

### Debtors

Tenant and other debtors are assessed for their recoverability. Based on previous cash collection experience, the Group judges older debts to be less recoverable than more recent debts and makes its provision estimates accordingly.

### Post Employment Benefits

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The Group takes professional advice annually from its actuaries to value its pension assets and liabilities.



## 1. Principal accounting policies (continued)

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of Southern Housing Group Limited (Parent Body), Southern Home Ownership Limited (SHO), Southern Space Limited (SSL) and Southern Development Services Limited (SDSL) and are consolidated in accordance with FRS 102 and the Co-operative and Community Benefit Societies Act 2014.

Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All intra-group transactions and balances (including recognised gains arising from inter-group transactions) are eliminated in full on consolidation.

The Joint Venture investments in Triathlon Homes LLP and Affinity Housing Services (Reading) are accounted for using the equity accounting method in these consolidated financial statements. SSL has accounted for its investment in Triathlon Homes LLP as an investment at cost as it is not a parent organisation.

### Going concern

The Board has a reasonable expectation that the Group has adequate resources to continue in operational existence, being at least 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.

### Cash equivalents

Cash equivalents are cash and short term, highly liquid investments that are convertible for use as cash at less than three months notice with minimal risk to the principal sum.

### Financial instruments

#### Financial assets

The Group has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments. Basic financial assets, including trade receivables and other receivables, cash and bank balances are initially recognised at transaction price. Financial assets are subsequently carried at amortised cost. The carrying value is reviewed annually to assess for objective

evidence of impairment. Any impairment loss is taken to the statement of comprehensive income. Unlisted investments are stated at cost less any repayment and impairment. Investments that are listed on a recognised exchange are carried at fair value based on the market price at the year end. The changes in fair value are recognised in the statement of comprehensive income.

#### Financial liabilities

Basic financial liabilities, including trade and other payables, bank loans, loans from group members are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Debt instruments are carried at amortised cost, using the effective interest rate method which recognises the difference between the amortised cost of the basic loans and the remaining outstanding principle.

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 to the statement of comprehensive income.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Derivatives, including interest rate swaps, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the value of derivatives are recognised in the statement of comprehensive income in finance costs or finance income as appropriate, unless they are included in an effective hedging arrangement.

Financial liabilities are de-recognised when the liability is extinguished.

Premium on debentures - Premiums on issue are treated as deferred income and written back to the statement of comprehensive income over the period of the loan. Adjustments to debenture deferred income are reflected in Note 7.



## 1. Principal accounting policies (continued)

### Hedging arrangements

Interest rate swaps are held to manage the interest rate exposure and are designated as cash flow hedges of floating rate borrowings. An RPI based swap is held to manage the inflation exposure and is designated a cash flow hedge of floating rate income.

Changes in the fair values of derivatives designated as cash flow hedges, and which are effective, are recognised directly in equity and taken directly to reserves. Any ineffectiveness in the hedging relationship (being the excess of the cumulative change in fair value of the hedging instrument since inception of the hedge) is recognised in the statement of comprehensive income.

The gain or loss recognised in other comprehensive income is reclassified to the statement of comprehensive income when the hedge relationship ends. Hedge accounting is discontinued when the hedging instrument expires, no longer meets the hedging criteria, the forecast transaction is no longer probable, the hedged debt instrument is derecognised or the hedging instrument is terminated.

### Revenue recognition

#### Rental income

Rental income from properties owned by the Group is recognised on an accruals basis (net of void losses) as it falls due.

#### Service charge income

Service charge income is recognised on an accruals basis as it falls due. 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 budgeted spend. 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.

#### Management fees

Management fees receivable (excluding VAT) for services provided to other entities are recorded when they fall due.

Fees are charged to the subsidiaries for management and support services and are apportioned as a percentage of turnover. Intra group fees receivable and payable are eliminated on consolidation.

### Support services

Support service income for provision of extra care for residents with specific needs is recognised on an accruals basis as it falls due.

### Commercial income

Income from the letting of commercial properties is recognised as it falls due on an accruals basis. Where lease incentives are material they are amortised over the life of the lease.

### Property sales income

Receipts from the sale of the 1st tranche of shared ownership properties and proceeds from the sale of properties developed for the open market are recognised on legal completion within turnover.

The sale of subsequent tranches (staircasing) of shared ownership properties and the sale of housing properties are recorded net of carrying value as a gain or loss on disposal.

### Grants

Revenue grants are credited to the statement of comprehensive income in the same period as the expenditure to which they relate and the performance conditions are met.

Social housing grant is the capital grant provided by the Homes and Communities Agency; the Greater London Authority or other Government agency to wholly or partially fund Registered Providers when developing social housing. The grant received is amortised to the statement of comprehensive income through turnover over the life of the structure of the properties to which they relate when they are ready to let. Although Social Housing Grant is amortised through the statement of comprehensive income, it may nevertheless become repayable if the conditions under which the grant was made are not complied with, such as if the properties to which the grant was designated cease to be used for the provision of social housing or on sale of the property. In such circumstances any grant previously amortised and now re-payable will be expensed in the statement of comprehensive income and the liability recognised in the statement of financial position. These amounts are disclosed as contingent liabilities in note 32.





## 1. Principal accounting policies (continued)

### Gift aid

Gift aid income is recognised in the Association and the subsidiary making the gift-aid payment when the intended gift has been confirmed. Income and distribution are eliminated on consolidation where the gift is from a Group company.

### Interest income

Interest income is recognised as it falls due on a receivable basis.

### Interest payable

Interest payable is recognised as it falls due on a payable basis.

Interest is capitalised on properties under construction on a fair proportion of the borrowings of the Group and Association as a whole, using the weighted average interest rate for borrowing.

### 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 to the parent 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 102 Section 29.

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference

### Property plant and equipment

Property plant and equipment comprise housing properties and other fixed assets.

### Housing properties

Housing properties are held at historic cost, using the cost model, less accumulated depreciation. Cost includes the cost of acquiring land and buildings, development costs, interest capitalised during the development period, and directly attributable administration costs.

Costs 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.



## 1. Principal accounting policies (continued)

### 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 to the estimated residual value at the following useful economic lives:

#### Housing properties held for letting:

Structure	100 years
<b>Major components</b>	
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

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 value and long economic lives. Therefore shared ownership properties not depreciated.

At each balance sheet date the value of property plant and equipment assets is formally assessed to determine whether there is an indication that the carrying value of the asset is greater than the recoverable amount and therefore may require impairment. This assessment is carried out by tenure and at the estate/scheme level, this level comprises a cash generating unit. In line with the Group's objectives its social housing properties are held for their service potential and not purely for economic return. The Group follows the guidelines of the SORP and uses the depreciated replacement cost of the property as a reasonable estimate of the recoverable amount. No impairment was charged in 2015/16.

### Other tangible fixed assets

#### Depreciation and impairment

Depreciation is charged on a straight-line basis over the useful economic lives of fixed assets to write off the cost to the estimated residual value at the annual rates below. Where a component that falls into a category already mentioned above, the same useful economic life applies.

Plant and machinery	15 years
Digital aerial	10 years
Estate and office – fixtures/fittings or furniture	5 years
Computer hardware or software	3 years

For those properties occupied on short leases the maximum depreciation period is that of the remaining lease.

#### Investment properties

Properties for private rent or commercial lettings are included as investment properties and are recorded at market value with changes in the market value reported in the statement of comprehensive income.

#### Investment in social homebuy loans

The investments in the interest free social homebuy loans are recorded at transaction value. The loan is repayable on the sale of the underlying property with any proportionate excess achieved on the sale value over the loan value being reported through the statement of comprehensive income. These are classified specifically as concessionary loans only.

#### Unlisted investments

Unlisted investments are stated at cost less any repayment and impairment.

#### Listed investments

Investments that are listed on a recognised exchange are carried at fair value based on the market price at the year end. The changes in fair value are recognised in the statement of comprehensive income.



## 1. Principal accounting policies (continued)

### Investments in associates and joint ventures

The Association can provide investment to its subsidiaries by way of loan. These are recorded at cost.

### Investments in joint ventures

Joint ventures are those entities over which the Group exercises joint control through a contractual arrangement. The results, assets and liabilities of joint ventures are consolidated using the equity method of accounting.

Investments in joint ventures are initially carried in the balance sheet at cost and adjusted by post acquisition changes in the Group's share of net assets of the joint venture, less any impairment in the value of individual investments. Losses of joint ventures in excess of the Group's interest in those joint ventures are only recognised to the extent that the Group is contractually liable for, or has a constructive obligation to meet, the obligations of the joint ventures.

### 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 properties held for sale and under construction are split proportionally between stock and fixed assets, based on the expected first tranche proportion. First tranche proportions are accounted for as stock and the related sales proceeds are 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 includes land or 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.

### Debtors

The Group makes an estimate of the recoverable value of tenant debtors and other debtors. When assessing impairment of trade and other debtors the Group considers factors such as ageing profile of the debtors to determine recoverability.

The provision is reviewed against actual recovery rates to ensure it reflects the overall current performance.



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

Particulars of turnover, operating costs and operating surpluses Group	2016 turnover £000s	2016 cost of sales £000s	2016 operating costs £000s	2016 operating surplus £000s	2015 (Restated) turnover £000s	2015 (Restated) cost of sales £000s	2015 (Restated) operating costs £000s	2015 (Restated) operating surplus £000s
<b>Social housing lettings</b>	154,260	-	(107,155)	<b>47,105</b>	150,704	-	(101,036)	49,668
<b>Other social housing activities</b>								
Charges for support services	3,195	-	(2,265)	<b>930</b>	3,194	-	(2,318)	876
Current asset property sales	10,005	(5,642)	-	<b>4,363</b>	14,922	(11,507)	-	3,415
Other	1	-	-	<b>1</b>	-	-	(412)	(412)
<b>Non-social housing activities</b>								
Commercial income	1,728	-	(116)	<b>1,612</b>	1,893	-	-	1,893
Private rental lettings	620	-	(238)	<b>382</b>	66	-	(42)	24
Open Market Sales	7,115	(4,320)	-	<b>2,795</b>	13,533	(10,202)	-	3,331
Other	584	-	(267)	<b>317</b>	541	-	-	541
<b>Total of operations</b>	<b>177,508</b>	<b>(9,962)</b>	<b>(110,041)</b>	<b>57,505</b>	184,853	(21,709)	(103,808)	59,336
Revaluation surplus/(deficit) on all investments	-	-	5,198	<b>5,198</b>	-	-	4,700	4,700
<b>Total of operating activities</b>	<b>177,508</b>	<b>(9,962)</b>	<b>(104,843)</b>	<b>62,703</b>	184,853	(21,709)	(99,108)	64,036

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	2016 total £000s	2015 (Restated) total £000s
Rent receivable net of identifiable service charges	91,399	14,019	5,595	8,425	11,002	<b>130,440</b>	126,209
Service charges receivable	8,506	1,305	-	760	3,979	<b>14,550</b>	14,818
<b>Gross rental income</b>	<b>99,905</b>	<b>15,324</b>	<b>5,595</b>	<b>9,185</b>	<b>14,981</b>	<b>144,990</b>	141,027
External management fee	106	-	-	-	-	<b>106</b>	91
Grant amortisation	6,274	564	147	474	1,705	<b>9,164</b>	9,586
<b>Turnover from social housing lettings</b>	<b>106,285</b>	<b>15,888</b>	<b>5,742</b>	<b>9,659</b>	<b>16,686</b>	<b>154,260</b>	150,704
Management	(26,725)	(4,148)	(1,451)	(1,516)	(8,377)	<b>(42,217)</b>	(38,268)
Service charge costs	(9,412)	(1,444)	(505)	(544)	(3,538)	<b>(15,443)</b>	(16,002)
Rent losses from bad debts	(113)	(17)	(6)	(6)	(37)	<b>(179)</b>	(757)
Routine maintenance	(16,483)	(2,528)	(884)	(1,323)	-	<b>(21,218)</b>	(20,940)
Planned maintenance	(5,430)	(833)	(291)	(980)	-	<b>(7,534)</b>	(6,153)
Depreciation	(14,870)	(2,281)	(798)	(911)	-	<b>(18,860)</b>	(17,892)
Component Write-Off	(1,540)	(236)	(85)	(83)	-	<b>(1,944)</b>	(1,024)
Other costs	-	-	-	9	231	<b>240</b>	-
<b>Operating costs on social housing lettings</b>	<b>(74,573)</b>	<b>(11,487)</b>	<b>(4,020)</b>	<b>(5,354)</b>	<b>(11,721)</b>	<b>(107,155)</b>	(101,036)
<b>Operating surplus on social housing lettings</b>	<b>31,712</b>	<b>4,401</b>	<b>1,722</b>	<b>4,305</b>	<b>4,965</b>	<b>47,105</b>	49,668
<b>Void losses</b>	<b>1,037</b>	<b>159</b>	<b>228</b>	<b>219</b>	<b>-</b>	<b>1,643</b>	2,387





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

Particulars of turnover, operating costs and operating surpluses Association	2016 turnover £000s	2016 cost of sales £000s	2016 operating costs £000s	2016 operating surplus £000s	2015 (Restated) turnover £000s	2015 (Restated) cost of sales £000s	2015 (Restated) operating costs £000s	2015 (Restated) operating surplus £000s
<b>Social housing lettings</b>	147,923	-	(106,167)	<b>41,756</b>	144,548	-	(99,925)	44,623
<b>Other social housing activities</b>								
Charges for support services	3,195	-	(2,265)	<b>930</b>	3,194	-	(2,318)	876
Current asset property sales	10,005	(5,642)	-	<b>4,363</b>	14,922	(11,507)	-	3,415
Other	1	-	-	<b>1</b>	-	-	(412)	(412)
<b>Non-social housing activities</b>								
Commercial income	1,711	-	(116)	<b>1,595</b>	1,567	-	-	1,567
Private rental lettings	536	-	(238)	<b>298</b>	309	-	-	309
Other	583	-	(245)	<b>338</b>	539	-	-	539
<b>Total of operations</b>	<b>163,954</b>	<b>(5,642)</b>	<b>(109,031)</b>	<b>49,281</b>	165,079	(11,507)	(102,655)	50,917
Revaluation surplus/(deficit) on all investments	-	-	5,198	<b>5,198</b>	-	-	4,700	4,700
<b>Total of operating activities</b>	<b>163,954</b>	<b>(5,642)</b>	<b>(103,833)</b>	<b>54,479</b>	165,079	(11,507)	(97,955)	55,617

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	2016 total £000s	2015 (Restated) total £000s
Rent receivable net of identifiable service charges	92,299	14,157	5,595	7,911	6,162	<b>126,124</b>	121,546
Service charges receivable	8,506	1,305	-	470	2,645	<b>12,926</b>	13,288
<b>Gross rental income</b>	<b>100,805</b>	<b>15,462</b>	<b>5,595</b>	<b>8,381</b>	<b>8,807</b>	<b>139,050</b>	134,834
External management fee	106	-	-	-	602	<b>708</b>	1,217
Grant amortisation	6,274	564	147	449	731	<b>8,165</b>	8,497
<b>Turnover from social housing lettings</b>	<b>107,185</b>	<b>16,026</b>	<b>5,742</b>	<b>8,830</b>	<b>10,140</b>	<b>147,923</b>	144,548
Management	(27,211)	(4,173)	(1,460)	(1,503)	(8,462)	<b>(42,809)</b>	(38,677)
Service charge costs	(9,412)	(1,444)	(505)	(520)	(2,927)	<b>(14,808)</b>	(15,213)
Rent losses from bad debts	(113)	(17)	(6)	(6)	(35)	<b>(177)</b>	(757)
Routine maintenance	(16,483)	(2,528)	(884)	(910)	-	<b>(20,805)</b>	(20,625)
Planned maintenance	(5,430)	(833)	(291)	(300)	-	<b>(6,854)</b>	(5,791)
Depreciation	(14,870)	(2,281)	(798)	(821)	-	<b>(18,770)</b>	(17,838)
Component Write-Off	(1,540)	(236)	(85)	(83)	-	<b>(1,944)</b>	(1,024)
<b>Operating costs on social housing lettings</b>	<b>(75,059)</b>	<b>(11,512)</b>	<b>(4,029)</b>	<b>(4,143)</b>	<b>(11,424)</b>	<b>(106,167)</b>	(99,925)
<b>Operating surplus on social housing lettings</b>	<b>32,126</b>	<b>4,514</b>	<b>1,713</b>	<b>4,687</b>	<b>(1,284)</b>	<b>41,756</b>	44,623
<b>Void losses</b>	<b>1,037</b>	<b>159</b>	<b>228</b>	<b>219</b>	<b>-</b>	<b>1,643</b>	2,373



### 3. Board and senior executive emoluments (key management personnel)

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	2016 £000s	2015 £000s
Emoluments	985	915
Compensation for loss of office	87	112
Pension contributions	27	34
Non Executive Board member Emoluments	125	66
	1,224	1,127

An adjustment of £75k has been made in 2015 to reclassify pension contributions to emoluments. Emoluments paid to directors in bands includes salary, allowances, pension contributions, employers NI, benefits in kind and non-consolidated bonus.

FTE = 35 hours per week	Group 2016 FTE	Group 2015 FTE
£0 - £10,000	3	12
£10,000 - £20,000	7	1
£20,000 - £30,000	1	1
£40,000 - £50,000	1	1
£50,000 - £60,000	1	-
£130,000 - £140,000	1	-
£140,000 - £150,000	2	1
£160,000 - £170,000	1	-
£170,000 - £180,000	-	1
£180,000 - £190,000	-	1
£210,000 - £220,000	-	1
£240,000 - £250,000	1	-
£280,000 - £290,000	-	1
£300,000 - £310,000	1	-

The remuneration (excluding National Insurance) payable to the Group Chief Executive, who is also the highest paid director, were:

	£	£
Salary	256,122	243,895
Benefits in kind	10,336	6,169
<b>Total remuneration</b>	<b>266,458</b>	<b>250,064</b>

The Remuneration and Nominations Committee have 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 £47,781 (2015:£45,475) in lieu of the contributions that the Employer would have made to this scheme. The 2015 figures within the note have been restated to take account of this.

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

	<b>Group 2016 FTE</b>	Group 2015 FTE	<b>Association 2016 FTE</b>	Association 2015 FTE
Monthly average number of full-time equivalent employees (FTE = 35 hours per week):				
Housing Management	<b>622</b>	585	<b>622</b>	585
Office Staff	<b>220</b>	236	<b>217</b>	234
<b>Average number of full-time equivalent employees</b>	<b>842</b>	821	<b>839</b>	819

	<b>Group 2016 £000s</b>	Group 2015 £000s	<b>Association 2016 £000s</b>	Association 2015 £000s
<b>Staff costs (for the above employees):</b>				
Wages and salaries	<b>25,358</b>	24,876	<b>25,117</b>	24,657
Social security costs	<b>2,464</b>	2,388	<b>2,435</b>	2,362
Other pension costs	<b>3,720</b>	1,868	<b>3,693</b>	1,849
Termination benefits	<b>514</b>	-	<b>514</b>	-
	<b>32,056</b>	29,132	<b>31,759</b>	28,868

	<b>Group 2016 FTE</b>	Group 2015 FTE
<b>Remuneration paid to staff including Executives in bands from £60,000 upwards:</b>		
£60,000 - £70,000	<b>29</b>	33
£70,000 - £80,000	<b>21</b>	15
£80,000 - £90,000	<b>8</b>	6
£90,000 - £100,000	<b>6</b>	7
£100,000 - £110,000	<b>3</b>	7
£110,000 - £120,000	<b>3</b>	1
£120,000 - £130,000	<b>1</b>	1
£130,000 - £140,000	<b>2</b>	1
£140,000 - £150,000	<b>2</b>	1
£160,000 - £170,000	<b>1</b>	-
£170,000 - £180,000	<b>-</b>	1
£180,000 - £190,000	<b>-</b>	1
£210,000 - £220,000	<b>-</b>	1
£240,000 - £250,000	<b>1</b>	-
£280,000 - £290,000	<b>-</b>	1
£300,000 - £310,000	<b>1</b>	-

Remuneration includes salary, allowances, pension contributions, employers NI, benefits in kind and non-consolidated bonus.



## 5. Profit on sale of fixed assets

Group	Shared ownership staircasing 2016 £000s	Other tangible fixed assets 2016 £000s	Total 2016 £000s	Shared ownership staircasing 2015 £000s	Other tangible fixed assets 2015 £000s	Total 2015 £000s
Sale proceeds	33,492	2,536	<b>36,028</b>	28,921	16,713	45,634
Cost of sales	(14,785)	(489)	<b>(15,274)</b>	(15,492)	(4,153)	(19,645)
Incidental sale expenses	(1,268)	(158)	<b>(1,426)</b>	(191)	(66)	(257)
	<b>17,439</b>	<b>1,889</b>	<b>19,328</b>	<b>13,238</b>	<b>12,494</b>	<b>25,732</b>

Association	Shared ownership staircasing 2016 £000s	Fixed other tangible assets 2016 £000s	Total 2016 £000s	Shared ownership staircasing 2015 £000s	Other tangible fixed assets 2015 £000s	Total 2015 £000s
Sale proceeds	15,850	2,536	<b>18,386</b>	14,959	33,372	48,331
Cost of sales	(8,651)	(489)	<b>(9,140)</b>	(8,995)	(15,975)	(24,970)
Incidental sale expenses	(475)	(158)	<b>(633)</b>	(149)	(66)	(215)
	<b>6,724</b>	<b>1,889</b>	<b>8,613</b>	<b>5,815</b>	<b>17,331</b>	<b>23,146</b>

## 6. Interest receivable and other income

Interest and investment income	Group 2016 £000s	Group 2015 £000s	Association 2016 £000s	Association 2015 £000s
Interest/income from investments	<b>2,406</b>	319	<b>1,273</b>	1,031
Interest from bank deposits	<b>773</b>	1,030	<b>648</b>	925
<b>Total</b>	<b>3,179</b>	<b>1,349</b>	<b>1,921</b>	<b>1,956</b>





## 7. Interest payable and similar charges

	Group 2016 £000s	Group 2015 £000s	Association 2015 £000s	Association 2015 £000s
<b>Interest and finance costs charged</b>				
On loans	(34,467)	(36,126)	(34,768)	(35,743)
Less: interest payable capitalised	1,127	1,677	1,117	906
	(33,340)	(34,449)	(33,651)	(34,837)
Indexation	(18)	(55)	(18)	(55)
Loan set up costs	(166)	(173)	(160)	(167)
Deferred income written back	136	136	136	136
	(33,388)	(34,541)	(33,693)	(34,923)
Effective interest rate adjustment	(434)	213	(421)	229
Total interest expense on financial liabilities not measured at fair value through profit and loss	(33,822)	(34,328)	(34,114)	(34,694)
Losses on fair value of derivative financial liabilities	(982)	(18,482)	(982)	(18,482)
<b>Total</b>	<b>(34,804)</b>	<b>(52,810)</b>	<b>(35,096)</b>	<b>(53,176)</b>

	Group 2016 £000s	Group 2015 £000s	Association 2016 £000s	Association 2015 £000s
<b>Other finance costs: Pension schemes</b>				
Group pension scheme				
Expected return on pension scheme assets	1,105	1,326	1,105	1,326
Interest on pension scheme liabilities	(1,299)	(1,521)	(1,299)	(1,521)
Isle of Wight Council pension scheme				
Expected return on pension scheme assets	151	179	151	179
Interest on pension scheme liabilities	(232)	(285)	(232)	(285)
SHPS				
Interest on deficit funding agreement	(71)	(114)	(71)	(114)
<b>Total</b>	<b>(346)</b>	<b>(415)</b>	<b>(346)</b>	<b>(415)</b>
<b>Total interest and other financing costs</b>	<b>(35,150)</b>	<b>(53,225)</b>	<b>(35,442)</b>	<b>(53,591)</b>

The Group's weighted average interest rate for borrowing is 5.1% per annum (2015: 4.9% per annum).  
Deferred income written back relates to debenture premium.

## 8. Surplus on ordinary activities before taxation

	Group 2016 £000s	Group 2015 £000s	Association 2016 £000s	Association 2015 £000s
<b>The operating surplus on ordinary activities before tax is stated after charging:</b>				
Depreciation:				
Property	17,010	15,543	16,920	15,495
Other tangible fixed assets	1,850	2,349	1,850	2,343
Component write off	1,949	1,024	1,944	1,024
Stock cost of sales recognised as an expense	9,962	21,709	5,642	11,507
Operating lease charges				
Property	246	229	246	229
Other equipment	229	229	229	229
Auditors' remuneration:				
External audit fee (including expenses, excluding vat)	206	132	182	111



## 9. Tax on surplus on ordinary activities

	Group 2016 £000s	Group 2015 £000s	Association 2016 £000s	Association 2015 £000s
<b>UK corporation tax</b>				
Current tax at 20% (2015 : 21%)	(21)	3,228	-	-
Adjustment to tax charge in respect of previous years	2	55	-	-
<b>Current tax at 20% (2015 : 21%)</b>	<b>(19)</b>	<b>3,283</b>	<b>-</b>	<b>-</b>
Deferred tax expense	7	-	-	-
Short term timing difference				
	<b>(12)</b>	<b>3,283</b>	<b>-</b>	<b>-</b>

The current tax charge for the year is lower (2015:lower) than the standard rate of corporation tax in the UK (20% (2015 : 21%)). The differences are explained below.

### Current tax reconciliation

Surplus on ordinary activities before tax	50,178	38,014	49,806	34,128
Share of joint venture taxable surplus	1,184	9,242	-	-
less surplus from charitable activities	(49,806)	(34,128)	(49,806)	(34,128)
Taxable surplus on ordinary activities before tax	1,556	13,128	-	-
<b>Current tax at 20% (2015 : 21%)</b>	<b>312</b>	<b>2,758</b>	<b>-</b>	<b>-</b>
Effects of:				
Marginal relief	-	(1)	-	-
Expenses not deductible/(income not taxable)	4,738	2,505	-	-
Income not taxable for tax purposes	(754)	(10)	-	-
Amounts (charged)/credited directly to equity or otherwise transferred	(4,026)	(1,470)	-	-
Adjustment to tax charge in respect of previous years	2	55	-	-
Adjustment to taxable surplus of LLP share	(139)	(567)	-	-
Deferred gains brought in to charge	-	238	-	-
Deferred tax not recognised	(145)	(225)	-	-
<b>Total tax charge (see above)</b>	<b>(12)</b>	<b>3,283</b>	<b>-</b>	<b>-</b>

### Factors that may affect future tax charges

The standard rate of corporation tax in the UK changed from 21% to 20% with effect from 1 April 2015.

The July 2015 Budget Statement announced changes to the UK corporation tax rate which will reduce the main rate of corporation tax to 19% from 1 April 2017 and to 18% from 1 April 2020. These changes were substantively enacted on 26 October 2015.

Further changes were announced in the budget on 16 March 2016 reducing the rate of corporation tax to 17% from 1 April 2020. This change was not substantively enacted at the Balance Sheet date.



## 10. Property, plant and equipment

Property, plant and equipment Group	Housing properties held for letting £000s	Shared ownership housing properties £000s	Housing properties under construction £000s	Other Fixed Assets per following note £000s	Total property, plant and equipment £000s
<b>Cost</b>					
At 1 April 2015	1,565,260	224,144	38,035	49,719	<b>1,877,158</b>
Schemes completed	33,136	1,477	(34,613)	-	-
Additions: New properties	-	36,479	44,675	-	<b>81,154</b>
Existing properties	10,391	70	-	-	<b>10,461</b>
Other fixed assets	-	-	-	2,053	<b>2,053</b>
Commercial work in progress	-	-	2,431	-	<b>2,431</b>
Components written off	(1,944)	(5)	-	-	<b>(1,949)</b>
Transfer to stock	-	(11,272)	-	-	<b>(11,272)</b>
Disposals	(4,484)	(18,076)	-	(70)	<b>(22,630)</b>
<b>At 31 March 2016</b>	<b>1,602,359</b>	<b>232,817</b>	<b>50,528</b>	<b>51,702</b>	<b>1,937,406</b>
<b>Accumulated Depreciation</b>					
At 1 April 2015	148,315	-	-	19,912	<b>168,227</b>
Charge for year	18,762	-	-	1,897	<b>20,659</b>
Eliminated in respect of disposals	(1,752)	-	-	(47)	<b>(1,799)</b>
<b>At 31 March 2016</b>	<b>165,325</b>	<b>-</b>	<b>-</b>	<b>21,762</b>	<b>187,087</b>
<b>Net Book Value</b>					
<b>At 31 March 2016</b>	<b>1,437,034</b>	<b>232,817</b>	<b>50,528</b>	<b>29,940</b>	<b>1,750,319</b>
At 31 March 2015	1,416,945	224,144	38,035	29,807	1,708,931

Property, plant and equipment Association	Housing properties held for letting £000s	Shared ownership housing properties £000s	Housing properties under construction £000s	Other Fixed Assets per following note £000s	Total property, plant and equipment £000s
<b>Cost</b>					
At 1 April 2015	1,554,963	145,749	38,035	49,719	<b>1,788,466</b>
Schemes completed	33,136	1,477	(34,613)	-	-
Additions: New properties	-	36,479	47,889	-	<b>84,368</b>
Existing properties	10,391	-	-	-	<b>10,391</b>
Other fixed assets	-	-	-	2,053	<b>2,053</b>
Commercial work in progress	-	-	2,431	-	<b>2,431</b>
Components written off	(1,944)	-	-	-	<b>(1,944)</b>
Transfer to stock	-	(13,404)	-	-	<b>(13,404)</b>
Disposals	(4,484)	(12,339)	-	(70)	<b>(16,893)</b>
<b>At 31 March 2016</b>	<b>1,592,062</b>	<b>157,962</b>	<b>53,742</b>	<b>51,702</b>	<b>1,855,468</b>
<b>Accumulated Depreciation</b>					
At 1 April 2015	147,444	-	-	19,912	<b>167,356</b>
Charge for year	18,672	-	-	1,897	<b>20,569</b>
Eliminated in respect of disposals	(1,752)	-	-	(47)	<b>(1,799)</b>
<b>At 31 March 2016</b>	<b>164,364</b>	<b>-</b>	<b>-</b>	<b>21,762</b>	<b>186,126</b>
<b>Net Book Value</b>					
<b>At 31 March 2016</b>	<b>1,427,698</b>	<b>157,962</b>	<b>53,742</b>	<b>29,940</b>	<b>1,669,342</b>
At 31 March 2015	1,407,519	145,749	38,035	29,807	1,621,110



## 10. Property, plant and equipment (continued)

A total funding value of £1,798 million secured against 15,339 properties has been pledged as security on debt.

Additions to the Group's housing properties during the year included net capitalised interest paid of £1,127,000 (2015: £1,677,000). Cumulative interest capitalised on historic developments is not separately identifiable.

Accommodation in management comprises:	Group 2016 units	Group 2015 units	Association 2016 units	Association 2015 units
<b>Units owned and managed:</b>				
General needs	17,251	17,768	17,251	17,768
Housing for older people	2,303	2,435	2,303	2,435
Supported housing	277	249	277	249
Intermediate market rent	953	987	900	934
Private rent (investment properties)	70	56	70	56
Affordable rent	926	635	926	635
Leasehold	2,522	2,409	1,398	1,471
Shared ownership	2,762	3,535	1,438	1,671
	27,064	28,074	24,563	25,219
<b>Units managed on behalf of other landlords:</b>				
General needs	7	29	7	29
Housing for older people	-	51	-	51
Supported housing	67	-	67	-
Intermediate market rent	-	-	53	53
Leasehold	83	22	1,207	960
Shared ownership	-	5	1,324	1,869
	157	107	2,658	2,962
<b>Total units managed (including freeholds)</b>	<b>27,221</b>	<b>28,181</b>	<b>27,221</b>	<b>28,181</b>
<b>Total units owned</b>	<b>27,064</b>	<b>28,074</b>	<b>24,563</b>	<b>25,219</b>

Housing properties are reviewed for impairment if there is an indication that impairment may have occurred. The Government's announcement for social and affordable rent tenures to be reduced by 1% per year for the next four years is an indicator of impairment for social housing properties.

Where there is evidence of impairment, fixed assets are written down to their recoverable amount. Any such write down is charged to operating profit.

Impairment is performed by cash generating unit. The Group defines a cash generating unit as a scheme within housing properties. A scheme is defined as all units of the same tenure within one area or estate. Impairment is assessed scheme by scheme.

Based on this assessment, we calculated the Depreciated Replacement Cost (DRC) of each social housing property scheme, using appropriate and comparable construction costs and land prices of similar schemes. Comparing this to the carrying amount of each scheme, it was concluded that no impairment charge was required against its social housing properties.





## 10. Property, plant and equipment (continued)

Section 35 of FRS102 allows first-time adopters to elect to measure property, plant and equipment as its fair value at the date of transition and use that fair value as deemed cost at that date.

On transition to FRS102, the Group elected to take that the option to carry out a one-off valuation of 65 social housing properties at the date of transition as at 1 April 2015 and to use that amount as deemed cost. To determine the deemed cost, the Group engaged independent valuation specialist Jones Lang LaSalle Ltd (JLL) to value the housing properties on an existing use value-social housing (EUV-SH) basis as a desktop exercise. The valuation has been derived via a 50-year cashflow for the full portfolio and utilising average weighted assumptions for rents, capital values and expenditure allowances which have then been apportioned across the 65 units held at deemed cost utilising their rental values.

Property, plant and equipment Other Fixed Assets Group and Association	Freehold & leasehold properties £000s	Estate equipment £000s	Plant, machinery, fixtures & vehicles £000s	Computer, hardware & software £000s	Total other fixed assets £000s
<b>Cost</b>					
At 1 April 2015	21,636	20,776	2,119	5,188	<b>49,719</b>
Additions	-	1,111	-	942	<b>2,053</b>
Disposals	-	(51)	(19)	-	<b>(70)</b>
<b>At 31 March 2016</b>	<b>21,636</b>	<b>21,836</b>	<b>2,100</b>	<b>6,130</b>	<b>51,702</b>
<b>Depreciation</b>					
At 1 April 2015	4,167	9,383	1,907	4,455	<b>19,912</b>
Charge for year	359	1,045	24	469	<b>1,897</b>
Disposals	-	(28)	(19)	-	<b>(47)</b>
<b>At 31 March 2016</b>	<b>4,526</b>	<b>10,400</b>	<b>1,912</b>	<b>4,924</b>	<b>21,762</b>
<b>Net Book Value</b>					
<b>At 31 March 2016</b>	<b>17,110</b>	<b>11,436</b>	<b>188</b>	<b>1,206</b>	<b>29,940</b>
At 31 March 2015	17,469	11,393	212	733	<b>29,807</b>



## 11. Investment properties

Large commercial properties are market valued externally by a qualified RICS Chartered Surveyor in accordance with the RICS Valuation – Professional Standards 2014 (“the Red Book”). Valuations at 31 March 2016 were carried out by Hose Rhodes Dickson, Stiles Harold Williams, Daniel Watney, White Druce Brown and Strutt & Parker LLP. In the instance of properties having a dual use as offices and commercial lettings the cost is split by use using the proportion of floor area with office carrying cost being disclosed in property plant and equipment.

Smaller commercial properties are assessed and valued by management on a benchmarked multiple of existing rents. A yield rate of 9% has been used to determine the value of these properties based on their passing annual rent.

Residential properties held for investment and rented at market rents are valued in accordance with their vacant possession value as assessed by independent valuation or by comparative assessment of similar properties.

	Group 2016 £000s	Group 2015 £000s	Association 2016 £000s	Association 2015 £000s
Valuation at 1 April	39,011	32,436	38,895	32,320
Additions	2,925	2,078	3,277	2,078
Valuation adjustment	5,465	4,497	5,465	4,497
<b>At 31 March</b>	<b>47,401</b>	<b>39,011</b>	<b>47,637</b>	<b>38,895</b>

### Investment property valuations (Group only)

Valuer	Property type	Number of properties		Market valuation	
		2016	2015	2016 £000s	2015 £000s
White Druce & Brown	Commercial	7	7	3,210	3,289
Stiles Harold Williams	Commercial	1	1	5,453	4,530
Daniel Watney	Commercial	1	1	22,370	18,700
Internal Valuation	Commercial	25	25	7,367	7,022
ML Surveyors	Residential	14	-	3,342	-
Savills	Residential	2	2	530	495
Hose Rhodes Dickson	Residential	12	12	1,050	1,035
Strutt & Parker	Residential	42	42	4,079	3,940
<b>Total</b>		<b>104</b>	<b>90</b>	<b>47,401</b>	<b>39,011</b>



## 12. Investment in social homebuy

Southern Home Ownership Limited retains a stake in homes purchased through the Homebuy and Starter Home Initiative schemes which are regarded as public benefit entity concessionary loans and are held in the statement of financial position. Investments in Homebuy and Starter Home Initiatives are funded through Social Housing Grant. The Association funds 6% of the stake in Starter Home Initiatives, with the remainder being funded through Social Housing Grant. No interest is payable, the security is a charge on the loan and repayment is due upon the sale of the property.

	<b>Group 2016 £000s</b>	<b>Group 2015 £000s</b>	<b>Association 2016 £000s</b>	<b>Association 2015 £000s</b>
Homebuy and starter home initiatives	<b>8,330</b>	8,758	<b>300</b>	300
	<b>8,330</b>	8,758	<b>300</b>	300

## 13. Listed and unlisted investments

	<b>Group 2016 £000s</b>	<b>Group 2015 £000s</b>	<b>Association 2016 £000s</b>	<b>Association 2015 £000s</b>
Listed and unlisted investments	<b>12,517</b>	12,867	<b>12,517</b>	12,867

Listed 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

<b>Movement on listed and unlisted Investments</b>	<b>Fair Value £000s</b>	<b>Amortised Cost £000s</b>	<b>Total £000s</b>
At 1 April 2015	4,045	8,822	12,867
Investment repayment	-	(36)	(36)
	4,045	8,786	12,831
Change in value	(255)	-	(255)
Write downs	-	(59)	(59)
<b>At 31 March 2016</b>	<b>3,790</b>	<b>8,727</b>	<b>12,517</b>



## 14. Investment loans

At the year end the Association had provided Southern Space Limited with two loan facilities. The balance outstanding on the extendable loan was £495,293 (2015:£9,758,994). The loan is an extendable five year revolving credit facility of up to £35m with interest charged at average 3 month LIBOR + 3%. The balance outstanding on the land purchase loan was £8,664,830 (2015:£14,131,890). The facility is up to £15m and interest is charged at average 3 month LIBOR + 2%. These loans are secured via a floating charge on Southern Space Limited's assets and specific charges on land developments funded by the loans.

The Association has also provided a facility to Southern Home Ownership Limited that is currently undrawn. This is an extendable five year revolving credit facility of up to £30m with interest charged at average 3 month LIBOR + 2%. The loan would be secured via fixed charges on specific Southern Home Ownership Limited properties.

	Group 2016 £000s	Group 2015 £000s	Association 2016 £000s	Association 2015 £000s
<b>Investment loan to wholly owned subsidiary</b>				
<b>Cost</b>				
Investment loan to wholly owned subsidiary	-	-	9,140	24,651

	Association £000s
<b>Investment loan to wholly owned subsidiary</b>	
At 1 April 2015	24,651
Net repayments	(15,511)
	9,140

## 15. Investments in joint ventures

	Group 2016 £000s	Group 2015 £000s	Association 2016 £000s	Association 2015 £000s
<b>Investment in joint ventures</b>				
<b>Investments at cost:</b>				
Triathlon	-	500	-	-
Affinity Housing Services (Reading)	25	25	25	25
Share of accumulated surplus	59	291	-	-
<b>Net investment in joint ventures</b>	<b>84</b>	<b>816</b>	<b>25</b>	<b>25</b>

### Southern Housing Group Limited holds:

- A 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 housing portfolio.
- A 33.33% direct holding in Affinity (Reading) Holdings Limited, which together with the indirect holding described above, gives a total interest of 50%. This is accounted for as a joint venture entity 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 management of the social housing within East Village, Stratford. Following the final handover of all units by the developer to Triathlon Homes LLP, all units are used for social housing in a variety of tenures.



## 15. Investments in joint ventures (continued)

Amounts included in respect of the joint venture in Affinity (Reading) Holdings Limited comprise :	2016 £000s	2015 £000s
Share of turnover of joint venture	325	326
Share of operating surplus in joint ventures	118	122
Dividend Paid	(350)	-
<b>Share of assets</b>		
Share of fixed assets	10	14
Share of current assets	302	668
	<b>312</b>	<b>682</b>
<b>Share of liabilities</b>		
Due within one year	(228)	(366)
Due after one year	-	-
	<b>(228)</b>	<b>(366)</b>
<b>Investment summary</b>		
Investment at cost	<b>25</b>	<b>25</b>

Excluded from the above is the following individually significant joint venture.

	Triathlon Homes LLP 2016 £000s	Triathlon Homes LLP 2015 £000s
<b>Turnover</b>	<b>6,250</b>	20,156
Profit before taxation	1,184	9,242
Taxation	-	-
<b>Profit after taxation</b>	<b>1,184</b>	<b>9,242</b>
<b>Share of assets</b>		
Share of fixed assets	77,480	79,503
Share of current assets	6,602	11,950
	<b>84,082</b>	<b>91,453</b>
<b>Share of liabilities</b>		
Due within one year	(3,405)	(5,402)
Due after one year	(83,211)	(87,571)
	<b>(86,616)</b>	<b>(92,973)</b>
<b>Investment summary</b>		
Investment at cost	-	500
<b>Share of accumulated reserves</b>	<b>(2,534)</b>	<b>(1,520)</b>
	<b>(2,534)</b>	<b>(1,020)</b>

Following the transition of Triathlon Homes LLP to FRS 102, a negative cash flow hedge reserve has resulted in net negative reserves for the joint venture. The Group has no contractual liability for the resultant losses. Due to the reserves in Triathlon, the Group's share of the net assets is written down to nil.





## 16. Stock

	Group 2016 £000s	Group 2015 £000s	Association 2016 £000s	Association 2015 £000s
Properties under construction	<b>37,942</b>	34,612	<b>21,954</b>	7,871
Completed properties	-	72	-	72
	<b>37,942</b>	34,684	<b>21,954</b>	7,943

## 17. Debtors

	Group 2016 £000s	Group 2015 £000s	Association 2016 £000s	Association 2015 £000s
Due within one year:				
Rent arrears and service charges	<b>7,367</b>	8,198	<b>7,132</b>	7,941
Less: provision for bad and doubtful debts	<b>(2,865)</b>	(3,668)	<b>(2,778)</b>	(3,546)
	<b>4,502</b>	4,530	<b>4,354</b>	4,395
Amounts due from connected entities	-	-	<b>20,155</b>	5,190
Other debtors	<b>5,507</b>	7,092	<b>4,185</b>	5,010
Corporation tax	<b>857</b>	-	-	-
Prepayments and accrued income	<b>2,800</b>	4,883	<b>2,763</b>	2,949
	<b>13,666</b>	16,505	<b>31,457</b>	17,544

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

	Group 2016 £000s	Group 2015 £000s	Association 2016 £000s	Association 2015 £000s
Social Housing Grant received in advance	<b>139</b>	139	-	-
Recycled capital grant fund (RCGF)	<b>4,864</b>	2,647	<b>2,315</b>	1,016
Disposal proceeds fund (DPF)	<b>2</b>	17	<b>2</b>	17
Amounts due to connected entities	-	-	<b>3,805</b>	-
Accruals and deferred income	<b>19,647</b>	20,012	<b>14,661</b>	15,719
Corporation tax	-	2,349	-	-
Other taxation and social security	<b>751</b>	746	<b>750</b>	745
Other creditors	<b>15,089</b>	18,016	<b>8,994</b>	11,645
Capital grant on properties for sale	<b>3,372</b>	6,061	<b>3,372</b>	6,061
Pension deficit funding contribution liability	<b>593</b>	396	<b>593</b>	396
Housing loans	<b>7,034</b>	5,729	<b>6,720</b>	5,529
	<b>51,491</b>	56,112	<b>41,212</b>	41,128

Amounts collected from shared ownership leaseholders in respect of service charges, not yet expended, of £8,653,000 (2015: £8,298,000) are reflected above in other creditors.



## 19. Creditors: amounts falling due after more than one year

	Group 2016 £000s	Group 2015 £000s	Association 2016 £000s	Association 2015 £000s
19a. Housing loans	714,233	699,450	690,408	675,332
19b. Deferred income	749,934	759,455	714,031	719,956
19c. Pension deficit contribution liability	4,958	3,523	4,958	3,523
19d. Recycled capital grant fund (RCGF)	11,772	11,205	5,421	5,510
19e. Disposal proceeds fund (DPF)	82	91	82	91
	<b>1,480,979</b>	<b>1,473,724</b>	<b>1,414,900</b>	<b>1,404,412</b>

	Group 2016 £000s	Group 2015 £000s	Association 2016 £000s	Association 2015 £000s
<b>19a. Housing loans</b>				
Housing loans falling due after one year	596,594	583,467	572,603	559,167
Bonds	76,000	76,000	76,000	76,000
Loan set up cost	(3,222)	(3,318)	(3,164)	(3,253)
Effective interest adjustment	(1,684)	(2,261)	(1,576)	(2,144)
Loans at amortised cost	667,688	653,888	643,863	629,770
Derivative financial instruments	46,545	45,562	46,545	45,562
	<b>714,233</b>	<b>699,450</b>	<b>690,408</b>	<b>675,332</b>

Housing loans are all secured by specific charges on 15,339 (2015: 15,974) of the Group's housing units and are repayable in instalments due as follows:

	Group 2016 £000s	Group 2015 £000s	Association 2016 £000s	Association 2015 £000s
In one year or less	7,034	5,729	6,720	5,529
Between one and two years	36,383	7,175	36,005	6,855
Between two and five years	44,401	50,761	42,981	49,461
In five years or more	591,810	601,531	569,617	578,851
	<b>672,594</b>	<b>659,467</b>	<b>648,603</b>	<b>635,167</b>
<b>Total</b>	<b>679,628</b>	<b>665,196</b>	<b>655,323</b>	<b>640,696</b>



## 19. Creditors: amounts falling due after more than one year (continued)

### Financial instruments

Loans are measured at amortised cost using the effective interest method. Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

Housing loans bear hedged fixed rates of interest ranging from 1.55% to 11.5% or variable rates based on a margin above the London Inter Bank Offer Rate. The final instalments fall to be repaid in the period 2017 to 2045. Stand-alone derivative transactions are supported by charged property security (1,136 of the 15,339 total secured properties) to cover any adverse mark-to-market valuations.

Southern Housing Group Ltd has the following stand alone derivative transactions as at 31 March 2016:

	Market Value	
	2016 £000s	2015 £000s
£20m 3 yearly cancellable swap at a fixed rate of 4.77%, next option date July 2016	(11,855)	(11,260)
£25m 30 year cancellable swap at a fixed rate of 4.57%, option date November 2023	(14,349)	(13,401)
£30m 27 year swap at a fixed rate of 4.9875% discounted by compound RPI above 3.20%	(17,126)	(16,470)
£25m 5 year swap at a fixed rate of 2.75%	(666)	(1,078)
£25m 5 year swap at a fixed rate of 3.055%	(1,059)	(1,469)
£25m 5 year swap at a fixed rate of 3.3%	(1,490)	(1,884)
	(46,545)	(45,562)

Mark-to-market valuation provides a realistic appraisal of the current financial situation of the derivative financial instruments and represents a liability to the group.

### Bullet loans

The Group's financing facility includes eight bullet loans including four with THFC Ltd totalling £135,000,000, two with Dexia totalling £7,000,000, Funding for Homes Ltd of £9,500,000 and Housing Securities Ltd of £8,600,000. The bullet loans accrue interest on both quarterly and six monthly at rates varying between 1.71% and 11.50%. The bullet loans are due for repayment from November 2016 to June 2039. These are all secured by a charge over the Group's housing properties.

### Revolver loans

The Group's financing facility includes revolver loans of £12,802,500, £12,250,000, £5,000,000 and £15,000,000. The Dexia revolver loan accrues interest on a monthly basis and the other loans on a six monthly basis between Libor + 0.25% and Libor + 0.40%. The loans are due for repayment in September 2033, August 2023, March 2025 and November 2037 respectively. These are secured by a charge over the Group's housing properties.

### Bonds

The Group's financing facility includes bonds of £75,000,000 and £1,000,000. Both listed bonds accrue interest on a six monthly basis at 4.50% and 5.36% respectively. The £75,000,000 bond is due for repayment starting in 2029 and finalising in 2039, and the £1,000,000 bond is due for repayment starting in 2034 and finalising in 2044. These are secured by a charge over the Group's housing properties.



## 19. Creditors: amounts falling due after more than one year (continued)

### Other loans

The Group's financing facility includes forty seven other loans totalling £374,171,575. The loans accrue interest on monthly, quarterly and six monthly basis with two loans at indexed rates, seventeen loans at Libor + 0.25% to Libor + 1.25% and twenty eight loans ranging from 1.71% to 11.45%. The repayment of the loans ranges from February 2019 to September 2020, December 2016 to December 2044 and September 2038 respectively. These are secured by a charge over the Group's housing properties.

Southern Home Ownership's financing facility includes two other loans totalling £5,000,000 and £24,305,000. The loans accrue interest on a monthly basis at Libor + 0.35% and Libor + 0.95%. The repayment of these loans finishes on July 2024 and July 2025 respectively. These are secured by a charge over the Group's housing properties.

	Group 2016 £000s	Group 2015 £000s	Association 2016 £000s	Association 2015 £000s
<b>19b. Deferred income</b>				
Social and other housing grant b/fwd	758,671	782,095	719,172	739,092
Social housing grant received in the year	1,561	5,572	1,561	5,572
Grant repaid	(20)	(6,061)	(20)	(6,061)
Grant abated	(176)	(189)	(176)	(189)
Grant on disposals	-	(11,575)	-	(11,232)
Transfer (to)/from RCGF	(2,775)	(3,898)	616	(1,129)
Transfer from DPF	26	31	26	31
Grant amortisation released to income on disposals	1,654	2,048	860	1,351
Amortisation of Social Housing grant in year	(9,583)	(9,352)	(8,584)	(8,263)
Deferred income - Social Housing Grant c/fwd	749,358	758,671	713,455	719,172
Premium on debentures	576	784	576	784
	749,934	759,455	714,031	719,956

	Group 2016 £000s	Group 2015 £000s	Association 2016 £000s	Association 2015 £000s
<b>19c. Pension liability</b>				
Pension deficit funding contribution liability	4,958	3,523	4,958	3,523
	4,958	3,523	4,958	3,523

	Group 2016 £000s	Group 2015 £000s	Association 2016 £000s	Association 2015 £000s
<b>19d. Recycled capital grant fund</b>				
<b>Balance relating to the HCA</b>				
Balance at 1 April	5,695	3,747	4,056	2,881
Grant released on sales	2,366	2,244	1,468	1,345
Interest added to fund	31	24	21	17
Intra-group transfer	-	-	346	133
Grant recycled into new schemes	(1,400)	(320)	(1,400)	(320)
<b>Balance as at 31 March</b>	6,692	5,695	4,491	4,056
Comprising amounts:				
Due within one year	2,150	1,124	1,642	782
Due in more than one year	4,542	4,571	2,849	3,274



## 19. Creditors: amounts falling due after more than one year (continued)

	Group 2016 £000s	Group 2015 £000s	Association 2016 £000s	Association 2015 £000s
<b>19d. Recycled capital grant fund (continued)</b>				
<b>Balance relating to the GLA</b>				
Balance at 1 April	8,157	6,149	2,470	1,039
Grant released on sales	3,594	3,372	1,125	1,368
Interest added to fund	48	34	15	5
Intra-group transfer	-	-	1,444	1,322
Grant repaid	(46)	-	-	-
Grant recycled into new schemes	(1,809)	(1,398)	(1,809)	(1,264)
<b>Balance as at 31 March</b>	<b>9,944</b>	<b>8,157</b>	<b>3,245</b>	<b>2,470</b>
Comprising amounts:				
Due within one year	2,714	1,523	673	234
Due in more than one year	7,230	6,634	2,572	2,236

	Group 2016 £000s	Group 2015 £000s	Association 2016 £000s	Association 2015 £000s
<b>19e. Disposal proceeds fund</b>				
<b>Balance relating to the HCA</b>				
Balance at 1 April	56	120	56	120
Released on sales	-	54	-	54
Interest added to Fund	-	1	-	1
Recycled into new schemes	-	(119)	-	(119)
<b>Balance as at 31 March</b>	<b>56</b>	<b>56</b>	<b>56</b>	<b>56</b>
Due within one year	2	-	2	-
Due in more than one year	54	56	54	56

	Group 2016 £000s	Group 2015 £000s	Association 2016 £000s	Association 2015 £000s
<b>Balance relating to the GLA</b>				
Balance at 1 April	52	17	52	17
Released on sales	122	34	122	34
Interest added to Fund	1	1	1	1
Recycled into new schemes	(147)	-	(147)	-
<b>Balance as at 31 March</b>	<b>28</b>	<b>52</b>	<b>28</b>	<b>52</b>
Due within one year	-	(17)	-	(17)
Due in more than one year	28	35	28	35

Total due in less than one year	2	17	2	17
Total due in more than one year	82	91	82	91





## 20. Social housing grant

The entity receives financial assistance from the HCA and GLA. These government grants are accounted for as deferred income in the statement of financial position and are amortised annually to the statement of comprehensive income based on the life of the building structure, which is 100 years.

The amount amortised represents a contingent liability to the entity and will be recognised as a liability when the properties funded by the relevant government grant are disposed of or when the property ceases to be used for social housing purposes.

The analysis of the assistance from government sources in the form of government grants:

	Note	Group 2016 £000s	Group 2015 £000s	Association 2016 £000s	Association 2015 £000s
Government funding received	19b	<b>749,358</b>	758,671	<b>713,455</b>	719,172
Grants amortised to date (Contingent liabilities)		<b>9,583</b>	9,352	<b>8,584</b>	8,263

## 21. Provisions for liabilities and charges

	Group 2016 £000s	Group 2015 £000s	Association 2016 £000s	Association 2015 £000s
<b>Housing property defects and repairs</b>				
Balance at 1 April	<b>142</b>	80	<b>25</b>	25
Unused defects provision	<b>(11)</b>	-	-	-
Utilisation of defect provision	-	62	-	-
<b>Balance as at 31 March</b>	<b>131</b>	142	<b>25</b>	25

### Housing property repairs provision:

The closing balance reflects a Housing Association as management agents provision of £25,000 (2015:£25,000) carried forward which we expect to be greater than one year, and a defects provision in respect of new sales properties in SSL of £106,000 (2015:£117,000) which we expect to be for less than one year. 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:	2016	2015
Balance at 1 April	<b>9</b>	8
Shares issued during year	<b>1</b>	1
Shares surrendered during year	<b>(1)</b>	-
<b>As at 31 March</b>	<b>9</b>	9

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 capital is cancelled.



## 23. Capital commitments

	Group 2016 £000s	Group 2015 £000s	Association 2016 £000s	Association 2015 £000s
Capital expenditure contracted but not provided for in the financial statements	164,281	43,201	137,208	38,385
Capital expenditure authorised but not contracted	157,407	75,712	107,528	71,775

The Group capital expenditure authorised but not contracted includes £15,117,909 (2015: £26,414,051) in respect of units developed in SSL for sale within the Group.

Committed development expenditure will be financed through grant (£16.0m Group, £14.8m Association) with the balance funded through cash balances, cash generated, property sales and borrowings on undrawn funding facilities. It is not possible to identify the exact split of the funding.

## 24. Operating leases

### Leased assets

Payments under cancellable operating leases are charged to the statement of comprehensive income on a straight line basis over the life of the lease.

	Property 2016 £000s	Equipment 2015 £000s	Total 2016 £000s	Total 2015 £000s
<b>Future minimum lease payments</b>				
Within one year	229	230	458	464
Between one and five years	217	188	405	462
Over five years	83	-	83	56
	529	418	946	982

### Operating leases with tenants

The Group's rental properties other than those held for investment purposes are tenanted under cancellable operating leases with typical tenant break clauses of 4 weeks. Rents vary in line with the Rent Standard as set by the Government and affected by the Welfare Reform and Work Act 2016. The Group share of equity in a shared ownership property may be purchased by its leaseholder at any time at the pro-rata market rate at which point ongoing lease payments will be adjusted according to the share of ownership retained by the Group. In 2015 the Group signed a Voluntary Right to Buy Agreement as set out by the National Housing Federation, under this agreement and subject to the conclusion of the Housing Bill 2015-6 and regulatory agreement certain of its rental properties would be available to purchase by the properties existing tenant.

The Group's residential market rented properties are cancellable operating leases with a mixture of four week or two month notice periods.

The Group's commercial properties are non-cancellable operating leases and the income is recorded in the statement of comprehensive income as the rent falls due.

	2016 £000s	2015 £000s
<b>Operating lease income due:</b>		
less than one year	1,532	1,471
later than one year and not later than five years	2,570	3,401
later than five years	1,845	1,601
	5,947	6,473



## 25. Post-employment benefits

### Retirement benefits

The Group participates in a number of pension schemes:

#### a) Defined benefit schemes

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

Southern Housing Group Limited 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 1 member, the share of scheme assets and liabilities of which are not material to the Southern Housing Group Limited financial statements.

#### 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.

The amounts recognised in the balance sheet are as follows:	Group 2016 £000s	Group 2015 £000s	Association 2016 £000s	Association 2015 £000s
Southern Housing Group Pension scheme	(6,051)	(6,532)	(6,051)	(6,532)
Isle of Wight Pension scheme	(2,275)	(2,653)	(2,275)	(2,653)
<b>Total net deficit</b>	<b>(8,326)</b>	<b>(9,185)</b>	<b>(8,326)</b>	<b>(9,185)</b>

### Southern Housing Group Pension Scheme

Southern Housing Group Limited is the sponsoring employer of a funded defined benefit pension scheme in the UK, which provides retirement benefits based on members' salary when leaving employment. The assets of the Plan are held in a separately administered fund and the Plan is administered by a trustee body (independent of Southern Housing Group Limited) who are responsible for ensuring that the Plan is sufficiently funded to meet current and future obligations.

The liabilities set out in this note have been calculated based on the results of the accounting disclosures as of 31 March 2014, updated to 31 March 2016, allowing for additional benefit accrual and benefits paid. The present value of the defined benefit obligation and the related current service cost were measured using the projected unit credit method. The last full actuarial valuation was carried out at 31 March 2013.

Southern Housing Group Limited has agreed a funding plan with the trustee of the Plan, whereby ordinary contributions are made into the Plan based on a percentage of active employees' salary. Additional contributions are agreed with the trustee of the Plan to reduce the funding deficit where necessary. The disclosures set out below are based on calculation carried out as at 31 March 2016 by an independent qualified actuary.

During 2015/16 the Group paid contributions at a rate of 24% plus an additional annual payment of £720,840 (2015: £720,840) towards an identified deficit.

The employer contribution rate to be applied from 1 April 2016 is 24%.



## 25. Post-employment benefits (continued)

The results of the calculations and the assumptions adopted are shown below.

Actuarial assumptions	2016 %pa	2015 %pa
Rate of increase in salaries	2.60	2.60
Aggregate long-term expected rate of return on assets	3.45	3.20
Discount rate	3.45	3.20
Inflation assumption - RPI	3.10	3.10
Inflation assumption - CPI	2.10	2.10

Mortality assumptions	Male	Female
Current pensioner aged 65	22.4 yrs	24.4 yrs
Future retiree upon reaching 65	24 yrs	26.2 yrs

The major categories of scheme assets as a percentage of total scheme assets are	2016 %	2015 %
Equities	47.00	49.20
Property	4.80	4.50
Diversified growth fund & LDI	47.40	37.90
Cash	0.80	8.40
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

Net defined benefit asset (liability)	2016 %	2015 %
Fair value of scheme assets	34,553	34,560
Present value of defined benefit obligation	(40,604)	(41,092)
<b>Defined benefit asset/(liability) recognised in balance sheet</b>	<b>(6,051)</b>	<b>(6,532)</b>

Total expense recognised in statement of comprehensive income	2016 £000s	2015 £000s
Current service cost	600	548
Administration expenses	295	170
Recognised in arriving at operating profit	895	718
Net interest on the net defined benefit liability	194	195
<b>Total recognised in the Profit and Loss account</b>	<b>1,089</b>	<b>913</b>

Total amounts taken to Other Comprehensive Income	2016 £000s	2015 £000s
Actual return on scheme assets - gains and (losses)	37	4,762
less amounts included in net interest on the net defined benefit liability	(1,105)	(1,326)
Remeasurement gains and (losses)		
Return on scheme assets excluding interest income	(1,068)	3,436
Actuarial gains/(losses)	1,470	(5,392)
<b>Remeasurement gains/(loss) recognised in Other Comprehensive Income</b>	<b>402</b>	<b>(1,956)</b>



## 25. Post-employment benefits (continued)

	2016 %pa	2015 %pa
<b>Changes in the present value of the defined benefit obligation</b>		
Present value of defined benefit obligation at beginning of period	<b>41,092</b>	34,044
Benefits paid	<b>(1,006)</b>	(519)
Administration expenses paid	<b>(295)</b>	(170)
Current service cost	<b>600</b>	548
Administration costs	<b>295</b>	170
Interest cost	<b>1,299</b>	1,521
Remeasurement gains and (losses)		
Actuarial gains/(losses)	<b>(1,470)</b>	5,392
Employee contributions	<b>89</b>	106
<b>Present value of defined benefit obligation at end of period</b>	<b>40,604</b>	41,092

	2016 £000s	2015 £000s
<b>Changes in the fair value of assets</b>		
Fair value of scheme assets at beginning of period	<b>34,560</b>	29,162
Interest income	<b>1,105</b>	1,326
Remeasurement gains and (losses)		
Return on scheme assets excluding interest income	<b>(1,068)</b>	3,436
Contributions by employer	<b>1,168</b>	1,219
Employee contributions	<b>89</b>	106
Benefits paid	<b>(1,006)</b>	(519)
Administration expenses	<b>(295)</b>	(170)
<b>Fair value of scheme assets at end of period</b>	<b>34,553</b>	34,560

### The Social Housing Pension Scheme

The company participates in the scheme, a multi-employer scheme which provides benefits to some 500 non-associated employers. The scheme is a defined benefit scheme in the UK. It is not possible for the company to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore it accounts for the scheme as a defined contribution scheme.

A full actuarial valuation for the scheme was carried out with an effective date of 30 September 2014. This actuarial valuation was certified on 23 November 2015 and showed assets of £3,123m, liabilities of £4,446m and a deficit of £1,323m. To eliminate this funding shortfall, the trustees and the participating employers have agreed that additional contributions will be paid to the scheme in combination from all employers.

The company has recognised a liability for this obligation which is detailed below. The amount recognised is the net present value of the deficit reduction contributions payable under the agreement that relates to the deficit. The present value has been calculated using the discount rate of 2.06% per annum at 31 March 2016. The unwinding of the discount rate is recognised as a finance cost.





## 25. Post-employment benefits (continued)

	Period ending 31 March 2016 (£000s)	Period ending 31 March 2015 (£000s)
<b>Reconciliation of opening and closing deficit funding contribution</b>		
Deficit funding contribution at start of period	3,919	3,981
Unwinding of the discount factor (interest expense)	71	114
Deficit contribution paid	(396)	(382)
Remeasurements - impact of any change in assumptions	(37)	206
Remeasurements - amendments to the contribution schedule	1,994	-
<b>Deficit funding contribution at end of period</b>	<b>5,551</b>	<b>3,919</b>

Deficit contributions paid during the year which have been recognised as an expense were £396,000 (2015:£382,000). Employer contributions for the year recognised as an expense were £69,000 (2015:£75,000).

### 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 Group has agreed a funding plan with the trustee, whereby ordinary contributions are made into the scheme based on a percentage of active employees' salary. Additional contributions are agreed with the trustee to reduce the funding deficit where necessary.

A comprehensive actuarial valuation of the Group pension scheme, using the projected unit credit method, 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 2016/17 (2015/16: 25.7% plus £122,000).

The major assumptions used in this valuation were:

<b>Actuarial assumptions</b>	<b>2016 %pa</b>	<b>2015 %pa</b>
Pension increase rate	2.10	2.10
Salary increase rate	4.10	4.00
Discount rate	3.40	3.10
Inflation assumption - Retail Price Index	3.10	3.00
Inflation assumption - Consumer Price Index	2.10	2.10

<b>Mortality assumptions</b>	<b>Male</b>	<b>Female</b>
Current pensioner aged 65	22.4 yrs	24.5 yrs
Future retiree upon reaching 65	23.8 yrs	26.7 yrs

<b>The major categories of scheme assets as a percentage of total scheme assets are:</b>	<b>2016 %</b>	<b>2015 %</b>
Equities	66.00	67.00
Property	6.00	5.00
Bonds	28.00	28.00
Cash	0.00	0.00
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

<b>Net defined benefit asset (liability)</b>	<b>2016 %</b>	<b>2015 %</b>
Fair value of scheme assets	4,896	4,935
Present value of defined benefit obligation	(7,171)	(7,588)
<b>Defined benefit liability recognised in balance sheet</b>	<b>(2,275)</b>	<b>(2,653)</b>



## 25. Post-employment benefits (continued)

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

	2016 £000s	2015 £000s
<b>Total expense recognised in Profit and Loss Account</b>		
Current service cost	51	43
Recognised in arriving at operating profit	51	43
Net interest on the net defined benefit liability	232	285
<b>Total recognised in the profit and loss account</b>	<b>283</b>	<b>328</b>

	2016 £000s	2015 £000s
<b>Total amounts taken to Other Comprehensive Income</b>		
Actual return on scheme assets – (losses)/gains	(80)	446
Remeasurement gains and (losses)		
Return on scheme assets excluding interest income	(80)	446
Remeasurement gains and (losses)	430	(451)
<b>Remeasurement gains/(loss) recognised in other comprehensive income</b>	<b>350</b>	<b>(5)</b>

	2016 %	2015 %
<b>Changes in the present value of the defined benefit obligation</b>		
Present value of defined benefit obligation at beginning of period	7,588	7,076
Benefits paid	(280)	(276)
Current service cost	51	43
Interest cost	232	285
Remeasurement (losses)/gains		
Actuarial (losses)/gains	(430)	451
Employee contributions	10	9
<b>Present value of defined benefit obligation at end of period</b>	<b>7,171</b>	<b>7,588</b>

	2016 %	2015 %
<b>Changes in the fair value of assets</b>		
Fair value of scheme assets at beginning of period	4,935	4,418
Interest income	151	179
Remeasurement gains and (losses)	(80)	446
Contributions by employer	160	159
Employee contributions	10	9
Benefits paid	(280)	(276)
<b>Fair value of scheme assets at end of period</b>	<b>4,896</b>	<b>4,935</b>

### Defined Contribution Schemes

The amount recognised as an expense for the year for the defined contribution schemes was:

Zurich Assurance Limited	£744,421 (2015:£719,102)
Social Housing Pension Scheme	£77,497 (2015:£65,623)

## 26. Legislative provisions

Southern Housing Group Limited is incorporated under the Co-operative and Community Benefit Societies Act 2014 (Registered Number 31055R) and registered with the Homes and Communities Agency (HCA) and previously with the Housing Corporation under the Housing Act 1974 (Registered Number L4628).



## 27. 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:

Name	Legal status	Regulator	Nature of business	Interest
Southern Housing Group Limited	Co-operative and Community Benefit Societies Act 2014 Number 31055R	HCA - Registered Provider Number: L4628	Provision of housing and accommodation to the disadvantaged	
Southern Home Ownership Limited	Co-operative and Community Benefit Societies Act 2014 Number 18521R	HCA - Registered Provider Number: LH1662	Development and management of shared ownership properties	100% shares
Southern Space Limited	Companies Act 2006 Number 5437850		Development of properties for sale	100% shares
Southern Development Services Limited	Companies Act 2006 Number 5400187		Provision of Development services to other group companies	100% shares
Samuel Lewis Foundation	Charitable Endowment. Charity Number 206611	Charities Commission	Provision of housing and accommodation to the disadvantaged (see note 30)	Corporate trustee
Affinity Housing Services (Reading)	Unincorporated partnership		Joint venture partnership with Windsor & District HA	50% partnership capital
Affinity (Reading) Holdings Limited	Companies Act 2006 Number 04851135		Joint venture with Radian Housing	33.3% share and 16.67% via Affinity Housing Services (Reading)
Triathlon Homes LLP	The Limited Liability Partnership Act 2000		Joint venture entity with First Base 4 Stratford LLP and East Place Limited	33% partnership interest via SSL

Southern Space Limited is exempt from the requirement to use gross equity accounting for the joint venture investment.



## 28. Related parties

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

	2016 £000s	2015 £000s
<b>Payments Received by SHG</b>		
Sale of land to SSL	-	16,659
Capitalised development costs and loan interest from SSL	1,526	1,354
Administrative support costs from SSL and SDSL	435	518
Director's services, and profit distribution from Affinity Housing Services (Reading)	405	55
Gift Aid from SSL and SDSL	5,570	-
<b>Total</b>	<b>7,936</b>	<b>18,586</b>

	2016 £000s	2015 £000s
<b>Payments made by SHG</b>		
Development costs paid to SSL	15,925	5,814
Design and build fees paid to SDSL	255	433
<b>Total</b>	<b>16,180</b>	<b>6,247</b>

Payments totalling £32,933 were made in the normal course of business to Aston Rose Ltd and Sustainable Chale Ltd, companies related to Directors of the Group. Aston Rose provide managing agent services to two estates. The payment to Sustainable Chale was by way of a grant for improvements to the Chale community centre.

Payments totalling £1,570 were made to SHGL by two Board members who were leaseholders during the year.

	2016 £000s	2015 £000s
<b>Assets</b>		
Intercompany creditor due from SSL to SHGL	9,140	24,651

	2016 £000s	2015 £000s
<b>Liabilities</b>		
Intercompany debtor due from SHGL to SSL and SDSL	3,805	-

	2016 £000s	2015 £000s
<b>Intra-group transactions for Southern Home Ownership with non-regulated group members are as follows:</b>		
Design and build fees paid to SDSL	1	12
Intercompany creditor due from SSL	37	77



## 29. Financial assets and liabilities

	Group 2016 £000s	Group 2015 £000s	Association 2016 £000s	Association 2015 £000s
<b>The Group has the following financial instruments:</b>				
<b>Financial assets at fair value through profit or loss</b>				
- Investments at market value	3,790	4,045	3,790	4,045
	3,790	4,045	3,790	4,045
<b>Financial assets that are measured at amortised cost</b>				
- Cash and cash equivalents	144,894	140,998	109,263	118,152
- Investments at amortised costs	8,727	8,822	8,727	8,822
- Social homebuy investment	8,330	8,758	300	300
- Rent and service charge arrears	4,502	1,812	4,354	1,737
- Other debtors	5,507	7,092	4,185	5,010
	171,960	167,482	126,829	134,021
<b>Financial liabilities measured at fair value through profit or loss</b>				
- Derivative financial instruments	46,545	45,562	46,545	45,562
	46,545	45,562	46,545	45,562
<b>Financial liabilities measured at amortised cost</b>				
- Trade and other payables	36,080	56,112	41,212	41,128
- Bonds	75,447	75,408	75,447	75,408
- Bullet loans	160,715	160,499	160,715	160,499
- Revolver loans	44,669	44,743	44,669	44,743
- Other loans	397,210	382,336	373,014	357,953
	714,121	719,098	695,057	679,731





### 30. 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. This disclosure is given for reporting purposes to the Charity commission.

	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	82
Beech House	1936	701	16

	2016 £000s	2015 £000s
<b>Fund balances are represented by:</b>		
Property, plant & equipment	15,206	14,415
Investments	952	966
Total assets less current liabilities	16,158	15,381
Creditors: amounts falling due after more than one year		
Social Housing and Other Grants	(7,426)	(7,426)
<b>Total Net Assets</b>	<b>8,732</b>	<b>7,955</b>

	2016 £000s	2015 £000s
<b>Net income from permanent endowed assets</b>		
Income from lettings	1,773	1,701
Less expenditure on letting activities	(857)	(875)
Surplus on letting activities	916	826
Income from investments	7	10
	<b>923</b>	<b>836</b>

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



## 31. Summary of changes due to transition to FRS 102

This is the first year that the Group and Parent Association have presented their results under FRS 102. The last financial statements under UK GAAP were for the year ended 31 March 2015. The date of transition to FRS 102 was 1st April 2014. Set out below is a reconciliation of the impact of changes on the primary statements due to accounting policy changes on transition to FRS 102.

### 31a Summary of changes due to transition to FRS 102 on the consolidated Group accounts.

At 1 April 2014					
Restated Statement of Financial Position Group	Note	As Previously Reported £000s	Effect Of Transition £000s	Prior Period Adjustment £000s	FRS 102 Restated £000s
<b>Fixed assets</b>					
Property, plant & equipment	1,3,6,7	918,604	804,455	(2,294)	<b>1,720,765</b>
Investment properties	1,2	926	31,509	-	<b>32,435</b>
Investment in social homebuy	6	448	8,732	-	<b>9,180</b>
Listed and unlisted investments		12,753	-	-	<b>12,753</b>
Investment in joint ventures	4	3,332	(2,639)	-	<b>693</b>
		<b>936,063</b>	<b>842,057</b>	<b>(2,294)</b>	<b>1,775,826</b>
<b>Current assets</b>					
Stock	7	29,364	(2,487)	-	<b>26,877</b>
Trade and other debtors	8	14,990	2,542	-	<b>17,532</b>
Cash and cash equivalents		169,046	-	-	<b>169,046</b>
		<b>213,400</b>	<b>55</b>	<b>-</b>	<b>213,455</b>
Less: creditors: amounts falling due within one year	5,8	(70,868)	4,948	(55)	<b>(65,975)</b>
Net current assets/liabilities		<b>142,532</b>	<b>5,003</b>	<b>(55)</b>	<b>147,480</b>
Total assets less current liabilities		<b>1,078,595</b>	<b>847,060</b>	<b>(2,349)</b>	<b>1,923,306</b>
Creditors: amounts falling due after more than one year	5,8	(715,955)	(810,727)	1,712	<b>(1,524,970)</b>
Provisions for liabilities and charges		(80)	-	-	<b>(80)</b>
Post employment benefits		(7,540)	-	-	<b>(7,540)</b>
<b>Total net assets</b>		<b>355,020</b>	<b>36,333</b>	<b>(637)</b>	<b>390,716</b>
<b>Reserves</b>					
Income and expenditure reserve		352,145	38,609	(637)	<b>390,117</b>
Revaluation reserve	1,2	2,445	(2,445)	-	<b>-</b>
General reserve		430	-	-	<b>430</b>
Share of joint venture reserves	4	-	169	-	<b>169</b>
<b>Total reserves</b>		<b>355,020</b>	<b>36,333</b>	<b>(637)</b>	<b>390,716</b>



## 31. Summary of changes due to transition to FRS 102 (continued)

At 31 March 2015					
Restated Statement of Financial Position Group	Note	As Previously Reported £000s	Effect Of Transition £000s	Prior Period Adjustment £000s	FRS 102 Restated £000s
<b>Fixed assets</b>					
Property, plant & equipment	1,3,6,7	918,362	792,910	(2,341)	<b>1,708,931</b>
Investment properties	1,2	5,470	33,541	-	<b>39,011</b>
Investment in social homebuy	6	381	8,377	-	<b>8,758</b>
Listed and unlisted investments		12,867	-	-	<b>12,867</b>
Investment in joint ventures	4	9,819	(9,003)	-	<b>816</b>
		946,899	825,825	(2,341)	<b>1,770,383</b>
<b>Current assets</b>					
Stock	7	42,443	(7,759)	-	<b>34,684</b>
Trade and other debtors	8	13,787	2,718	-	<b>16,505</b>
Cash and cash equivalents		140,998	-	-	<b>140,998</b>
		197,228	(5,041)	-	<b>192,187</b>
Less: creditors: amounts falling due within one year	5,8	(61,000)	4,943	(55)	<b>(56,112)</b>
Net current assets/liabilities		136,228	(98)	(55)	<b>136,075</b>
Total assets less current liabilities		1,083,127	825,727	(2,396)	<b>1,906,458</b>
Creditors: amounts falling due after more than one year	5,8	(668,171)	(807,265)	1,712	<b>(1,473,724)</b>
Provisions for liabilities and charges		(142)	-	-	<b>(142)</b>
Post employment benefits		(9,185)	-	-	<b>(9,185)</b>
<b>Total net assets</b>		<b>405,629</b>	<b>18,462</b>	<b>(684)</b>	<b>423,407</b>
<b>Reserves</b>					
Income and expenditure reserve		401,574	21,796	(684)	<b>422,686</b>
Revaluation reserve	1,2	3,625	(3,625)	-	<b>-</b>
General reserve		430	-	-	<b>430</b>
Share of joint venture reserves	4	-	291	-	<b>291</b>
<b>Total reserves</b>		<b>405,629</b>	<b>18,462</b>	<b>(684)</b>	<b>423,407</b>



## 31. Summary of changes due to transition to FRS 102 (continued)

Restated Statement of Total Comprehensive Income for the year ended 2015 Group	Note	As Previously Reported £000s	Effect Of Transition £000s	Prior Period Adjustment £000s	FRS 102 Restated £000s
Turnover	6	175,267	9,586	-	<b>184,853</b>
Cost of sales		(21,709)	-	-	<b>(21,709)</b>
<b>Gross profit</b>		153,558	9,586	-	<b>163,144</b>
Administration expenses	1,2,3,8	(99,119)	(4,642)	(47)	<b>(103,808)</b>
<b>Surplus on operations</b>		54,439	4,944	(47)	<b>59,336</b>
Surplus on revaluation of investments	1,2	-	4,700	-	<b>4,700</b>
<b>Operating surplus</b>		54,439	9,644	(47)	<b>64,036</b>
Gain/(loss) on disposal of fixed assets	6	27,254	(1,522)	-	<b>25,732</b>
Share of operating surplus in joint ventures	4	9,431	(9,309)	-	<b>122</b>
Interest and financing costs	5	(35,932)	(15,944)	-	<b>(51,876)</b>
Gift aid received		-	-	-	<b>-</b>
<b>Surplus before tax</b>		55,192	(17,131)	(47)	<b>38,014</b>
Taxation		(3,283)	-	-	<b>(3,283)</b>
<b>Surplus for the year</b>		51,909	(17,131)	(47)	<b>34,731</b>
<b>Other comprehensive income</b>					
Actuarial (loss)/gain in respect of pension schemes		(2,480)	440	-	<b>(2,040)</b>
Change in fair value of hedged financial instrument		-	-	-	<b>-</b>
<b>Total comprehensive income for the year</b>		49,429	(16,691)	(47)	<b>32,691</b>
- the association		42,942	(10,326)	(47)	<b>32,569</b>
- jointly controlled entities accounted for by the equity method		6,487	(6,365)	-	<b>122</b>
		49,429	(16,691)	(47)	<b>32,691</b>



## 31. Summary of changes due to transition to FRS 102 (continued)

Restated reserves Group	Note	Income and Expenditure Reserve £000s	Revaluation Reserve £000s	General Reserve £000s	Share Of Joint Venture Reserves £000s	Total Reserves £000s
<b>As reported 31 March 2014</b>		<b>352,145</b>	<b>2,445</b>	<b>430</b>	<b>-</b>	<b>355,020</b>
Investment properties	1	6,737	-	-	-	<b>6,737</b>
Other investments	2	2,445	(2,445)	-	-	-
Depreciation	3	(40,055)	-	-	-	<b>(40,055)</b>
Joint venture surplus	4	(2,807)	-	-	169	<b>(2,638)</b>
Financial instruments at fair value	5	(19,352)	-	-	-	<b>(19,352)</b>
Government grants	6	93,431	-	-	-	<b>93,431</b>
Other	8	(1,790)	-	-	-	<b>(1,790)</b>
Prior period adjustments	9	(637)	-	-	-	<b>(637)</b>
Total transition adjustments 2014		37,972	(2,445)	-	169	<b>35,696</b>
<b>Restated 31 March 2014</b>		<b>390,117</b>	<b>-</b>	<b>430</b>	<b>169</b>	<b>390,716</b>
<b>As reported 31 March 2015</b>		<b>401,574</b>	<b>3,625</b>	<b>430</b>	<b>-</b>	<b>405,629</b>
Total transitional adjustments 2014		37,972	(2,445)	-	169	<b>35,696</b>
Investment properties	1	4,203	(978)	-	-	<b>3,225</b>
Other investments	2	202	(202)	-	-	-
Depreciation	3	(5,016)	-	-	-	<b>(5,016)</b>
Joint venture surplus	4	(6,487)	-	-	122	<b>(6,365)</b>
Financial instruments at fair value	5	(18,269)	-	-	-	<b>(18,269)</b>
Government grants	6	8,308	-	-	-	<b>8,308</b>
Other	8	246	-	-	-	<b>246</b>
Prior period adjustments	9	(47)	-	-	-	<b>(47)</b>
Total transition adjustments 2015		(16,860)	(1,180)	-	122	<b>(17,918)</b>
<b>At 31 March 2015</b>		<b>422,686</b>	<b>-</b>	<b>430</b>	<b>291</b>	<b>423,407</b>

### 1 Investment properties

Previously under UK GAAP the company held its commercial properties at cost under other fixed assets. On transition to FRS 102 commercial properties are required to be held as investment properties at market value and any subsequent changes in value taken to income. Accordingly other fixed assets of £24,901,000 were transferred to investment properties at cost. On transition the cumulative depreciation was transferred to income and expenditure reserve giving an increase of £2,585,000. A pre tax gain of £165,000 for the transfer of depreciation was recognised in the income and expenditure account for the year ended 31 March 2015.

Investment properties were increased by a gain on valuation of £6,608,000 at transition, with the gain taken to the income and expenditure reserve, the value was increased by a further £3,519,000 for the year ended 31 March 2015, additional to this was valuation gain of £978,000 on the market rent properties that taken to the revaluation reserve under UK GAAP which was taken to the income and expenditure account for the year ended 31 March 2015. A further £80,000 depreciation was written back to the statement of comprehensive income for the year ended 31 March 2015.





## 31. Summary of changes due to transition to FRS 102 (continued)

### 2 Other investments

Under UK GAAP the valuation gain/(loss) on other investments was taken to the revaluation reserve. On transition to FRS 102 the change in valuation is taken to the income and expenditure account. On transition the reserve balance of £2,445,000 was transferred to the income and expenditure reserve. The valuation gain of £202,000 for the year ended 31 March 2015 was taken to the income and expenditure account.

### 3 Property, plant and equipment cost and depreciation

Under UK GAAP assets were depreciated over their useful economic lives on cost net of grant. Under FRS 102 grants are not netted against the cost, the grant amortisation is recognised in turnover. Accordingly at transition cumulative depreciation of property plant and equipment was increased by £42,512,000 and the income and expenditure reserve account decreased by this amount. For the year ended 31 March 2015 an additional £4,243,000 depreciation was charged to the statement of comprehensive income.

On adoption of FRS 102, the transferred grant attributable to properties acquired from other housing associations is held as a contingent liability. Accordingly the grant and cost of these properties has been reduced by the amount of attributable grant and the cumulative depreciation adjusted also. At transition the cost and grant were reduced by £13,423,000. For the year ended 31 March 2015 a further adjustment was made for the depreciation charge recognised in the year under UK GAAP, the depreciation charge for the year was reduced by £79,000. A further adjustment was made for the grant released on disposals of the units in the year, deferred income grants was increased by £167,000 and also the cost held in property plant and equipment.

### 4 Joint ventures

On transition to FRS 102 the financial statements of the joint ventures have been restated. As a result of the accounting for derivative financial instruments one of the joint ventures had negative reserves at transition and as at 31 March 2015. Due to the reserves in Triathlon, the Group's share of the net assets is written down to nil. Accordingly at transition the share of surplus previously recognised on Group consolidation of £2,639,000 was written back reducing both the investment in joint ventures and the income and expenditure reserve. For the year ended the share of surpluses written back was £9,003,000, again reducing both the investment in joint ventures and the income and expenditure reserve.

### 5 Financial instruments

FRS 102 requires financial instruments are classified as basic or other financial instruments.

#### Basic instruments

On transition to FRS 102 the bank loans have been classified as basic financial instruments and accounted for at amortised cost using the effective interest rate method. Accordingly at transition long term creditors was reduced by £2,047,000, short term creditors reduced by £5,680,000 and the income and expenditure reserve increased by £7,727,000. A pre tax gain of £214,000 was recognised in the income and expenditure account, long term creditors reduced by £345,000 and short term creditors reduced by £7,000 for the year ended 31 March 2015.

#### Other financial instruments

On transition to FRS 102 derivative instruments are required to be recognised on the balance sheet at fair value. The Group has interest rate SWAPs and an inflation SWAP. Accordingly on transition long term creditors have increased by £27,081,000, due to the ineffectiveness of the SWAPs the income and expenditure reserve has decreased by this amount. A further increase of £18,492,000 was added to long term creditors and the loss taken to the income and expenditure account for the increase in the fair value of the derivative instruments in the year ended 31 March 2015.



## 31. Summary of changes due to transition to FRS 102 (continued)

### 6 Government grants

FRS 102 requires that government grants for capital items must be recognised using either the Performance Model or the Accruals Model. The company has adopted the accrual model on transition whereby grants related to assets are recognised in income over the useful life of the assets. Under FRS 102 grant carrying balances are held as deferred income in long term creditors. At transition, grants of £875,215,000 were transferred from fixed asset grants to deferred income and £8,732,000 of Social homebuy grant was transferred from investments to deferred income. At 31 March 2015 £866,287,000 was transferred from fixed asset grants to deferred income and £8,377,000 Social homebuy grant was transferred from investments to deferred income. At transition £93,431,000 grant amortisation increased the income and expenditure account reserve, and a gain of £8,888,000 was recognised in the statement of comprehensive income for the year ended 31 March 2015.

On adoption of FRS 102, the transferred grant attributable to properties acquired from other housing associations is held as a contingent liability. See adjustment 3 Property, plant and equipment cost and depreciation.

### 7 Stock - properties for sale

Under FRS 102 and the SORP for Social Housing Providers 2014, land acquired for the provision of social housing or social benefit must be accounted for as property plant and equipment, and also in the event of no specific intended use. Accordingly at transition £2,186,000 was transferred from stock to property plant and equipment, and £7,759,000 was transferred for the year ended 31 March 2015.

### 8 Other

Rent arrears - the policy for making a provision against rental income arrears was revised so that the method was compliant with FRS 102. Accordingly at transition a pre tax gain of £2,541,000 was taken from debtors to the income and expenditure account reserve and a further pre tax gain of £209,000 was taken to the statement of comprehensive income in the year ended 31 March 2015.

Employee Benefits – FRS 102 requires that an accrual be made for any employee's holiday entitlement that is carried over to the following year. Accordingly on transition creditors less than one year were increased by £351,000 and the pre tax loss taken to the income and expenditure reserve. A pre tax gain of £6,000 was taken to the income and expenditure account and creditors less than one year reduced accordingly for the year ended 31 March 2015.

FRS 102 also requires that an accrual be made for any agreed pension deficit top up arrangements. As a member of the Social Housing Pension Scheme an accrual has been made to recognise the commitment. Accordingly on transition a pre tax loss of £3,981,000 was recognised in the income and expenditure reserve with a corresponding increase in creditors less than one year of £382,000 and £3,599,000 in creditors more than one year. A pre tax gain of £62,000 was taken to the income and expenditure account, with an increase in creditors less than one year of £14,000 and a decrease in creditors more than one year of £76,000.

Following the adoption of FRS 102 £440,000 gain for the movement in the net pension deficit liability was recognised in the statement of total recognised surpluses and losses is now recognised in comprehensive income with the balance recognised in other comprehensive income. Accordingly for the year ended 31 March 2015 a pre tax gain of £440,000 is recognised in the surplus before tax with a corresponding reduction in the amount recognised on other comprehensive income.



## 31. Summary of changes due to transition to FRS 102 (continued)

### 9 Prior period adjustment

In the course of preparing for the changes to depreciation and grant amortisation required by FRS 102 a number of differences were identified between the fixed asset system (RAM) used to calculate depreciation and grant amortisation and the housing management system used to manage the group's operations. In reconciling the two systems there were 225 properties that Group no longer owned but were still showing on the fixed asset register, costs of £8,165,000 have been written off. There are 65 properties that were not on the fixed asset register that should have been, the costs of £5,164,000 have been added to the register. Furthermore, corrections of £2,364,000 pertaining to grant and depreciation have been written back. In accordance with FRS 102 35.14 these adjustments have been made as retrospective adjustments in the reserves as at 1 April 2014 and the 2015 statement of comprehensive income.

### Statement of Total Comprehensive Income 31 March 2015

	£000s
Additional depreciation charged	(47)
<b>Administration Expenses</b>	<b>(47)</b>

### Statement of Financial Position

<b>As at 31 March 2014</b>	<b>£000s</b>
Units removed from RAM	(8,165)
Units added to RAM	5,164
Additional depreciation charged	422
Historical depreciation account written off	285
<b>Fixed assets</b>	<b>(2,294)</b>
Grant to be re-paid	(55)
<b>Creditors due in 1 year</b>	<b>(55)</b>
Adjustment to grant	1,712
<b>Creditors due in more than 1 year</b>	<b>1,712</b>
<b>Change in reserves as at 31 March 2014</b>	<b>(637)</b>

<b>As at 31 March 2015</b>	<b>£000s</b>
Units removed from RAM	(8,165)
Units added to RAM	5,164
Additional depreciation charged	375
Historical depreciation account written off	285
<b>Fixed assets</b>	<b>(2,341)</b>
Grant to be re-paid	(55)
<b>Creditors due in 1 year</b>	<b>(55)</b>
Adjustment to grant	1,712
<b>Creditors due in more than 1 year</b>	<b>1,712</b>
<b>Change in reserves as at 31 March 2015</b>	<b>(684)</b>



## 31. Summary of changes due to transition to FRS 102 (continued)

At 1 April 2014					
Restated Statement of Financial Position Association	Note	As Previously Reported £000s	Effect Of Transition £000s	Prior Period Adjustment £000s	FRS 102 Restated £000s
<b>Fixed assets</b>					
Property, plant and equipment	1,3,5,6	879,485	755,939	(2,294)	<b>1,633,130</b>
Investment Properties	1,2	926	31,393	-	<b>32,319</b>
Investment in social homebuy	5	-	300	-	<b>300</b>
Listed and unlisted investments		12,753	-	-	<b>12,753</b>
Investment in joint ventures		25	-	-	<b>25</b>
Investment in associates		12,241	-	-	<b>12,241</b>
		905,430	787,632	(2,294)	<b>1,690,768</b>
<b>Current assets</b>					
Stock	6	16,218	(604)	-	<b>15,614</b>
Trade and other debtors	7	18,857	2,464	-	<b>21,321</b>
Cash and cash equivalents		139,865	-	-	<b>139,865</b>
		174,940	1,860	-	<b>176,800</b>
Less: creditors: amounts falling due within one year	4,7	(57,052)	4,941	(55)	<b>(52,166)</b>
Net current assets/liabilities		117,888	6,801	(55)	<b>124,634</b>
Total assets less current liabilities		1,023,318	794,433	(2,349)	<b>1,815,402</b>
Creditors: amounts falling due after more than one year		(687,044)	(767,856)	1,712	<b>(1,453,188)</b>
Provisions for liabilities and charges		(25)	-	-	<b>(25)</b>
Post-employment benefits		(7,540)	-	-	<b>(7,540)</b>
<b>Total net assets</b>		<b>328,709</b>	<b>26,577</b>	<b>(637)</b>	<b>354,649</b>
<b>Reserves</b>					
Income and expenditure reserve		325,834	29,022	(637)	<b>354,219</b>
Revaluation reserve	1,2	2,445	(2,445)	-	<b>-</b>
General reserve		430	-	-	<b>430</b>
<b>Total reserves</b>		<b>328,709</b>	<b>26,577</b>	<b>(637)</b>	<b>354,649</b>



## 31. Summary of changes due to transition to FRS 102 (continued)

At 31 March 2015					
Restated Statement of Financial Position Association	Note	As Previously Reported £000s	Effect Of Transition £000s	Prior Period Adjustment £000s	FRS 102 Restated £000s
<b>Fixed assets</b>					
Property, plant and equipment	1,3,5,6	881,557	741,894	(2,341)	<b>1,621,110</b>
Investment properties	1,2	5,470	33,425	-	<b>38,895</b>
Investment in Social homebuy	5	-	300	-	<b>300</b>
Listed and unlisted investments		12,867	-	-	<b>12,867</b>
Investment in joint ventures		25	-	-	<b>25</b>
Investment in associates		24,651	-	-	<b>24,651</b>
		924,570	775,619	(2,341)	<b>1,697,848</b>
<b>Current assets</b>					
Stock	6	8,550	(607)	-	<b>7,943</b>
Trade and other debtors	7	14,886	2,658	-	<b>17,544</b>
Cash and cash equivalents		118,152	-	-	<b>118,152</b>
		141,588	2,051	-	<b>143,639</b>
Less: creditors: amounts falling due within one year	4,7	(46,006)	4,933	(55)	<b>(41,128)</b>
Net current assets/liabilities		95,582	6,984	(55)	<b>102,511</b>
Total assets less current liabilities		1,020,152	782,603	(2,396)	<b>1,800,359</b>
Creditors: amounts falling due after more than one year		(638,241)	(767,883)	1,712	<b>(1,404,412)</b>
Provisions for liabilities and charges		(25)	-	-	<b>(25)</b>
Post-employment benefits		(9,185)	-	-	<b>(9,185)</b>
<b>Total net assets</b>		372,701	14,720	(684)	<b>386,737</b>
<b>Reserves</b>					
Income and expenditure reserve		368,646	18,345	(684)	<b>386,307</b>
Revaluation reserve	1,2	3,625	(3,625)	-	<b>-</b>
General reserve		430	-	-	<b>430</b>
<b>Total reserves</b>		372,701	14,720	(684)	<b>386,737</b>





## 31. Summary of changes due to transition to FRS 102 (continued)

Restated Statement of Total Comprehensive Income for the year ended 2015 Association	Note	As Previously Reported £000s	Effect Of Transition £000s	Prior Period Adjustment £000s	FRS 102 Restated £000s
Turnover	5	156,582	8,497	-	<b>165,079</b>
Cost of sales		(11,507)	-	-	<b>(11,507)</b>
<b>Gross profit</b>		145,075	8,497	-	<b>153,572</b>
Administration expenses	1,2,3,7	(97,989)	(4,619)	(47)	<b>(102,655)</b>
<b>Surplus on operations</b>		47,086	3,878	(47)	<b>50,917</b>
Surplus/(deficit) on revaluation of investments	1,2	-	4,700	-	<b>4,700</b>
<b>Operating surplus</b>		47,086	8,578	(47)	<b>55,617</b>
Gain/(loss) on disposal of fixed assets	5	23,969	(823)	-	<b>23,146</b>
Interest and financing costs	4	(32,763)	(18,872)	-	<b>(51,635)</b>
Gift aid received		7,000	-	-	<b>7,000</b>
<b>Surplus before tax</b>		45,292	(11,117)	(47)	<b>34,128</b>
<b>Surplus for the year</b>		45,292	(11,117)	(47)	<b>34,128</b>
<b>Other comprehensive income</b>					
Actuarial (loss)/gain in respect of pension schemes		(2,480)	440	-	<b>(2,040)</b>
<b>Total comprehensive income for the year</b>		42,812	(10,677)	(47)	<b>32,088</b>
<b>Total comprehensive income attributable to:</b>					
- the association		42,812	(10,677)	(47)	<b>32,088</b>



## 31. Summary of changes due to transition to FRS 102 (continued)

Restated reserves Association	Note	Income And Expenditure Reserve £000s	Revaluation Reserve £000s	General Reserve £000s	Total Reserves £000s
<b>As reported 31st March 2014</b>		<b>325,834</b>	<b>2,445</b>	<b>430</b>	<b>328,709</b>
Investment properties	1	6,986	-	-	<b>6,986</b>
Other investments	2	2,445	(2,445)	-	-
Depreciation	3	(39,927)	-	-	<b>(39,927)</b>
Financial instruments at fair value	4	(19,491)	-	-	<b>(19,491)</b>
Government grants	5	80,876	-	-	<b>80,876</b>
Other	7	(1,867)	-	-	<b>(1,867)</b>
Prior period adjustments		(637)	-	-	<b>(637)</b>
Total transition adjustments 2014		28,385	(2,445)	-	<b>25,940</b>
<b>Restated 31st March 2014</b>		<b>354,219</b>	<b>-</b>	<b>430</b>	<b>354,649</b>
<b>As reported 31st March 2015</b>		<b>368,646</b>	<b>3,625</b>	<b>430</b>	<b>372,701</b>
Total transitional adjustments 2014		28,385	(2,445)	-	<b>25,940</b>
Investment properties	1	4,199	(978)	-	<b>3,221</b>
Other investments	2	202	(202)	-	-
Depreciation	3	(5,000)	-	-	<b>(5,000)</b>
Financial instruments at fair value	4	(18,254)	-	-	<b>(18,254)</b>
Government grants	5	7,915	-	-	<b>7,915</b>
Other	6	261	-	-	<b>261</b>
Prior period adjustments	7	(47)	-	-	<b>(47)</b>
Total transition adjustments 2015		(10,724)	(1,180)	-	<b>(11,904)</b>
<b>At 31st March 2015</b>		<b>386,307</b>	<b>-</b>	<b>430</b>	<b>386,737</b>

### 1 Investment properties

Previously under UK GAAP the company held its commercial properties at cost under other fixed assets. On transition to FRS 102 commercial properties are required to be held as investment properties at market value and any subsequent changes in value taken to income. Accordingly other fixed assets of £24,495,000 were transferred to investment properties at cost. On transition the cumulative depreciation was transferred to income and expenditure reserve giving an increase of £2,544,000. A pre tax gain of £161,000 for the transfer of depreciation was recognised in the income and expenditure account for the year ended 31 March 2015. Investment properties were increased by a gain on valuation of £6,898,000 at transition, with the gain taken to the income and expenditure reserve, the value was increased by a further £3,519,000 for the year ended 31 March

2015, additional to this was valuation gain of £978,000 on the market rent properties that taken to the revaluation reserve under UK GAAP which was taken to the income and expenditure account for the year ended 31 March 2015. A further £80,000 depreciation was written back to the statement of comprehensive income for the year ended 31 March 2015.

### 2 Other investments

Previously under UK GAAP the valuation gain/ (loss) on other investments was taken to the revaluation reserve, on transition to FRS 102 the change in valuation is taken to the income and expenditure account. Accordingly on transition the reserve balance of £2,445,000 was transferred to the income and expenditure reserve. The valuation gain of £202,000 for the year ended 31 March 2015 was taken to the income and expenditure account.



## 31. Summary of changes due to transition to FRS 102 (continued)

### 3 Property, plant and equipment cost and depreciation

Under UK GAAP assets were depreciated over their useful economic lives on cost net of grant. Under FRS 102 grants are not netted against the cost, the grant amortisation is recognised in turnover. Accordingly at transition cumulative depreciation of property plant and equipment was increased by £42,383,000 and the income and expenditure reserve account decreased by this amount. For the year ended 31 March 2015 an additional £4,228,000 depreciation was charged to the statement of comprehensive income.

On adoption of FRS 102, the transferred grant attributable to properties acquired from other housing associations is held as a contingent liability. Accordingly the grant and cost of these properties has been reduced by the amount of attributable grant and the cumulative depreciation adjusted also. Accordingly at transition the cost and grant were reduced by £13,423,000 and the cumulative depreciation reduce by £1,000 with an increase in the income and expenditure reserve of £1,000. For the year ended 31 March 2015 a further adjustment was made for the depreciation charge recognised in the year under UK GAAP, the depreciation charge for the year was reduced by £79,000. A further adjustment was made for the grant released on disposals of the units in the year, deferred income grants was increased by £167,000 and also the cost held in property plant and equipment.

### 4 Financial instruments

FRS 102 requires financial instruments are classified as basic or other financial instruments.

#### Basic instruments

On transition to FRS 102 the bank loans have been classified as basic financial instruments and accounted for at amortised cost using the effective interest rate method. Accordingly at transition long term creditors was reduced by £1,915,000, short term creditors reduced by £5,674,000 and the income and expenditure reserve increased by £7,589,000. A pre tax gain of £228,000 was recognised in the income and expenditure account and long term creditors reduced by £228,000 for the year ended 31 March 2015.

### Other financial instruments

On transition to FRS 102 derivative instruments are required to be recognised on the balance sheet at fair value. The Group has interest rate SWAPs and an inflation SWAP. Accordingly on transition long term creditors have increased by £27,081,000, due to the ineffectiveness of the SWAPs the income and expenditure reserve has decreased by this amount. A further increase of £18,492,000 was added to long term creditors and the loss taken to the income and expenditure account for the increase in the fair value of the derivative instruments in the year ended 31 March 2015.

### 5 Government grants

FRS 102 requires that government grants for capital items must be recognised using either the Performance Model or the Accruals Model. The company has adopted the accrual model on transition whereby grants related to assets are recognised in income over the useful life of the assets. Under FRS 102 grant carrying balances are held as deferred income in long term creditors. Accordingly at transition grants of £833,089,000 were transferred from fixed asset grants to deferred income and £300,000 of Social Homebuy grant was transferred from investments to deferred income. At 31 March 2015 £821,918,000 was transferred from fixed asset grants to deferred income and £300,000 Social Homebuy grant was transferred from investments to deferred income. At transition £80,875,000 grant amortisation increased the income and expenditure account reserve, and a gain of £8,497,000 was recognised in the statement of comprehensive income for the year ended 31 March 2015.

On adoption of FRS 102, the transferred grant attributable to properties acquired from other housing associations is held as a contingent liability. See note 3 Property, plant and equipment cost and depreciation.



## 31. Summary of changes due to transition to FRS 102 (continued)

### 6 Stock – properties for sale

Under FRS 102 and the SORP for Social Housing Providers 2014, land acquired for the provision of social housing or social benefit must be accounted for as property plant and equipment, and also in the event of no specific intended use. At transition £604,000 was transferred from stock to property plant and equipment, and £607,000 was transferred for the year ended 31 March 2015.

### 7 Other

Rent arrears - the policy for making a provision against rental income arrears was revised so that the method was compliant with FRS 102. Accordingly at transition a pre tax gain of £2,464,000 was taken from debtors to the income and expenditure account reserve and a further pre tax gain of £193,000 was taken to the statement of comprehensive income in the year ended 31 March 2015.

Employee Benefits – FRS 102 requires that an accrual be made for any employee's holiday entitlement that is carried over to the following year. Accordingly on transition creditors less than one year were increased by £351,000 and the pre tax loss taken to the income and expenditure reserve. A pre tax gain of £6,000 was taken to the income and expenditure account and creditors less than one year reduced accordingly for the year ended 31 March 2015.

FRS 102 also requires that an accrual be made for any agreed pension deficit top up arrangements. As a member of the Social Housing Pension Scheme an accrual has been made to recognise the commitment. Accordingly on transition a pre tax loss of £3,981,000 was recognised in the income and expenditure reserve with a corresponding increase in creditors less than one year of £382,000 and £3,599,000 in creditors more than one year. A pre tax gain of £62,000 was taken to the income and expenditure account, with an increase in creditors less than one year of £14,000 and a decrease in creditors more than one year of £76,000.

Following the adoption of FRS 102 £440,000 gain for the movement in the net pension deficit liability was recognised in the statement of total recognised surpluses and losses is now recognised in comprehensive income with the balance recognised in other comprehensive income. Accordingly for the year ended 31 March 2015 a pre tax gain of £440,000 is recognised in the surplus before tax with a corresponding reduction in the amount recognised on other comprehensive income.

### 8 Prior period adjustment

In the course of preparing for the changes to depreciation and grant amortisation required by FRS 102 a number of differences were identified between the fixed asset system (RAM) used to calculate depreciation and grant amortisation and the housing management system used to manage the group's operations. In reconciling the two systems there were 225 properties that Group no longer owned but were still showing on the fixed asset register, costs of £8,165,000 have been written off. There are 65 properties that were not on the fixed asset register that should have been, the costs of £5,164,000 have been added to the register. Furthermore, corrections of £2,364,000 pertaining to grant and depreciation have been written back. In accordance with FRS 102 35.14 these adjustments have been made as retrospective adjustments in the reserves as at 1 April 2014 and the 2015 statement of comprehensive income.



## 31. Summary of changes due to transition to FRS 102 (continued)

### Statement of Financial Position

<b>As at 31 March 2014</b>	<b>£000s</b>
Units removed from RAM	(8,165)
Units added to RAM	5,164
Additional depreciation charged	422
Historical depreciation account written off	285
<b>Fixed assets</b>	<b>(2,294)</b>
Grant to be re-paid	(55)
<b>Creditors due in 1 year</b>	<b>(55)</b>
Adjustment to grant	1,712
<b>Creditors due in more than 1 year</b>	<b>1,712</b>
<b>Change in reserves as at 31 March 2014</b>	<b>(637)</b>
<b>As at 31 March 2015</b>	<b>£000s</b>
Units removed from RAM	(8,165)
Units added to RAM	5,164
Additional depreciation charged	375
Historical depreciation account written off	285
<b>Fixed assets</b>	<b>(2,341)</b>
Grant to be re-paid	(55)
<b>Creditors due in 1 year</b>	<b>(55)</b>
Adjustment to grant	1,712
<b>Creditors due in more than 1 year</b>	<b>1,712</b>
<b>Change in reserves as at 31 March 2015</b>	<b>(684)</b>

### Statement of Total Comprehensive Income 31 March 2015

	<b>£000s</b>
Additional depreciation charged	(47)
<b>Administration Expenses</b>	<b>(47)</b>

## 32. Contingent liabilities

The parent and Group have grant attributable to properties acquired from other housing associations that were purchased at fair value, measured at Existing Use Value – Social Housing (EUV-SH). The EUV-SH of these purchases included original government grant funding of £12,979,000 (2015: £13,255,000) which the parent and Group have an obligation to be recycled in accordance with the original grant funding terms and conditions. In accordance with the SORP, these amounts are disclosed as a contingent liability. The parent and Group are responsible for the recycling of the grant in the event of the housing properties being disposed.

## 33. Post balance sheet events

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

On 23 June 2016 the United Kingdom voted to leave the European Union. At the time of signing, it is not possible to estimate the financial effect of this decision.









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Southern Housing Group Limited, an  
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within the meaning of the Co-operative  
and Community Benefit Societies Act 2014  
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