A business with social objectives

Southern Housing Group

shgroup.org.uk

Group Financial Statements and Annual Review 2016/2017

Principal advisors, secretary and registered office

External auditors	Principal bankers	Secretary & registered office
PricewaterhouseCoopers LLP	**National Westminster Bank PLC**	**Kathryn Worth**
Chartered accountants and statutory auditors	Corporate banking	Group Company Secretary
1 Embankment Place London WC2N 6RH	Second Floor, County Gate 2 Staceys Street Maidstone Kent ME14 1ST	Southern Housing Group Fleet House 59-61 Clerkenwell Road London EC1M 5LA

The consolidated financial statements of:
Southern Housing Group Limited
Southern Home Ownership Limited
Southern Space Limited
Southern Development Services Limited

We do not distribute our surplus – every penny we make and more is invested in providing good quality homes and services.

Contents

01. A business with social objectives

Southern Housing Group was established in 1901 and has grown to become one of the largest housing associations in the south east of England.

We house 72,000 customers, own and manage over 27,000 homes and work with over 40 local authorities. We employ nearly 1,000 people, offer a range of housing products for rent and sale, and undertake a wide range of activities to improve the lives of our customers.

Being a business with social objectives means we invest every penny and more into good quality homes and services for people in housing need. Over the last year we made a surplus of £62m and invested £114m in existing and new homes. Our Corporate Strategy (on the next page) is made up of five challenges.

Corporate Strategy

Board KPIs

The Group's 12 key performance indicators help the Board monitor progress against the Corporate Strategy.

The KPIs demonstrate an increase in the number of new homes built, an encouraging increase in customer satisfaction and highlight areas for future focus as we target service excellence, such as void re-let times. Year on year financial performance has been strong and we maintain robust levels of liquidity and covenant headroom.

Surplus on operations

£64.6m

£57.5m in 2015/16

Social housing lettings interest cover

1.45

1.47 days in 2015/16

Average voids core re-let time

30 days

27.8 days in 2015/16

Overall customer service satisfaction

74%

73% in 2015/16

Gearing headroom

19.53%

17.8% in 2015/16

Liquidity coverage

1.25x

1.13x in 2015/16

Average repair costs
per unit

£240

£218 in 2015/16

Operating margin

32%

32% in 2015/16

Numbers housed
new lets, sales, re-sales and re-lets

2045

2789 in 2015/16

Rent arrears
as % of rent due

3.63%

3.43% in 2015/16

New homes

393

199 in 2015/16

Gas servicing
% complete

99.96%

99.98% in 2015/16

Chair of the Board and Chief Executive's introduction

Tom Dacey
Group Chief Executive

Arthur Merchant
Chair of the Board

2016/17 proved that we live in interesting times. The government's Housing White Paper, in February 2017, signalled a welcome shift in policy from the Chancellor's Autumn Statement in 2015, acknowledging that "housing associations have a vital role to play if we are to build the homes we need". The White Paper continued to signpost the need for efficiency and value for money in the sector.

More recently we were truly saddened by the tragic Grenfell Tower fire during June 2017 and, in common with many across our sector, have offered homes to displaced residents.

Over the course of the year, the Group has been focusing our Business Plan and Corporate Strategy on providing more new homes and delivering service excellence. We overhauled our service delivery model from the ground up in 2016/17 and we will continue this work as we bed in new systems and new ways of working into 2017/18 and beyond.

Our business outcomes from 2016/17 were positive. We underwent an in-depth assessment from the HCA, and retained our G1, V1 rating. In addition, throughout the year, our Moody's A1 (negative outlook) rating was maintained. The year also brought positive reports following quality inspections of our Domiciliary Care Agency service on the Isle of Wight. These indicators are clear signals of our stability and our robust approach to managing our business and delivering services.

Our KPIs demonstrate robust levels of liquidity and covenant headroom, and an encouraging increase in customer satisfaction as well as highlighting areas for future focus, such as our void turnaround time and continuing to increase the number of homes we provide.

We are proud of the Group's achievements this year – we've invested more and grown our business. Every penny of our £62m surplus and more is reinvested in building and maintaining homes and delivering services and support to our customers.

In 2016/17 the Group invested £16m in improving existing homes and £98m in delivering a total of 393 new homes and starting work on 416 more across London and the South East. Our aspiration is to develop at least 500 homes per year.

Being a business with social objectives means that not only do we invest in homes, we also invest in communities, making a positive impact on our customers' lives and wellbeing. Our wellbeing activities delivered an estimated social value of £2.6m return and our Financial Skills Officers helped leverage and generate £1.6m in additional income for our customers. Our employment and training advisers helped 566 people into employment or training and our Home Energy Advice Team delivered an average £252 in energy cost savings for 590 households.

Our challenges are clear: deliver excellent services and transparent value for money, provide new homes for a range of needs, support our customers and communities and protect the viability of our business. We believe that succeeding in meeting these challenges meets the needs and expectations of all our stakeholders.

"In this, my first year as Chair, the sector and the Group have faced huge change. I have taken over at a time when the organisation is in a strong position and I am delighted to be working with the Board and the executive of the Group to drive us forward so we can continue to provide housing to those most in need. We will not lose sight of our purpose. I believe it is vital that we continue to provide strong community investment, financial advice and employment services for our customers as well as develop high quality homes. I am looking forward to seeing our strategy and our excellent financial management succeeding as we respond to the challenges that the next few years will bring to the sector."

Arthur Merchant
Chair of the Board

02. Strategic report

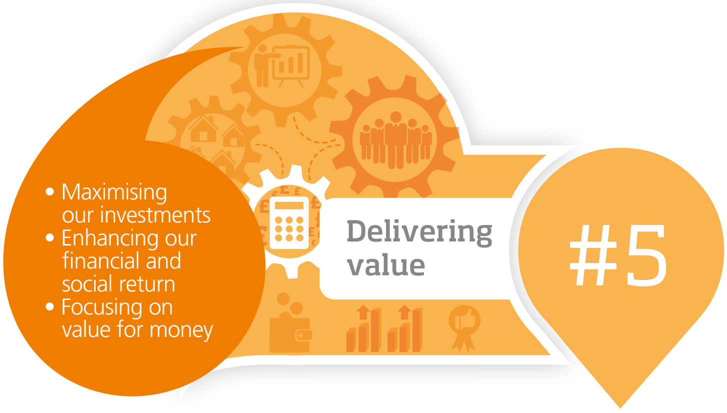
Corporate Strategy Challenge #5

Delivering value

Financial review

Accounting policies

The accounting policies are set out in the Group financial statements starting on page 68 of this report.



Income and expenditure

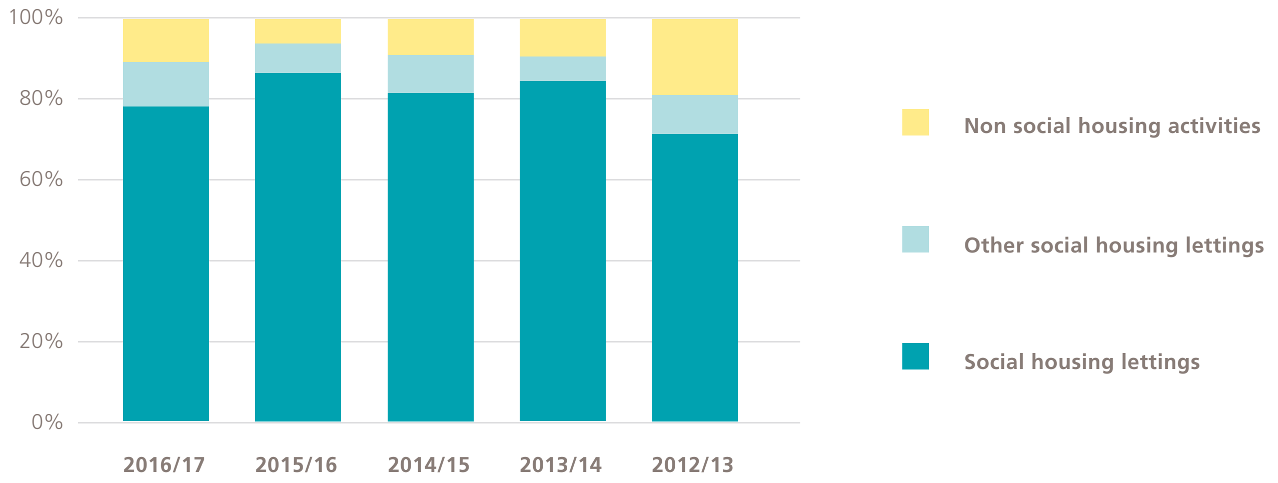
	2016/17 FRS102 £'000	2015/16 FRS102 £'000	2014/15 FRS102 £'000	2013/14 UKGAAP £'000	2012/13 UKGAAP £'000
Turnover	200,176	177,508	184,853	159,276	180,704
Cost of sales	(24,185)	(9,962)	(21,709)	(12,242)	(28,811)
Gross profit	**175,991**	**167,546**	**163,144**	**147,034**	**151,893**
Operating costs	(111,385)	(110,041)	(103,808)	(96,795)	(97,895)
Surplus on operations	**64,606**	**57,505**	**59,336**	**50,239**	**53,998**
Surplus on revaluation of investments	20,549	5,198	4,700		
Operating surplus	**85,155**	**62,703**	**64,036**	**50,239**	**53,998**
Gain on disposal of fixed assets	13,605	19,328	25,732	18,138	13,351
Share of operating surplus in joint ventures	495	118	122	6,032	3,363
Interest receivable and similar income	1,520	3,179	1,349	2,080	2,174
Interest payable and similar charges	(33,954)	(35,150)	(53,225)	(37,423)	(33,229)
Surplus before tax	**66,821**	**50,178**	**38,014**	**39,066**	**39,657**
Taxation	(4,856)	12	(3,283)	(1,758)	(904)
Surplus for the year	**61,965**	**50,190**	**34,731**	**37,308**	**38,753**

#5

Key income and expenditure highlights

- In the first of four years of rent reductions, the Group has achieved a £22.5m year on year increase in operating surplus (£7.1m from operations and £15.4m from the revaluation of investments) and an £11.8m increase in surplus. We continue to generate sufficient surplus from operating activities to cover our current funding costs.
- Open market sales accounted for £18.2m (FY16 £7.1m) and first tranche shared ownership sales were £18.9m (FY16 £10m).

Turnover analysis



- Turnover from operations was £200.2m (FY16 £177.5m), an increase of £22.7m. At £156.6m (FY16 £154.3m) our core business of social housing lettings generated 78% (FY16 87%) of total turnover and a further 11% of our turnover was from other social housing activity (FY16 7%).
- Operating costs increased to £111.4m (FY16 £110m) due to investment in improvement projects and proactively managing our pension deficit positions and component write offs.
- Surplus on operations was £64.6m, up by £7.1m compared to the prior year. £48.4m was generated by letting products and is detailed further in the table on the next page. The surplus generated from open market and first tranche shared ownership sales was £13m, including £5.5m from phase one of the Bow River Village development.

#5

	2016/17				2015/16		
	Number of units	Property lettings income £000	Operating surplus on lettings £000	Operating surplus on lettings per unit (£)	Number of units	Property lettings income £000	Operating surplus on lettings £000
Social rented housing (including supported)	19,819	122,650	35,452	1,789	19,831	122,173	36,113
Affordable rented housing	1,109	7,762	2,884	2,601	926	5,742	1,722
Intermediate rented housing	938	9,202	5,166	5,507	953	9,659	4,305
Shared ownership housing	2,848	17,031	4,924	1,729	2,762	16,686	4,965
Private rent	115	864	485	4,217	70	620	382
Total	**24,829**	**157,509**	**48,911**	**1,970**	**24,542**	**154,880**	**47,487**

- As a result of rent reductions, investment in improvement projects, proactively managing our pension deficit positions and component write offs, social rented housing generated a lower operating surplus of £35.5m (15/16 £36.1m) and return of £1,789 per unit (15/16 £1,821).
- Affordable rent surplus was 67.4% higher as a result of the full year benefit of the 291 additional units in 15/16. An additional 87 units were built in the current year and a further 96 were converted.
- The number of shared ownership units increased by 86 (3.1%); however, operating surplus reduced by 0.8%. This is due to lost rental income as a result of tenants acquiring increased shares of their properties.
- The number of private rented sector properties increased to 115 - an increase of 64.3% on the prior year. The majority of the additional units relate to Bow River Village and these were let from December 2016 explaining the reduction in operating surplus on lettings per unit.
- The large gain on investment property valuations reflects an increased value of commercial units. The larger items making up this figure relate to revaluation increases of £5.5m for Ada Lewis House and five other increases of £1m or more compared to the prior year.
- Staircasing of shared ownership properties remained popular, leading to a £13.6m surplus on fixed asset disposals (15/16 £19.3m) although this represented a 29.5% decrease on last year.
- The Group adopts a policy of utilising Gift Aid where possible to ensure that as much surplus remains within the Group as is possible to fund future developments.
- Interest payments for the financial year have remained relatively constant when compared with the last financial year. However, the amount of interest payable that was capitalised has increased from £1.1m in the prior year to £4.2m this year, which reflects the increased level of investment this year.

#5

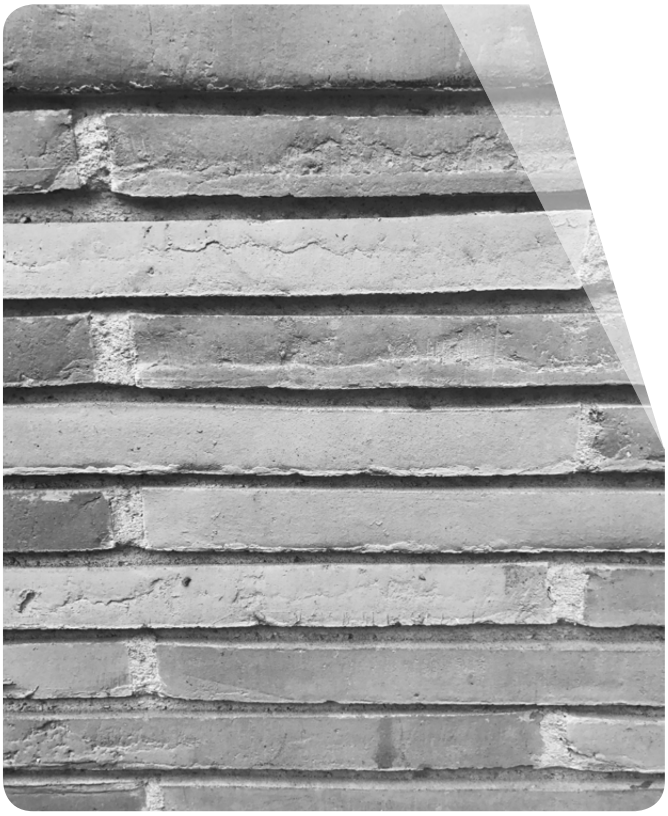
Financial position	FRS102 2016/17 £000s	FRS102 2015/16 £000s	FRS102 2014/15 £000s	UK GAAP 2013/14 £000s	UK GAAP 2012/13 £000s
Fixed assets	1,910,250	1,818,651	1,770,383	936,063	910,499
Stock and work in progress	59,009	37,942	34,684	29,364	29,952
Cash and cash equivalents	125,506	144,894	140,998	162,316	155,986
Grant	(761,575)	(769,505)	(778,723)	(16,306)	(6,141)
Loan	(707,992)	(679,628)	(659,617)	(724,072)	(741,912)
Post employment benefits	(9,859)	(8,326)	(9,185)	(7,540)	(15,493)
Other net liabilities	(81,525)	(69,802)	(75,133)	(24,805)	(23,540)
Reserves	(533,814)	(474,226)	(423,407)	(355,020)	(309,351)

Total units owned by tenure	**2017** units	**2016** units
General needs	17,237	17,251
Supported housing	2,582	2,580
Affordable rent	1,109	926
Intermediate rent	938	953
Shared ownership	2,848	2,762
Leasehold and freehold	2,547	2,522
Subtotal for all sub-market homes	**27,261**	**26,994**
Private rent	115	70
Subtotal for all homes	**27,376**	**27,064**
Commercial	39	35
Total	**27,415**	**27,099**

#5

SOFP review/highlights

- The increase in reserves reflects the surplus generated for the year, which, together with an increase in net debt, funded the increase in value of completed properties and properties under construction.
- Fixed assets increased by £91.6m. The main reasons were the completion of properties (which are set out in the table below) to the value of £62.8m, £16.2m investment in improving existing properties (which are set out in the table on the previous page) and the increase in the value of investment properties.
- Stock and work in progress increased by £21.1m due to increased investment in new homes. At the year end, the Group had 416 properties under construction.
- Net debt (loans less cash and cash equivalents) increased by £47.8m to support the increased investment in new homes.



New homes by tenure	2016/17	2015/16
Affordable rent	87	59
Open market sale	49	25
Private rent	48	14
Shared ownership	169	25
Social rent	40	76
Grand total	**393**	199

- During the year, the pension deficits relating to the schemes accounted for using the defined benefit approach increased by £1.5m. This movement relates mainly to the Southern Housing Group Pension Scheme where the triennial valuation was completed, which has created a £2.1m actuarial loss that was recognised in the statement of total comprehensive income.

#5

Business planning

Our business plan provides the financial parameters in which we operate the business and manage capacity through financial health indicators. We have enhanced our approach to stress testing in response to the uncertainty created by the EU referendum and US election results of 2016.

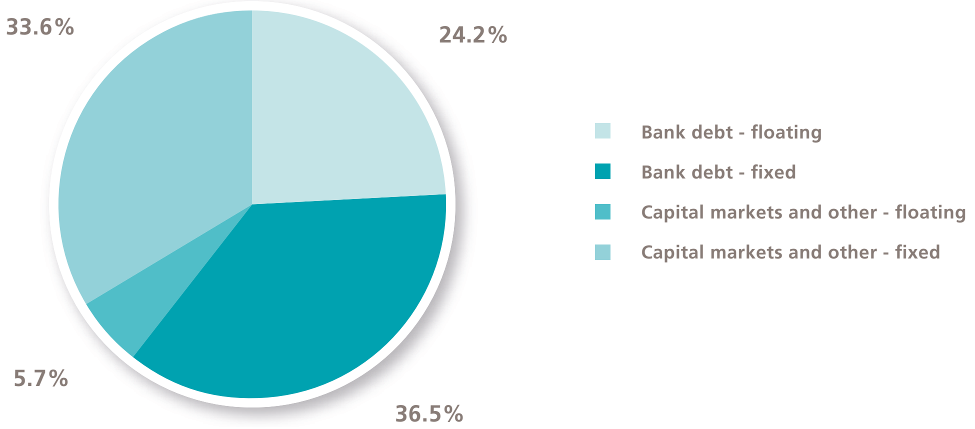
We consider a wide range of plausible individual sensitivities and multi variate scenarios and model their impact on our indicators of financial health. This approach has informed Board strategy and risk appetite. We maintain enough headroom so that we can withstand our market downturn scenario by remaining covenant compliant, and have developed mitigating actions to extreme adverse scenarios. We are currently working with our lenders to create a level of capacity that allows us to increase the number of homes we provide whilst maintaining these robust levels of headroom.

Treasury strategy and performance

Through the course of the year, Southern Housing Group maintained its Moody's A1 (negative outlook) credit rating, reflecting the Group's strong balance sheet and liquidity position. Furthermore, the Group also retained its regulatory V1, G1 ratings, following an in-depth assessment by the HCA during the year.

The Group has total facilities of £848m, of which £708m was drawn at 31 March 2017. The pie chart below highlights the split between bank and non-bank debt, as well as whether the debt is fixed or variable.

Group's funding mix as at 31 March 2017



60.7% of the Group's drawn facilities are from bank funding with the remaining 39% being capital market debt or local authority loans. The Group has a weighted average cost of capital of 5.1%.

The Group's debt contains a mix of 70.1% fixed and 29.9% variable rate. However, due to the £150m SWAPs taken out in 2007, fixed rate debt was 89.8% at 31 March 2017. The SWAPs have a mark to market exposure of £49m at the same date. Security is placed against the mark to market position.

Debt type	Sum of outstanding £m	%	SWAP adjustment £m	Post-SWAP position £m	%
Fixed	486	68.6%	150	636	89.8%
Variable	222	31.4%	-150	72	10.2%
Grand Total	**708**	**100%**	**£0**	**708**	**100%**

#5

As part of the loan agreements, the Group is required to secure properties against its debt. The table below shows the securitisation position of the Group as at 31 March 2017.

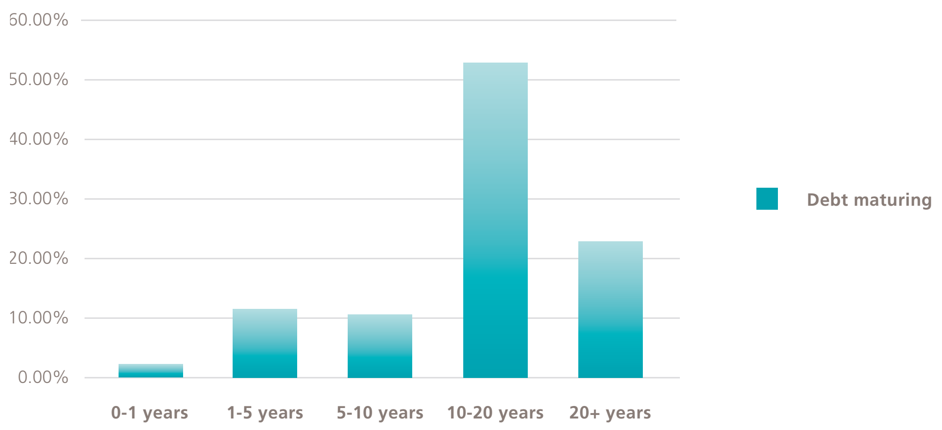
Description	Loan value £m	Number of units	EUV-SH £bn	MV-VP £bn
Mortgage secured	853*	15,519	0.9	4.1
Unencumbered	-	8,162	0.5	2.4
Pre-charged units	-	1,148	0.1	0.3
Total	**853**	**24,829**	**1.5**	**6.8**

*Loan value includes undrawn bank facilities.

To reduce exposure to refinancing risk, the Group has an internal policy of ensuring no more than 10% of the loan portfolio matures in one financial year, and no more than 20% matures within the next five financial years.

The Group monitors its loan maturity profile on an ongoing basis to ensure compliance:

Group debt maturing profile at 31 March 2017



The Group's policy is to maintain sufficient liquidity to cover the next 18 months' committed cash flow (excluding sale proceeds). As at 31 March the Group had liquidity of £250m against an 18 month committed cash flow forecast of £108m.

Summary of the Group's liquidity

Facility	Available £'000
Cash in bank	113,398
Undrawn bank facilities	90,125
Retained bond	50,000
Total	**253,523**

#5

The Board's Value for Money self-assessment 2016/2017

Introduction

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

We are a business with social objectives

Our business is funded by a combination of reserves, grants and public/private finance. We use the money from these three funding sources to provide good quality homes and services for people in housing need – our social objectives.

Over the last year, we invested £114m in new and existing homes, 184% of our £62m surplus. We managed to do this by securing £6.1m in government grants and increasing borrowings. This allowed us to complete 393 new homes, taking the total number of homes we provide to 27,376, and start work on another 416 homes. This demonstrates how every penny of our surplus and more goes into delivering our social objectives.

The more efficiently we can run our business, without compromising on our duties as a responsible landlord or our service quality, the higher our surplus, the more public and private finance we can access and the more quality homes and services we can provide to people in housing need. Most of the value of our social objectives is contained within these homes.

What is the value of delivering our social objectives?

We estimate the value of providing over 27,000 homes at sub-market rent is £1.5bn. We have calculated this based on the fact that the average weekly rent for our homes is just over £100 from which we incur costs to manage and maintain these homes.

We estimate the open market value of our homes would be £6.8bn. So, taking the difference between these two amounts, we can estimate the value of providing over 27,000 homes for people in housing need as £5.3bn.

Definitions

Reserves are the surpluses we have accumulated over 116 years. There are two main sources of surplus:

1. The money remaining from the rental income we receive (from customers and government housing benefit) in our day to day business of letting properties to people in housing need after paying the costs of managing, maintaining and funding the homes.

2. The surpluses we make from the sale of homes.

We are accountable to our customers, government and the tax payer for delivering value for money from this funding source.

Grants are amounts received from government for the development of new homes.

We are accountable to the government/tax payer for ensuring value for money from this funding source.

Public and private finance
We complement our other funding sources with borrowing from public and private investors and lenders such as banks. This gives us greater financial capacity to invest in our social objectives, but also means we need to deliver returns from this investment so that we can pay the interest on these borrowings.

#5

Value for Money Strategy

The Board leads on value for money (VFM) by setting and monitoring the delivery of strategy.

We updated our VFM Strategy during the year to make it an integral part of our overall Corporate Strategy.

Our VFM Strategy is to create a customer focused, efficient and scalable business that can deliver more social objectives. The strategy runs to 31 March 2020 to mirror the remaining period of the four years of rent reductions announced in July 2015. It references other strategies and policies such as development, asset management and procurement, which are key to its delivery.

The Group did not sign up to the NHF Merger Code. The Board considers mergers annually and its current focus is on building internal capacity to provide more homes to people in housing need.

Our Corporate Strategy is made up of five challenges. More details about our Corporate Strategy can be found on page 5.

The table below explains how our VFM Strategy links with our Corporate Strategy and its challenges.

	Corporate Strategy challenges	VFM Strategy objectives
#1	Valuing our history, engaging our people, creating our future	Efficient
#2	Providing quality homes	Scalable
#3	Offering individual services	Customer focused
#4	Excelling at customer service	Customer focused
#5	Delivering value	Making VFM an integral part of our Corporate Strategy

This is our assessment of how well we are doing on delivering our VFM Strategy and our plans for the future.

#5

How well are we doing?

During the year, the Group maintained its G1, V1 regulatory grading for governance and financial viability, which demonstrates strong levels of compliance against the VFM Standard.

In our VFM Strategy we committed to the housing sector's pilot of using efficiency metrics to provide transparent evidence on how our VFM position is changing over time and compares to others. We have shown the metrics over a six year period (three years of actual results and forecasts for the next three years). The metrics help us understand three key components of VFM:

- Our absolute and comparative costs of delivering services
- Our return on assets as a business with social objectives
- How VFM gains will be made and utilised over time

Measure/indicator	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20	g15 FY 15/16
Our absolute and comparative costs of delivering services							
Headline social housing cost per unit	£3,681	£3,745	£4,297	£4,458	£4,468	£4,559	£4,933
- Management cost	£1,489	£1,555	£1,707	£1,618	£1,587	£1,560	£1,320
- Service charge	£623	£569	£574	£526	£539	£552	£613
- Maintenance cost	£1,054	£1,059	£1,120	£1,104	£1,135	£1165	£1,084
- Major repairs	£440	£416	£691	£824	£940	£1,008	£855
- Other social housing cost	£74	£146	£205	£386	£268	£274	£860
Return on assets as a business with social objectives							
- In new housing supply	0.63	1.21	1.39	2.05	1.79	1.18	£1.20
- In communities	0.08	0.09	0.09	0.07	0.07	0.04	n/a
Customer satisfaction	75%	73%	74%	75%	>75%	>75%	76%
Operating margin	31.1%	32.4%	32.3%	28.4%	31.8%	33.0%	32%
Social housing lettings margin	31.7%	30.5%	30.9%	27.9%	29.7%	29.7%	36%
EBITDA MRI (as a % of interest)	171%	176%	168%	163%	168%	195%	192%
Return on capital employed	3%	3%	3%	3%	3%	4%	4.5%
How VFM gains will be made and utilised over time							
Gearing	37.3%	37.5%	37.0%	39.1%	40.6%	39.0%	45%
Units developed	450	199	393	479	>500	>500	781
Units developed as % of units owned	1.8%	0.8%	1.6%	1.9%	1.1%	2.3%	2.0%
Occupancy	98.3%	98.9%	99.1%	99.0%	99.0%	99.0%	n/a
Ratio of responsive repairs to planned maintenance spend	81%	76%	72%	69%	64%	62%	0.64
Rent collected	100%	99%	99%	99%	99%	99%	98%
Overheads as a % of adjusted turnover	13%	13%	13%	12%	11%	10%	11.7%

#5

Absolute and relative costs

Efficiency metric: headline social housing cost per unit

Our social housing cost per unit increased significantly this year. The main reasons were increased investment in existing homes following two years of reduced investment, increased investment in improvement projects, and the costs of managing our long-term pension deficit position. Because there is variation in the way organisations allocate costs between subheadings, we consider that the headline social housing cost per unit represents the most accurate benchmark. Although our headline cost per unit has increased, it remains significantly lower than the g15 average.

Efficiency metric: management cost

Management cost per unit increased this year due to increases in salary costs, particularly in our care services on the Isle of Wight where we took the decision to create new onsite roles and because we pay the living wage, but is forecast to reduce in the future as estimated VFM gains from projects materialise.

Efficiency metric: service cost

The cost of services that are chargeable to our customers has remained stable. We consider that satisfaction with services improves when they are delivered by directly employed labour and plan to pilot in-house grounds maintenance to improve satisfaction and pass any savings as a result of not paying VAT on labour to customers.

Efficiency metric: maintenance cost

Maintenance costs have remained relatively stable. We remain committed to ensuring our homes are well maintained and have involved residents from our Customer Voice Forums in the evaluation of tenders for our new repairs and gas contractors with the objective of improving service quality and reducing complaints. The new contracts mobilise in 2017/18.

Efficiency metric: major repairs

Major repairs investment has increased this year and our forecast, which is based upon 78% stock condition information, shows investment being maintained at higher levels which is in line with peers.

Efficiency metric: other social housing cost

We have used this subheading to separate cost and investment that does not relate to day to day services. This reflects an ongoing commitment to invest in improvement projects. The increase in 2017/18 relates to the cost of managing our long-term pension deficit position.

Return on assets as a business with social objectives

Efficiency metric: £ invested for every £ generated from operations in new housing supply

Fluctuations in investment in new homes can cause one year distortions in this metric, but the trend over a six year period is that we are investing at a higher level in new housing supply, and at a consistently higher level than the £ we generate from our operations. This is because we complement the £ we generate from our operations with available grants and public/private finance.

Efficiency metric: £ invested for every £ generated from operations in communities

During the year, through our Community Investment and Care Team we invested £4m in activity over and above that required to manage and maintain the homes we provide. This investment helps vulnerable residents remain independent in the community through care on the Isle of Wight and helping people with household finances and employment prospects.

#5

Over 15,000 people benefitted from this investment last year – 566 from employment and training, from which HACT methodology estimates a social value of £2.6m. £1.6m income was generated for the direct benefit of our customers and 590 households achieved an average £252 annual saving on energy bills, reducing the cost of occupying their home. Our strategy is for all community investment activity to become self-financing over the long term.

During the year we set up our community investment hotline, which has referred over 700 calls for specialist support since being set up in November 2016.

Efficiency metric: customer satisfaction

Customer satisfaction has been very stable through a period of significant change in our customer services operating model. Monthly satisfaction had increased to 76% by the end of the year and averaged 74% over the full year, a small year on year increase. We consider this reflects the involvement of our residents in service improvement through Customer Voice Forums, which has included an important new framework for learning from complaints.

We are forecasting future satisfaction of at least 75% and consider that this would represent a significant "real terms increase" as we expect many of our customers to experience a squeeze in living standards over the period of our VFM strategy.

> "It's so refreshing to have management that actually listen to our views, are easy to talk to and actually respond and get things done."
>
> **Customer compliment**

Efficiency metric: operating margin – overall

Overall operating margins remain stable over the six year period, with rent reductions between 2016/17 and 2019/20 being offset by cost savings and increased surpluses from our PRS portfolio and the sale of newly developed properties. The forecast dip in 2017/18 relates to the expected costs of work we are doing to reduce future pension deficit risk.

Efficiency metric: operating margin – social housing lettings

Our social housing operating margin reduces slightly over the six year period. This is due in part to the increased investment in improvement projects and the cost of reducing future pension deficit risk. In addition, this happens because this metric includes the VFM gains from cost savings we have made in our social housing business (to offset rent reductions) but excludes the VFM gains we have made from increased margins from our PRS portfolio and the sale of newly developed properties, which are included in the overall margin. Our social housing operating margin is also reduced because we choose to invest £4m in helping vulnerable residents remain independent in the community.

Efficiency metric: EBITDA MRI %

This measures the extent to which the cash we generate from our day to day business covers the interest we pay on the public/private finance we have borrowed to buy and develop homes. It is important for the health of our business to keep this above 100% otherwise we would be in a situation where we would need to borrow money or sell homes to pay interest. We consider our current level of between 160% and 170% a safe and secure position. It has reduced slightly from the two previous years for the same reasons as our units costs have increased – mainly due to increased investment in existing homes, which our stock condition data forecasts will peak in 2019/20.

Efficiency metric: return on capital employed

This metric measures how efficiently our business is using the value of its homes to generate operating surpluses. Our return is a little lower than the g15. As a long-term business, our strategy has been to invest in existing homes and have a measured but not excessive exposure to the open market. These two factors result in less profit being generated from selling homes. We consider that over the long-term, the proportion of our investment that has been in existing rather than new homes may be greater than our peers'. Because investment in existing homes does not usually create a new revenue stream, our return on capital employed is lower.

#5

The table below breaks down measures of return by product and shows that where rents are higher (such as for intermediate and private rented sector homes), operating margin is greater.

Return on capital employed for our private rented sector homes is lower due to using their higher value for the calculation.

At £104 per week, our average general needs rents are relatively low. This highlights most of the value of our social objectives is hidden in letting properties at rents significantly below market value.

	Return metrics			Value		
Estimated values	Average	Operating margin	ROCE	EUV-SH	MV-T	MV-VP
Category	Rent pw £	%	%	£m	£m	£m
Social rent	104	29%	3%	1,061	3,170	5,164
Older persons	86	27%	3%	97	259	414
Affordable rent	133	37%	5%	63	161	253
Intermediate rents	173	46%	8%	65	160	248
Private rented sector	310	80%	2%	7	18	28
Shared ownership	55	37%	2%	219	219	674
Total	**101**	**32%**	**3%**	**1,512**	**3,988**	**6,782**

Key

EUV-SH: Existing use value as social housing. This will be the lowest value because the properties are let at sub-market rent to people in housing need.

MV-T: Market value subject to tenancy. This reduces the market value because the property is occupied.

MV-VP: Market value with vacant possession.

#5

How VFM gains will be made and used

Efficiency metric: gearing

Although it is important to note that this metric uses a different measure of gearing than our funding covenants, the fact that gearing is lower than the g15 average indicates that there is capacity to borrow more public/private finance against the value of our homes. However, our existing funding structure does not allow us to access all of this capacity.

Efficiency metric: units developed

Our development strategy is to complete an average of 500 new homes per year until 2025. We are developing as many homes as we can within our existing funding structure without putting our business at undue risk, but this is lower than the g15 average and below our aspiration of at least 500 homes per year.

Efficiency metric: units developed as % of units owned

For the same reason, this metric is lower than the g15 average.

Efficiency metric: occupancy

We have reduced the time it takes us to let our homes over the last three years from 42 to 30 days, which has increased occupancy rates. 30 days is longer than we would like. The main reasons it is taking this long are low demand for sheltered housing bedsits, the nominations process with some local authorities, and the amount of time it is taking to complete repairs.

Efficiency metric: ratio of response repairs to planned maintenance spend

The metric moves in line with the g15 average over the period as we restore investment in planned maintenance to normal levels following lower levels of spend whilst we have been improving our stock condition information to ensure we target investment where it is most needed. We now currently hold stock condition information on 78% of our stock.

Efficiency metric: rent collected

Rent collection remains strong at over 99%. We lost £0.2m last year from customers who were evicted from their homes. Evictions reduced to 50 from 68 the previous year. 40% of our rent is currently paid directly by the government in the form of housing benefit. Under the rollout of Universal Credit, as the proportion of rent received from our customers increases from 60% to 100% in 2022, we are forecasting that collection can be maintained at 99%.

Efficiency metric: overheads as a % of adjusted turnover

This metric highlights the proportion of our income that is being used up on functions that do not directly contribute to our social objectives, but provide important risk management and support functions. Our plans estimate that this will reduce to 10% of turnover by 2019/20.

The impact of the July 2015 four year rent reduction announcement was to reduce our annual rental income by £1.3m last year and this will continue by an additional £1.3m per year for the next three years. We decided that this would be balanced by VFM gains from a combination of cost savings in areas which did not adversely impact landlord compliance or customer satisfaction and new revenue streams.

At the time of the rent reduction announcement we had already commenced an ambitious internal transformation programme which included several improvement initiatives to make the business more customer focused, efficient and scalable. These initiatives - most notably Building our Future, which has set the business in pursuit of customer service excellence - have been recurring themes in our previous value for money self-assessments. The table on the next page shows that we have made investments of £3.4m since 2015 in these initiatives and estimate this will generate recurring annual VFM gains of £8.4m.

Over this period, customer satisfaction has remained stable and the gains have allowed us to increase the development of new homes toward our objective of at least 500 per year.

#5

VFM initiative	Investment £m	Annual VFM gains FY15 £m	FY16 £m	FY17 £m	FY18 /legacy £m
New customer services operating model We reduced the number of operating regions from five to two and introduced Customer Voice Forums to make customers an integral part of ongoing service improvement. This reduced management and overhead costs resulting in a greater proportion of staff in front line delivery, with average patch sizes reducing from 1,000 to 440, and 33 new onsite roles in our sheltered housing. We have completed the first phase of implementing a customer relationship management system.	1.1	-	0.5	0.8	0.8
Southern Maintenance Services We have increased satisfaction with last repair to 95% and reduced costs by setting up an in-house repairs service for 9,000 of our homes.	-	0.3	0.6	0.6	0.6
New delivery model outsourced repairs and maintenance During 2017/18 we will be mobilising newly procured long-term contracts for response repair and void work, gas servicing and planned works and have restructured our staff teams to manage these contracts. This will reduce the number of contractors that we work with and the amount of future procurement activity. The tender process included resident involvement in setting out the requirement, selection and ongoing contractual governance. We expect this to generate VFM gains by enhancing service, reducing void re-let times and complaints and reducing staff, consultancy, contractor and procurement costs. We are clear that resources will never be a constraint to being a compliant landlord.	0.1	-	-	0.2	2.3
Agile working We are investing in the technology to help staff become more agile and reduce our office footprint. We increased commercial property income by letting space gained at our Farringdon and Horsham offices and we expect office running costs to reduce further as the project is completed.	2.0	0.3	0.7	0.7	0.9
Non-repairs and maintenance procurement Cost savings generated by our in-house procurement team.	-	0.9	1.6	1.6	1.6
Finance working practices review During 2016/17 we refocused our finance function, reducing the number of staff in an area which does not have a direct impact on our social objectives by 20% and developing reporting and control with the aim of improving VFM. This includes a "project ledger", VFM log and quarterly reporting of VFM metrics.	0.2	-	-	0.4	0.4
Voids We have reduced the amount of rent lost by reducing the time it takes to re-let a property when it becomes void from 42 to 30 days and expect further improvements as we mobilise new contractors and our new Empty Homes and Lettings Team.	-	0.2	0.2	0.2	0.3
Private rented sector We have launched Spruce, a new brand for private rent sector homes, and will be growing the portfolio of properties owned and managed by Spruce.	-	0.1	0.3	0.3	1.5
Total	**3.4**	**1.8**	**3.9**	**4.8**	**8.4**

#5

Despite these significant value for money gains, we did not achieve everything we set out to do in our previous VFM self-assessment.

Further investment in technology is required to realise the full VFM gains from our new customer services operating model and our agile office project.

Whilst we have reduced the amount of time it takes to re-let our homes, our current performance is a long way from our ultimate aspiration of 14 days or less. We decided to postpone a review of our HR services whilst we are undertaking a significant project to manage our pension deficit risk and supporting the restructuring of other functions.

#5

Plans for the future

Our future VFM plans are set out below.

They represent a natural next step from our achievements so far and include a sharp focus on areas where we have not yet completely achieved what we set out to do. The plans are designed to realise the full benefit of investment we have and continue to make.

Initiative	Description
Customer services operating model	We will make technology advancements including the next phases of the implementation of our customer relationship management system and focus on the final parts of our operating model – the customer experience team. This will enable us to understand our customers' needs better, improving our customers' experience and making it easier to do business with us. We will start this work with a complaints workshop involving stakeholders from our customer services committee, Customer Voice Forums and the housing ombudsman and by working with Customer Voice Forums to redesign the website and self-service portal. We will create an Empty Homes and Lettings Team to provide clear responsibility for reducing the time it takes to re-let our homes.
Complete agile working	We will deliver technology projects covering document management, mobile devices and telephony, as well as invest in customer hubs and estate offices that will enable our staff to work in an agile way across the business, further reducing our office footprint and associated financial and environmental costs.
Culture	Having completed much change in our staffing structures and with agile working starting to change the way our staff work, we will launch cross business values and behaviours during the year. We consider that VFM is where corporate strategy meets the culture of the organisation and will be seeking to make VFM a collective responsibility.
Data integrity	We will commence a long-term programme ultimately aimed at making data an integral part of performance improvement and decision making. We have made a start by commencing full end to end reviews of our voids and service charge processes.
Unlock capacity	We consider that the value of our homes provides an opportunity to deliver at least the 500 homes per year set out in our development strategy. This will have the additional benefit of allowing us to increase our PRS portfolio. We will work with our lenders to modernise our funding structure so that we have the ability to increase the amount of money we can borrow to invest. We will also complete the implementation of our asset management system, which will help us determine whether we can make the estimated £5.3bn social value in our homes go further though proactive asset management and operational efficiency. We have made a start with our "Hidden Homes" programme.
Construction company	The cost and access to labour to develop new homes has become a greater risk for us over the last year. We have created our own construction company to manage this risk and will be mobilising this over the course of the year.

Conclusion

Our overall value for money assessment is that we are a very strong business delivering consistent levels of customer satisfaction, but our output of new homes is lower than some peers.

We are focused on improving operational efficiency, maintaining customer satisfaction and modernising our funding structure so we can deliver service excellence across the organisation and more new homes.

We have clear strategies in place to address this, but will not put the stability of our long-term business, already generating significant social value, at undue risk in doing so.

Excelling at customer service

Building our Future

Building our Future is the Group's strategic change programme, which is repositioning our customer service offer and creating a customer focused, efficient and scalable organisation.

We've made great changes over the last year to lay the foundations for change. Simplifying our internal structure from five regions down to two has allowed us to resource our service delivery model from the ground up. We've introduced many more colleagues into customer facing roles out in our communities. We have developed key strategies for repairs and maintenance, major works and gas safety. To help us understand our customers better we have invested in a new technology – a new customer relationship management system – and launched Customer Voice Forums to bring our customers into the heart of our business.

As part of the next stages for delivering our Building our Future objectives we have been looking at how we can improve the way we work as an organisation. To enable us to deliver efficient support to our customers where they need it and make it easy to do business with us, we are working on fully enabling an agile working approach across the Group.
Agile working brings together people, processes, services, technology and connectivity to create a flexible working environment. An agile business offers our colleagues the ability to work anywhere, thereby giving them greater flexibility to be out and about with customers rather than having to be in an office to access the information and systems they need.

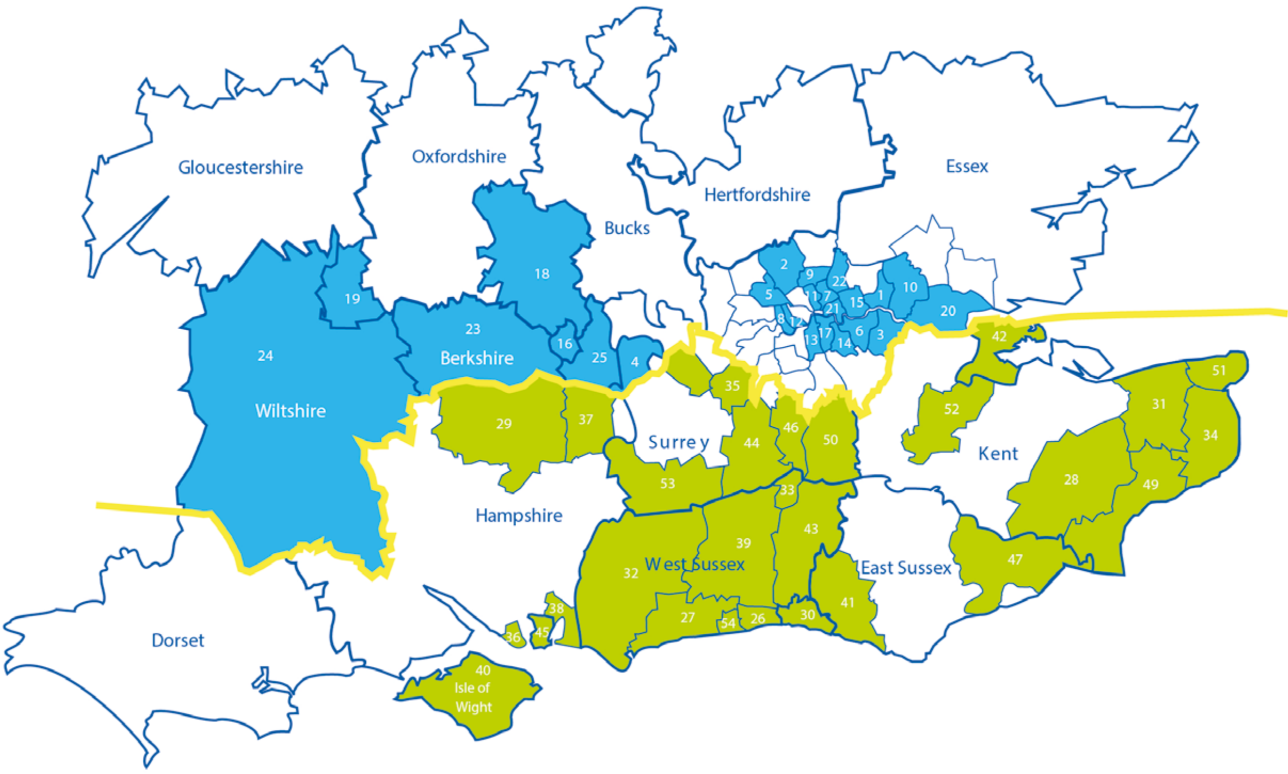
To enhance links between the Group and our customers and better understand customers' views, the Group held Customer Voice Forums during the year as part of our approach to customer scrutiny, listening to and acting on what our customers tell us.

The 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.

We remain committed to providing good quality homes. During the year we created an Empty Homes and Lettings Team to give clear ownership and cross-business focus to minimising void turnaround times. We have introduced quality assurance checks on antisocial behaviour action plans and tenancy start-up administration. We have established clear routes to manage and resolve emergencies and ensure staff safety outside normal working hours.

#4

Where we work



North region

1 Barking & Dagenham
2 Barnet
3 Bexley
4 Bracknell Forest
5 Brent
6 Greenwich
7 Hackney
8 Hammersmith & Fulham
9 Haringey
10 Havering
11 Islington
12 Kensington & Chelsea
13 Lambeth
14 Lewisham
15 Newham
16 Reading
17 Southwark
18 South Oxfordshire
19 Swindon
20 Thurrock
21 Tower Hamlets
22 Waltham Forest
23 West Berkshire
24 Wiltshire
25 Wokingham

South region

26 Adur
27 Arun
28 Ashford
29 Basingstoke & Deane
30 Brighton & Hove
31 Canterbury
32 Chichester
33 Crawley
34 Dover
35 Elmbridge
36 Gosport
37 Hart
38 Havant
39 Horsham
40 Isle of Wight
41 Lewes
42 Medway
43 Mid-Sussex
44 Mole Valley
45 Portsmouth
46 Reigate & Banstead
47 Rother
48 Runnymede
49 Shepway
50 Tandridge
51 Thanet
52 Tonbridge & Malling
53 Waverley
54 Worthing

Offering individual service

Community Investment and Care

Making a difference to people's lives

This year we made some internal organisational changes, bringing together our Community Investment, sheltered housing, and Care and Supporting Independence (CASI) teams together under a combined Community Investment and Care (CIC) directorate. The result has been an increase in knowledge sharing and working together, which means we've been better able to help the Group achieve its social objectives for all our customers, regardless of tenure, location or circumstance.

Recent outcomes of this collaboration include:

- A greater focus on some of our most vulnerable customers, bringing together resources, skills and best practice for the benefit of customers.
- Greater awareness among our customers of funding and resources available to them through our Community Investment grants programmes, with increased funding for sheltered housing customers for scheme events or projects, including enthusiastic take up of our Gardening Neighbours scheme, which supports people to improve their local communities through gardening projects.
- The development of a shared health and wellbeing project, developed through the Community Investment Team and delivered across sheltered housing, in partnership with OOMPH ("Our Organisation Makes People Happy") – enhancing the mental, physical and emotional wellbeing of our sheltered housing customers.

Community Investment

Our Community Investment Team plays a key role in delivering the Group's social objectives and ensuring our customers have the support to sustain their tenancies, building a platform to improve life opportunities.

This includes help with money management and access to benefits, volunteering and community opportunities, employment skills, and help with accessing computers and getting online.
The service is highly valued by customers and recognised by councillors, MPs and other partners.

15,213
customers benefitted from our community investment support in 2016/17

#3

Community Partnerships Team

Creating opportunities and bringing in additional resources to benefit the community.

3,893
people benefitted from community partnerships in 2016/17.

Community centres

Managing 19 community centres – creating sustainable opportunities for play, sports, learning and community hubs.

4,200
people accessed our community centres .

Youth development

Providing development opportunities for young people, ranging from sports and play to apprenticeships and work.

1,367
young people engaged in 2016/17.

Employment and training

Supporting customers into work and training – confidence-building to sustainable employment.

566
people benefitted from employment and training support.

£2.56m
wellbeing value for customers supported into work.

Digital inclusion

Helping customers to get online and take advantage of the social and economic benefits of internet access.

230
number of customers helped in 2016/17.

Financial Skills Team

Supporting customers to maximise their income and manage complex financial circumstances.

£1.6m
income generated for the benefit of our customers.

Volunteering

Building confidence and increasing skills.

147
people volunteered in 2016/17.

Community grants

Making available grants to and for customers' benefit, to support a range of community activities.

£107k
in grants to

5,600
customers

#3

Love London Working

Love London Working is an employment and skills project aimed at helping Londoners get into work, complementing our existing employment and skills service.

Southern Housing Group joined forces with a number of other housing associations to get funding from the European Social Fund.

Our Employment Skills Officers give customers one-to-one information, advice and guidance, help with confidence and motivation building, help with CVs, interview techniques and job searching skills, and ultimately support our customers into work.

We also help customers learn how to use the internet, create an email address, and connect them to organisations offering training and employment opportunities.

Our aftercare service helps customers settle into their new job and addresses any concerns they may have.

Since November 2016, the team has worked with more than 200 Southern Housing Group customers. Many were supported into employment in various fields including hospitality, catering, construction, administration, retail, hair and beauty.

Care and Supporting Independence Team

This past year, our Care and Supporting Independence Team (CASI) focused on new and better ways of working to support our customers. In alignment with this, we successfully tendered for new and existing Supporting People contracts and worked to meet external regulatory requirements.

We were particularly proud of the results we achieved following recent Care Quality Commission inspections of 22 Argyll St in Ryde, one of our schemes for customers with learning disabilities, Byrnhill Grove, an Isle of Wight-based care scheme for some of our older customers, and our Domiciliary Care Agency, which provides at-home care for more than 50 of our customers. All three services achieved unusually high recommendations in all key standards of care – great recognition of the quality of service we provide our customers.

Looking forward, we'll continue to maximise opportunities for our customers to get involved and shape the way we deliver our services. We'll also be putting in place a bespoke quality assurance framework and developing a model for customer participation in recruiting and training colleagues. The team is also getting ready for our annual Supported Involvement Day, a fun event that recognises the achievements of our supported customers; as this is our 10th anniversary of this important event, it promises to be our biggest and best yet.

Highlights:

Three fantastic CQC inspection results
22 Argyll Street, Byrnhill Grove, and our Domiciliary Care Agency all received a 'Good' rating across all five key standards of care.

A royal visitor for Quarr Abbey
On 14 October 2016, our Quarr Abbey gardening project hosted HRH Prince Edward the Earl of Wessex. Prince Edward visited Quarr Abbey to learn about this self-supporting, community-led project that benefits local residents with learning difficulties and other support needs. Since it was launched by the CASI Team in 2011, the Quarr Abbey gardening project has helped around 50 people gain new skills and abilities, and grow their confidence.

We joined forces with Liz Earle
In February 2017, the CASI Team launched a new partnership with global beauty brand Liz Earle to support young people living in one of our schemes in Newport. Atkinson House is a young person's hostel for eight people, and the partnership will see representatives from Liz Earle work with customers throughout the year on the property's garden and teach them about growing their own plants. The launch event invited around 30 people – young people from across the Island and representatives from Liz Earle and Southern Housing Group – to trim, chop, paint and repair the garden as the first stage.

#3

New Supporting People contracts
This past year we tendered for existing and new Supporting People contracts, a government grant scheme that funds services providing housing-related support. This was an eight month process and we were awarded eight contracts.

Care and support
In 2016/17, our community outreach and home care teams provided care and support services to more than 520 customers living across the Isle of Wight.

Sheltered housing

Our aim is to ensure our sheltered housing customers feel safe and secure in their homes.

Making positive changes to our service

Our customers told us they'd like to have more regular, face-face-contact with staff, so we've been working hard this year to make that happen. We have a brand new approach to managing our schemes with a team of Scheme Services Coordinators who are now based in each scheme daily, Monday to Friday, to help our sheltered housing customers access our repairs service, carry out health and safety checks, work to make sure customers have access to local services, and support customers with local community activities.

Sheltered Services Managers support Scheme Services Coordinators and manage several schemes in a geographical area. It's a new approach mirroring the successful service we already deliver in our sheltered housing schemes on the Isle of Wight.

Since the new service went live at the end of October 2016, these changes have already made a big difference to our customers.

Positive feedback from customers

"We've seen a major change for the better. Once again we have a daily presence in the office and the opportunity to discuss any problems. There has been a much happier atmosphere in the court and we are appreciative of the positive progress that has been made in upgrading various areas. More has been achieved in five months that in the previous five years!"

"One of the main things they do is support us all. Some people just want to know there is someone there who will listen. We all take great pride in our home and now we feel we have someone who listens and helps us."

Providing quality homes

Development

As one of the oldest housing associations in the UK we pride ourselves on our commitment to providing homes for people in housing need. However, as our sector continues to experience change, increasing the supply of quality and affordable homes remains one of our biggest challenges. That's why, in the past two years, we have worked to rethink our Development Strategy, adjusting to external and resulting internal changes, to continue to deliver well-designed, quality and affordable homes to our customers.

Efforts to provide new homes, and grow our development pipeline and tenure progression model have underlined our work and the delivery of our development programme over the last financial year. We have worked to ensure we are also offering a greater number of housing products to our increasingly diverse range of customers by providing more quality homes to customers with the greatest housing need, launching Spruce, our dedicated private rent product, and continuing to develop Second Steps, our innovative mobility scheme for London-based shared owners.

This financial year the Group delivered a total of 393 new homes and started to work on 416 homes across London and the South East. We received £6.1m in new and recycled grant to support the delivery of these new homes and generated surpluses through shared ownership sales, rental income and sales proceeds to build these new homes and expand our land acquisition programme.

Our dedicated New Business Team celebrated its first anniversary in February and has been busy seeking new opportunities and securing new land to support our mid-term objective of delivering an additional 2,500 homes by 2020. They have already successfully secured over 80% of the sites to build these much-needed quality new homes in London and the South East.

Our future is not solely about the numbers of homes we build; it is also about improving the build quality of the homes we deliver to our current and prospective customers.

393
New build homes delivered in 2016/17

For the first time in five years we have fully reviewed our Design Brief, our guide for designers, architects and staff, which sets our key design expectations and standards for all our new homes. In addition, we procured new frameworks for contractors and consultants to work on development projects over the next four years; this will help us establish close working relationships with our partners so they better understand our needs and those of our customers.

We have also taken the first steps to set up our own construction arm, and once in place we plan to build around 100 new homes a year ourselves, enabling us to have more control over the way we deliver our homes.

#2

Sustainability

Southern Housing Group is committed to reducing our impact on the environment and to providing comfortable, energy-efficient homes with low running costs for our customers.

New 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.

With our new build properties, the focus on the environmental impact of the houses begins at the design stage where we ensure designers apply a "fabric first" approach to carbon reduction, designing homes that are well-insulated and airtight for the longer term.

Cameron Close, our first Passivhaus development on the Isle of Wight, is such an example of the standards we aim to achieve in our new homes.

This environmentally friendly approach to design has delivered significant savings to our customers, particularly around heating costs.

During our construction stage, we ensure materials are selected on the basis of longevity, robustness and fitness for purpose. We ensure these materials are affordable and readily available in the UK to make the most efficient use of resources and transportation.

We are committed to having minimal impact on the local environment and ensure that our partners work to the same standards.

Existing homes

Making our existing homes more energy efficient can be a bigger challenge due to the diverse nature of our housing stock. Each building is unique, and there is no "one-size fits all" solution.

Our Home Energy Advice Team (HEAT) are a group of advisors who visit customers in their homes to offer guidance and support on saving money and energy and achieving a warm home at an affordable cost.

This year, HEAT visited 590 homes, achieving an average £252 of savings per home.

Breakdown of energy savings recommended by HEAT

£34,270 energy and water tariffs switch

£39,532 change in customers' behaviour

£27,580 Warm Home Discount

£9,016 installation of free energy saving devices

£11,995 energy grants discounts and debt cleared

590 homes visited

Valuing our history, engaging our people, creating our future

The Group's structure

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 Limited operates our shared ownership portfolio.

Southern Space Limited 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 over 1,300 affordable homes at East Village, the former Olympic Park.

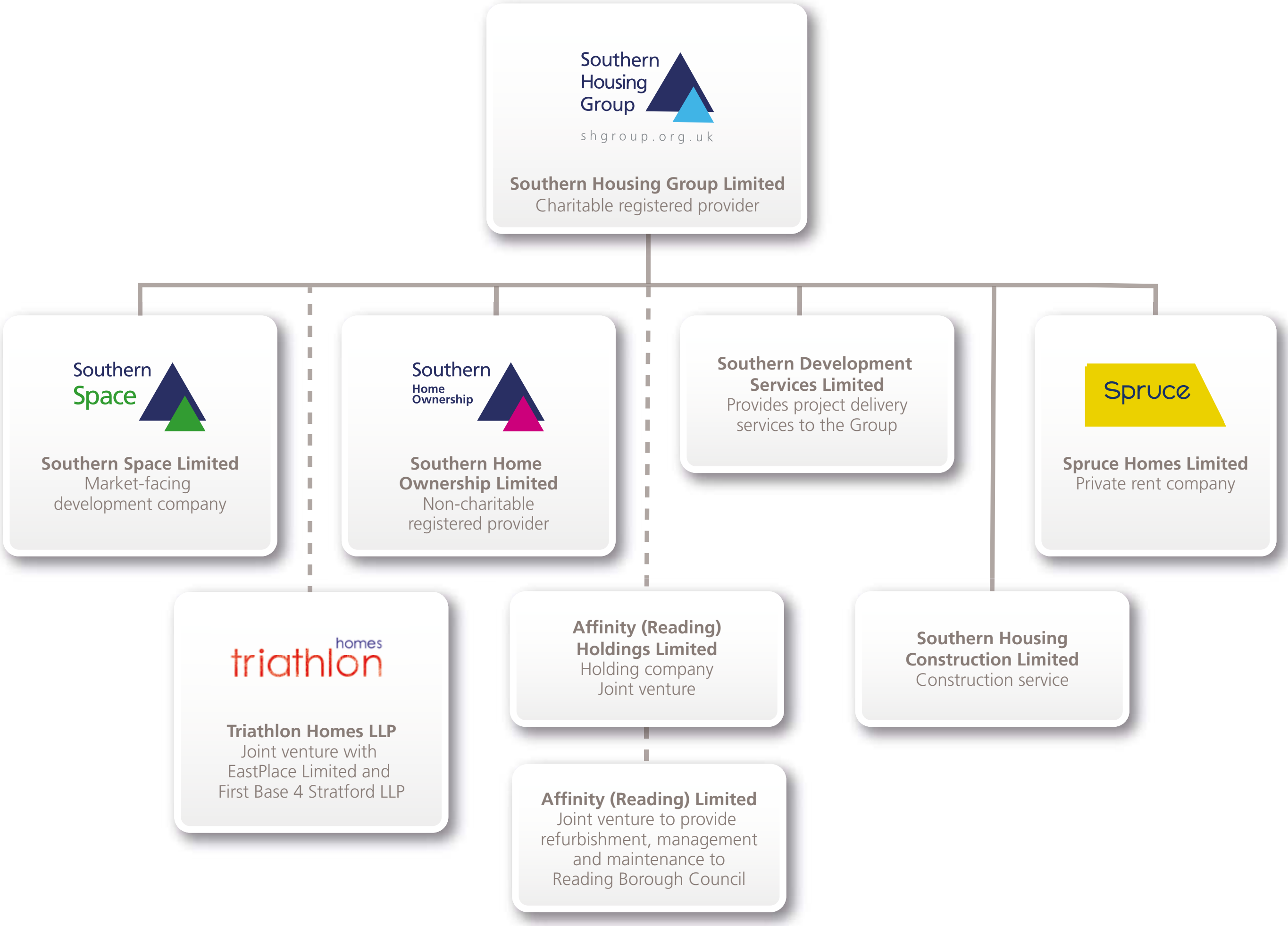
Southern Housing Group Limited has a total 50% share in Affinity (Reading) Holdings Limited, which in turn holds 100% of Affinity (Reading) Limited set up to operate a Private Finance Initiative contract to deliver refurbishment, management and maintenance of 1,318 Reading Borough Council homes.

Southern Development Services Limited provides project delivery services for companies in the Group.

Spruce Homes Limited is a wholly owned subsidiary of Southern Housing Group Limited. Spruce Homes Limited commenced trading in June 2017 providing homes for private rent.

Southern Housing Construction Limited is a wholly owned subsidiary of Southern Housing Group Limited and will provide construction services to the Group. It was dormant during 2016/17.

#1



A full list of the Group's entities can be found in note 27 of the Group financial statements.

#1

Employer of choice

Our people are key to 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 we create a strong pipeline of talented people. Our excellent in-house learning and development delivery and access to external technical and professional training ensures we can deliver outstanding career progression opportunities.

Apprentice and work placement programmes

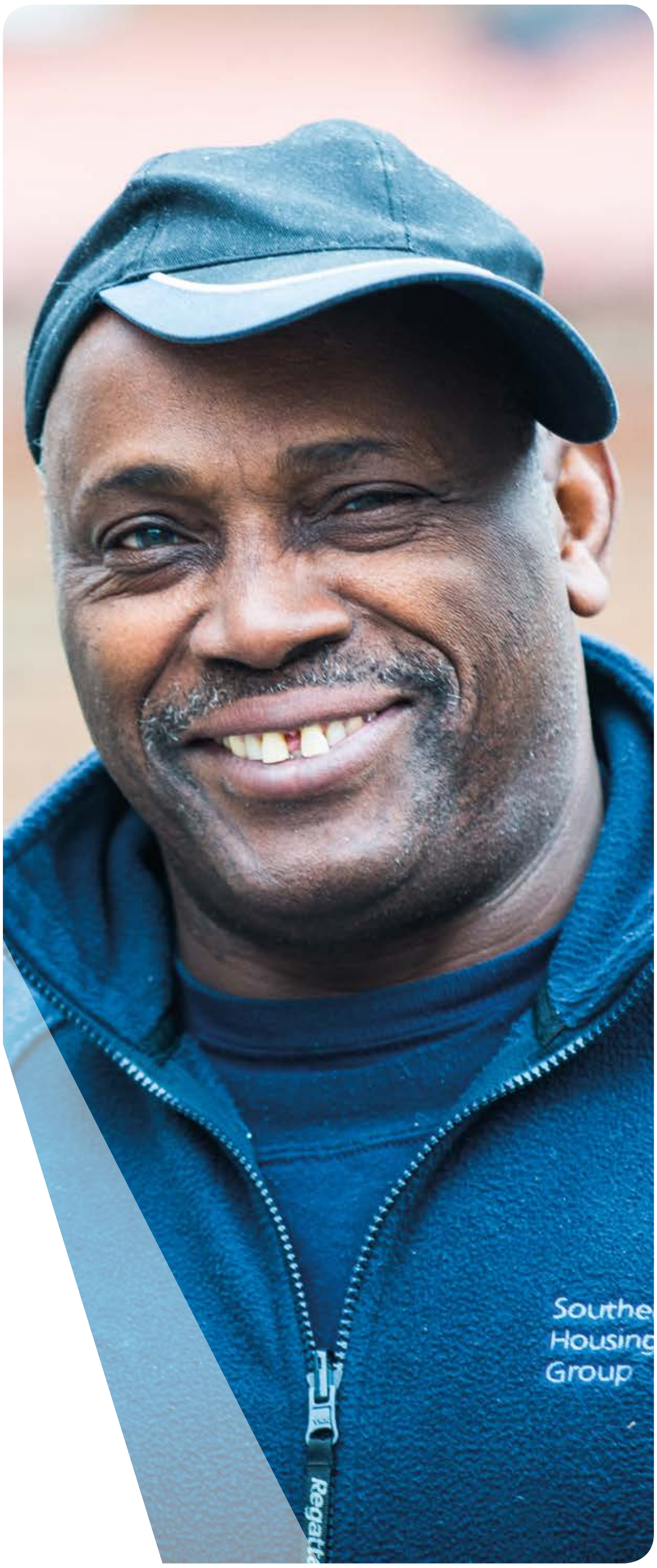
We believe in enhancing prospects for people at all stages of their careers. For example, for the past six years the Group has offered permanent apprenticeship posts each year across our care and support services. The apprentices each complete a level 2 qualification in health and social care on the Isle of Wight and at the end of the programme, those who complete the course often find work within our team.

In 2016, four new apprentices joined the Group's Technology Services Team as part of the National Apprenticeship Scheme in partnership with Northbrook College. They will be with the Group until September 2017 when they should achieve formal IT qualifications and gain experience that they can build on in the future and at least one of the apprentices will be joining us on a permanent basis.

"The best part about working here is the support that everyone is willing to give. I have a great team and have learned a lot over the past six months."

Conor Clarke
Technology Services apprentice 2016

Our Southern Maintenance Services business also supports a paid work placement programme with our customers to provide opportunities to gain both work experience and the confidence required to develop a career.



#1

Diversity and inclusion

Southern Housing Group is proud of its diversity and champions equality for everyone.

We are committed to offering equal pay for men and women and have a zero-tolerance policy towards discrimination and harassment of any kind.

Our working arrangements include flexible and compressed hours, which supports a wide range of options to enable people to develop a rewarding career while continuing to balance other priorities.

Recruitment and promotion within the Group is based on possessing the relevant skills, experience, qualifications, aspirations, potential and aptitude, and we treat all applicants with respect in an equal and fair manner.

Paying the Living Wage

We began our commitment to paying Living Wage levels to our employees in 2015 and this year we endorsed payment of the Living Wage as a Group policy for every employee.

Leadership development

The Group has a strong history of offering leadership and development training to talented staff members.

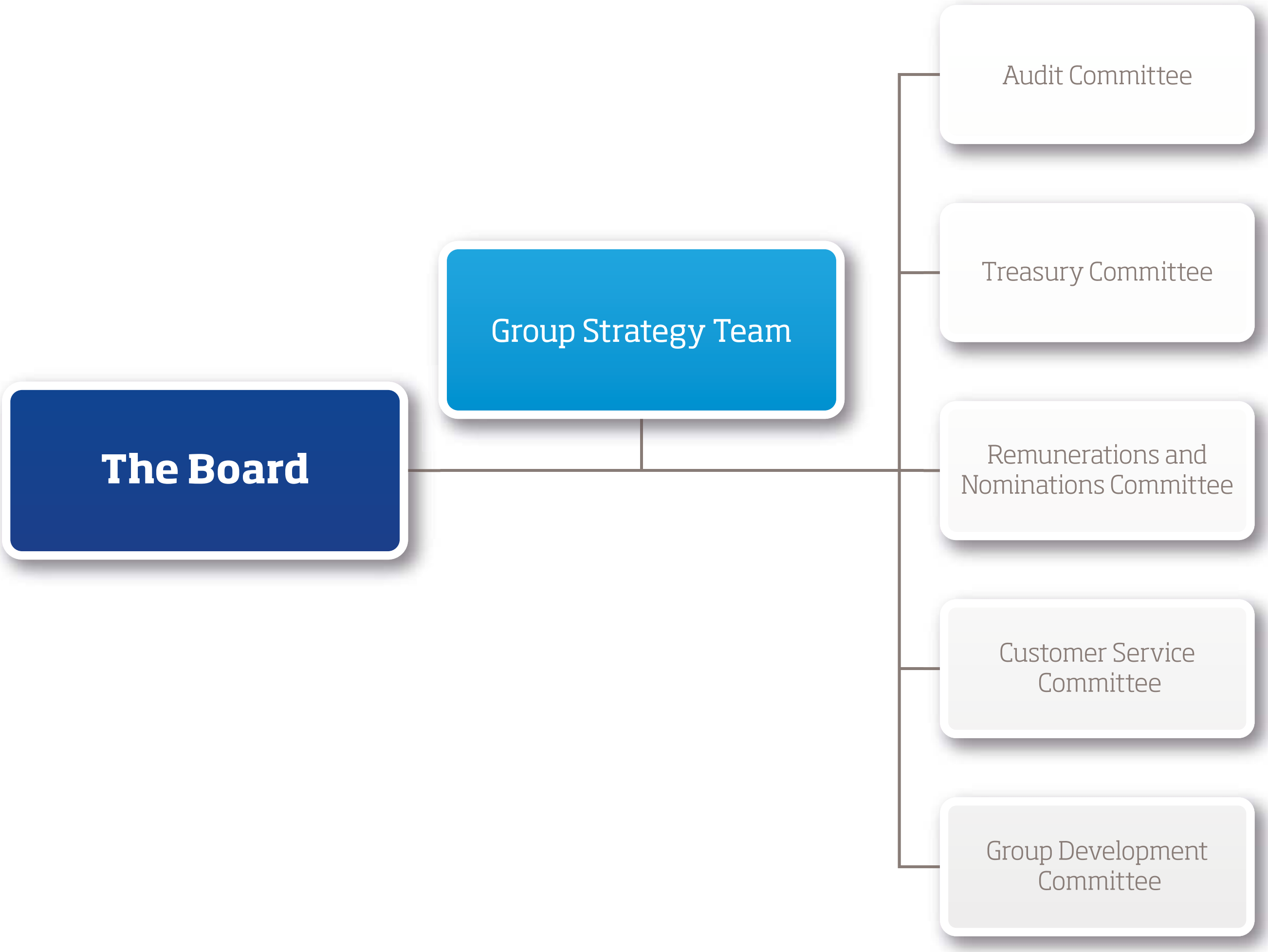
In late 2016, the Group rolled out our new Leadership and Management Development Programme. The programme comprises three levels: Management Essentials for those new to management, Leadership Essentials for colleagues who have progressed to leadership roles, and Advanced Leadership for those at director level or equivalent. The programme has been a great success and so far 43 colleagues have attended the course with excellent feedback to date. Building on that work we have introduced quarterly GST open forum meetings designed to enable, empower and engage with our senior leadership team from across the business.

As we continue on our journey towards customer service excellence through the Building our Future programme, we will 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 to deliver excellent service.

#1

Governance

The Group's management structure



The Board

The Group's Board is collectively responsible for the long-term success of the Group. The Board has a formal schedule of matters specifically reserved for the Board's decision. These include matters relating to:

- Overseeing and directing Southern Housing Group's activities, including formulating strategies and plans.
- Determining the nature and extent of the significant risks it is willing to take in achieving the Group's strategic objectives. It maintains a sound risk management framework and a prudent and effective system of internal controls.
- Maintaining oversight of the Group's 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 maintaining a strong reputation for the Group.

#1

Southern Housing Group Board members during 2016/17

Arthur Merchant (Chair)

is a former partner and Head of Housing for Grant Thornton UK PLC. He specialised in the provision of audit and advisory services to the housing sector for over 20 years and also worked in the local authority, NHS and education sectors. He is a member of the CIPFA Housing Association Panel. Until the end of 2014, he served as a board member of the Hertfordshire Chamber of Commerce for more than seven years.

Simone Buckley

joined the Group Board in July 2015.

She was previously Chair of the Group's South Region Resident Services Panel and a Customer Services committee member.

Simone has over 15 years' experience working within blue chip organisations both in the UK and Australia, specialising in change management, communications and business integration.

Justin Chittock

has 25 years' City experience in lending to UK businesses for a number of European banks. He is currently working as a Corporate Relationship Manager for a Swedish Bank, which has a large UK banking operation across the UK where he specialises in property lending as well as banking and treasury solutions for key customers.

Maureen Corcoran

is Chair of the Customer Services Committee. She 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.

Tom Dacey

was appointed Group Chief Executive 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. In 2016, Tom became Chair of the City of Westminster Church Street Regeneration Futures Steering Group.

#1

Steve Johnson

is Chief Executive of Advice UK. He is the Senior Independent Director of the Board. 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.

Paul Rees

led the Global Telecoms Industry team at Pricewaterhouse Coopers for over 30 years. He is now a Trustee of Greensleeves, which runs a group of care homes. He chairs his local Citizen Advice Bureau and is the Chair of the Audit Committees of both the Royal College of Nursing and Surrey Police. He is a chartered accountant.

Carol Rosati OBE

has over 25 years experience of talent management in executive search recruiting CFOs, CEOs and NEDs for major organisations. In 2008 she founded Inspire, connecting over 6,000 board level business women globally. She works with many organisations to create diversity of thought and better balanced teams, building diverse workforces and a sustainable pipeline. Carol is also involved with Inspiring the Future, visiting schools to inspire the next generation. She was awarded an OBE in 2015 for services to women in business and is a Brummell City Champion of Diversity.

Tim Richards

is a Director and founding member of Aston Rose 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.

#1

Appointments and current annual payment rates

The Remuneration and Nominations Committee has delegated authority from the Board to oversee all Board and Committee appointments and succession planning.

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.

The Remuneration and Nominations Committee appointment process

- The Committee maintains a skills matrix for all Board and Committee functions.
- Conducting regular gap analysis, the Committee identifies when the need to recruit arises.
- Where a new appointment is required the Committee conducts a search for candidates through a number of appropriate channels. To date this has not included use of an external consultancy.
- Recommendations are then made to the Group's Board for final approval.
- Board and Committee appointments are made on merit, against objective criteria and with due regard to the Group's equality and diversity policy.

The Group's policy on equality and diversity is that all candidates must be treated as individuals, irrespective of ethnicity, nationality, national origins, disability, sexual orientation, religion or belief, marriage or civil partnership, family circumstances, political beliefs, gender, gender reassignment, pregnancy or maternity status, trade union membership, age, or any other unfair distinction.

Role	
Chairman	£25,000
Member and Chair of Committee or subsidiary Board	£12,000
Member	£10,000
Additional payment for Senior Independent Director	£2,000
Independent committee member	£1,000
Customer Voice Forums Chair	£1,500
Customer Voice Forums member	£1,000

Committees

The Board delegates authority in certain matters, according to specific terms of reference, to five committees. Committee members bring a wealth of experience and different skills to the organisation, providing a clear overview which helps to focus the Group's management on achieving its strategic objectives. Each committee meets at least four times a year.

Audit Committee

- The Audit Committee 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 at regular intervals. The current firm (PricewaterhouseCoopers) was appointed in 2012/13.
- The Committee receives and reviews in detail the annual financial statements, budgets and the Business Plan and stress testing 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.

#1

Remuneration and Nominations Committee

The Remuneration and Nominations Committee is responsible for:

- Reviewing and recommending Board and Committee remuneration.
- Appointment and succession planning: ensuring there is a plan for the orderly succession of new appointments to the Board and Committees to maintain an appropriate balance of skills and experience within the Group's governance structure.
- Overseeing the Group's pension strategy and arrangements.
- Approving the Group's salary structure and reward scheme.
- Induction and training framework for Board and Committee members.

Treasury Committee

The Treasury Committee considers in detail all aspects of treasury management, setting and monitoring treasury policy and ensuring funds are available to deliver the Group's business objectives, both in the short and long-term.

This Committee ensures that loan covenants are complied with, liquidity is maintained in line with policy, and agrees intra-group lending arrangements.

Group Development Committee

The Group Development Committee considers matters relating to the development and investment strategy of all the Group's companies, including new property developments and stock reinvestment.

Customer Services Committee

The Customer Services Committee is responsible for considering all matters relating to the effectiveness of the services provided for our customers. In line with the Group's governance framework, the Customer Service Committee reviews significant issues raised through formal engagement with customers.

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 Chair. 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.

#1

Attendance records in 2016/17

	GST	SHGL Board	SHGL Board seminars	SHGL Committees: R&N	SHGL Committees: Treasury	SHGL Committees: Customer Services	SHGL Committees: Audit	SHGL Committees: Group Development	SSL Board	SDSL Board	SHO Board	Members who joined or retired during the year
John Andrew							M 2 (2)					Joined 12/09/2016
David Brewer											M 3 (3)	Joined SHO 05/09/2016
Simone Buckley		M 6 (6)	M 2 (3)			M 3 (4)					M 0 (0)	Joined SHO 20/03/2017
Sarah Chaudry									M 2 (3)		M 2 (3)	Joined SSL 02/09/2016; joined SHO 05/09/2016
Justin Chittock		M 6 (6)	M 3 (3)		M 4 (4)		M 4 (4)					
Robert Clark									M 1 (1)			Joined SSL 12/12/2016
Maureen Corcoran		M 5 (6)	M 3 (3)			4 (4)						
Tom Dacey	M	M 6 (6)	M 3 (3)	4	3	1	4	M 3 (4)	M 3 (4)	M 1 (1)	3	
James Francis	M	5			4		3	3	M 3 (3)		3 M 0 (0)	Joined SSL 05/09/2016; joined SHO 20/03/2017
Colin Goodwin											M 1 (1)	Joined SHO 19/07/2016; retired SHO 07/11/2016
Malcolm Groves		Chair 2 (2)	M 1 (1)	M 1 (1)								Retired SHGL
Chris Harris	M	6				4	2					
Alan Head									M 1(1)		M 0 (0)	Joined SSL 12/12/2016; joined SHO 20/03/2017
Jim Hitch		M 2 (2)	M 1 (1)	M 1 (1)								Retired
Steve Johnson		M 6 (6)	M 3 (3)			M 1 (1)			M 0(4)		M 0 (1)	Retired SHO 18/07/2016

#1

	GST	SHGL Board	SHGL Board seminars	SHGL Committees					SSL Board	SDSL Board	SHO Board	Members who joined or retired during the year
				R&N	Treasury	Customer Services	Audit	Group Development				
Arthur Merchant		Chair 6 (6)	M 3 (3)	M 3 (3)			M 1 (1)					Retired from Audit Committee 18/07/2016
Yvette Morgan									M 1(1)		M 1 (1)	Retired SSL & SHO 23/06/2016
Karen Penney							M 0 (0)					Retired
Peter Philips											M 0 (1)	Retired 23/06/2016
Paul Rees		M 5 (6)	M 3 (3)				M 4(4)			M 1 (1)		
Tim Richards		M 6 (6)	M 3 (3)	M 4 (4)				M 4 (4)	M 4(4)		M 4 (4)	
Carol Rosati		M 4 (4)	M 2 (2)	Chair 4 (4)								Joined SHGL 18/07/2016
Kate Smith	M	7		4			1			M 0 (1)		
Hugh Stebbing									M 1(1)		M 1 (1)	Retired SSL & SHO 23/06/2017
Alan Townshend	M	7			1	1		4	M 4(4)		M 4 (4)	

Key

M – Member of the Board Committee
6(6) - No. of meetings attended (total of meetings scheduled that member could have attended). Single figure indicates GST non-member attendance.
SHGL - Southern Housing Group Limited
GST - Group Strategy Team
SSL - Southern Space Limited
SDSL - Southern Development Services Limited
SHO - Southern Home Ownership Limited

#1

The Group Strategy Team (GST)

GST has executive responsibility for running the Group's business, implementing the strategic direction set by the Board within the Board's risk appetite.

The Group Strategy Team members

Tom Dacey
Group Chief Executive

Chris Harris
Group Customer Services Director

Kate Smith
Group Corporate Services Director

James Francis
Group Finance Director

Alan Townshend
Group Development Director

Simon Goulding
Group Director of Compliance
(joined GST April 2017)

#1

Risk

Managing risk is fundamental if the Group is to meet its corporate challenges. We have embedded a risk management culture that identifies and mitigates potential current risks whilst exploring future opportunities.

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.

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 Technology Services and Company Secretariat Teams manage risks around data and cyber attacks, backed up by dedicated insurance cover.

Our risk and assurance policy 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 every six months, while the Board reviews it annually.

#1

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 environment.	We ensure robust stress testing of our Business Plan to include downturn scenarios and other legislative changes in the market. This testing also informs our ongoing business transformation project, which is to deliver customer service excellence.
The changes in government policy on housing benefit, (i.e. benefit cap, under occupancy and the end of housing benefit direct) and/or Universal Credit will increase arrears and ultimately reduce revenue.	We have undertaken extensive financial analysis and planning around the welfare reform impacts. We continue to identify those who will be affected and work closely with them to provide advice, guidance and support.
Not mitigating rent reductions (which reduces annual income by £1.3m per year from 2016/17) by savings/new profitable revenue streams reduces the Group's investment capacity.	We have created a private rent (PRS) company and management team to deliver a business that generates increased surpluses from non-social housing activity. Our value for money self-assessment sets out the estimated gains from completed and ongoing projects of £8.4m per annum. We have developed a strong framework to monitor the identification and delivery of savings.
The London property market goes through a cyclical re-adjustment, which results in a slowdown in sales and a reduction in property prices.	The Group's strategy is to review our construction pace in line with the property market and if necessary to change shared ownership tenure to private rent.
The Group's Business Continuity Plan is inadequate and has not been successfully tested, which causes serious financial and/or reputational damage following a major incident.	As the Group transforms into an agile working organisation, our business continuity plan is being reviewed to ensure it is robust and effective. Our internal auditors, KPMG, will be auditing this area of our business this year. This will assist us in further identifying any gaps and implementing enhanced procedures. We have a dedicated website that holds business continuity plans, which IT Services and service providers continue to test as the business working environment changes.
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. Fraud awareness training has been delivered this year with additional training planned for next year.
A repairs contractor fails to perform or becomes insolvent leading to poor service and negative impact on the Group's 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. The Group's Property Maintenance and Investment Team have procured new repairs and maintenance contracts this year. Contract performance is managed through agreed key performance indicators and monthly meetings. The Group is working on a direct calls project to provide further efficiencies.
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 have established a new construction company to develop smaller schemes for the Group.
Inaccurate source data and/or inconsistent ways of reporting casts doubt on our ability to properly monitor control and report on our performance.	We have undertaken a programme to review and clean our data and have agreed appropriate data sets to report from. Our transformation programme also has a specific subset to look at data. A steering group has been established to develop a business case for moving from multi to single data sources.

#1

Risk	Mitigation
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.
An intentional or unintentional cyber security incident occurs that has a significant impact on the integrity, availability and confidentiality of the Group's data and systems. This causes major disruptions to essential services with high remediation costs and legal and reputational consequences.	A cyber security risk assessment programme across the Group is progressing. Our newly established Technology Services Security Board is responsible for the identification and remediation of technical cyber security risks. They report to our Information Security and Governance Board.
Changes to building regulations and fire safety standards resulting from the independent review of the Grenfell fire may lead to increased investment in safety and compliance across all of our properties.	We ensure that all changes are factored in to future development and detailed work undertaken to ensure compliance with new standards across all existing properties to ensure the ongoing safety of our customers.

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.

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, our internal auditors, carries out the Group's audits.

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

There is a regulatory requirement to maintain an assets and liabilities register. The Group's Executive Team and Audit Committee review the register quarterly and the Board reviews it on an annual basis.

Going concern

The Board has a reasonable expectation, based upon the prudence of the business plan, that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Board continues to adopt the going concern basis in preparing the Group financial statements.

03. Audit Committee report

Purpose of the report

The Audit Committee has the delegated authority from the Boards of Southern Housing Group Limited 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 has adopted the 2014 UK Code of Governance.

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	Risk strategy, top risks and management mitigations reviewed bi-annually Areas and instances of potential fraud and speaking up were reviewed, together with control and process improvements Reviewed a report on internal control assurance Reviewed compliance with UK Code of Governance
Monitoring and reviewing the work of the internal audit function (outsourced to KPMG LLP)	Reviewed the annual cycle of internal audit reviews, aligning to the corporate risk map and timing of previous reviews Reviewed progress against previous internal audit recommendations
Selecting the external auditors, monitoring their performance and approving the provision of non-audit services	Recommended the re-appointment of PricewaterhouseCoopers LLP Reviewed the management letter the auditors presented and management's responses to this Reviewed compliance statement No non-audit services were provided this year in compliance with the approved policy and procedures
Monitoring the Group's financial performance	The Group's long term business plan and detailed stress testing was reviewed during the year Reviewed the annual budget and recommended its adoption to the Group Board Each meeting of the Committee reviewed financial performance with explanations of key variances Reviewed the production, content and format of the annual report and Group financial statements and recommended its acceptance to the Group Board.
Regulatory compliance	Reviewed regulatory compliance. The Group is regulated by the HCA Regulation Committee, which uses in-depth assessments (IDAs) as its key regulatory tool. The HCA conducted an IDA of the Group in 2016.
Other	The Audit Committee's terms of reference were reviewed in line with the annual review cycle The Group's financial regulations were reviewed in line with the annual cycle and recommended some minor amendments The Committee reviewed the Assets & Liability Register quarterly

Review of the Group's external auditors

The appointment of the Group's external auditors is re-tendered in line with best practice. 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 auditing and the Group's regulatory environment.

In accordance with the audit plan, the Committee received 12 audit reports during the year. No areas audited were graded as 'no assurance', consistent with the previous year.

The Committee received 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.

Paul Rees
Chair of Audit Committee

04. Report of the Board

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 judgments 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
- 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.

Southern Housing Group Limited 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 and 47.

Board members serve as independent non-executive directors, with the exception of the Group Chief Executive. All of the Group's non-executive directors meet the independence criteria set out in provision B1.1 of the Code. Following the adoption of the Code they may serve a maximum of two continuous terms of three years.

Statement of internal control

Corporate governance

Southern Housing Group Limited has adopted the UK Governance Code (the Code) as its chosen code on a "comply or explain basis".

The rules of Southern Housing Group (the Rules) detail how the company is governed. The Rules state that only members of the Group's Board can be admitted as shareholders. Accordingly, references in certain provisions within the Code relating to shareholders are not applicable to the Group and are not complied with as a result.

Provisions of the Code 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 Limited
B7.2	Election of non-executive directors by shareholders	Governed by the rules of Southern Housing Group Limited
D2.4	Long term incentive plans	Not applicable
E1/ E2	Dialogue with shareholders	Not applicable

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 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 it faces. They have been in place for the year to 31 March 2017 and up to the date of the approval of the annual review and the financial statements. The Board reviews processes at least annually, while the Audit Committee reviews them twice a year.

Main policies in place 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. 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 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 Group'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 2017 that 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.

Arthur Merchant
Chair
On behalf of the Board

05. Independent auditors' report

to the members of Southern Housing Group Limited

Report on the financial statements

Our opinion

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

- give a true and fair view of the state of the Group's and of the Association's affairs as at 31 March 2017 and of the Group's and the Association's surplus and the Group's cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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

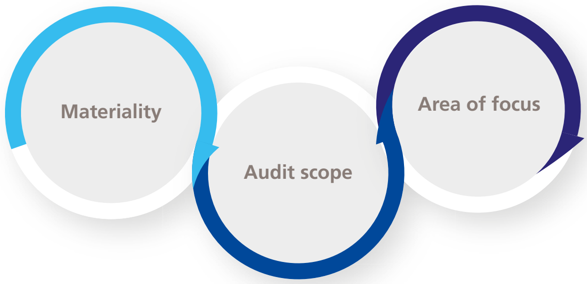
The financial statements, included within the Group Financial Statements and Annual Review 2016-17 (the "Annual Report"), comprise:

- the Consolidated Statement of Financial Position as at 31 March 2017;
- the Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated Statement of Cash Flows for the year then ended;
- the Consolidated Statement of Changes in Reserves for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in 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

Overview



- Group materiality was £2,002k which represents 1% of turnover.
- The Group comprises four trading entities, two joint venture entities and one joint venture operation.
- We conducted a full scope audit of the four trading entities which included the Group's share of the joint venture operation. We engaged a component team to conduct a full scope audit of one joint venture entity, while the other joint venture entity was not significant from the perspective of the Group.
- These audit procedures covered 95% of Group revenue and 95% of Group total assets.
- Risk of fraud in revenue recognition;
- Impairment of property assets;
- Capitalisation of internal costs on property assets;
- Classification of investment properties;
- Assumptions in pension scheme accounting; 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
Risk of fraud in revenue recognition	
See note 1 to the financial statements for the Group's disclosures of significant accounting policies relating to the recognition of revenue, and notes 2 and 3 for further information. The three main sources of revenue for the Group are rental and service charge income, income from property sales, and other income. We focused on these areas because there is a heightened risk as follows: • rental and service charge 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 social, market and commercial rental income. • income from property sales – the recognition of sales potentially being recorded in the incorrect period around year-end in order to meet certain sales targets. • other income – this includes management fees, support costs, grant amortisation and other income. 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.	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). We noted no issues in this respect. Rental income is recorded through journal entries from an interface between the general ledger and the housing management system. We traced a sample of property and tenancy changes to the housing management system to supporting documentation to ensure changes made were appropriate. We performed Computer Assisted Audit Techniques (CAATs) over rental income to confirm the rent per the housing management system matched that recognised in the general ledger. We then performed sample tests on properties with unusual characteristics from the CAATs to confirm these were appropriate and not indicative of any misstatement. We sampled service charges in the year and agreed these to supporting documentation. We also tested samples of rents and service charges recognised around year-end by tracing to rental agreements. We noted no material issues in these respects. For income from the sale of properties, we tested samples by tracing the transaction to underlying records to determine whether the sale was recognised in the correct period. The underlying records included invoices, contracts, completion statements, correspondence with third parties and management's working papers where applicable. We noted no material issues in this respect. For other income, we tested samples by tracing transactions to underlying records to determine whether the revenue was recognised in the correct period. The underlying records included invoices, correspondence with third parties and management's working papers where applicable. We noted no material issues in this respect.

Area of focus	How our audit addressed the area of focus
Impairment of property assets	
See note 1 to the financial statements for the Group's disclosures of the related accounting policies, judgements and estimates 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. The Group has £1,809,331k of property, plant and equipment as at 31 March 2017. This is measured at cost less depreciation and is subject to impairment reviews if an impairment trigger event occurs. There is also £59,009k of stock, which is measured at cost. Due to the current market conditions, careful monitoring of impairment exposure is 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, or where completed property assets held for sale remain unsold at the year end. There were no specific indicators of impairment for social housing properties. The impact of the Welfare Reform and Work Act 2016 ("the Act") meant this was the first year of reductions for social housing rents (by 1% for the next three years). No impairment was noted due to this in the prior year and no additional impairment indicators this year.	We obtained the Group's impairment assessment for social housing and compared the key inputs and expectations built into this. We found the assumptions and methodology applied to be consistent with our expectations. We noted no material issues in this area. For stock and assets being constructed we obtained and reviewed scheme appraisals and confirmed that the developments remained forecast to be profitable. We confirmed the inputs, assumptions and methodology used in these calculations were consistent with our expectations. We noted no material issues in this area. For properties completed and unsold at year end we traced individual properties sold after the year end and confirmed that the sale was profitable. We noted no material issues in this area.
Capitalisation of internal costs on property assets	
See note 1 to the financial statements for the Group's disclosures of the accounting policies, judgements and estimates, relating to the capitalisation of expenditure, and notes 7 and 10 for further information. The Group continued to develop a large number of housing property schemes during the financial year, predominately across London and the South East. The Group capitalised internal costs related to the construction of housing. 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 5.05% for 31 March 2017.	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 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 ensure the Group's weighted average interest rate for borrowing was reasonable. We noted no material issues.
Classification of investment properties	
See note 1 to the financial statements for the Group's disclosures of the accounting policies, covering the classification of investment properties, and note 11 for further information. The Group holds a number of market rent and commercial properties as investment properties. At 31 March 2017 these total £78,753k measured at the fair value of the properties. The Group holds a number of properties which are rented out for social purposes, which are therefore classified within property, plant and equipment which are held at cost. Properties need to meet the correct criteria to be classified as investment properties at the year-end as this effects the basis on which the properties are measured.	For a sample of properties in the investment properties portfolio and from the housing management system listing we traced the properties to underlying records to determine the classification was appropriate. Supporting documentation included tenancy and lease agreements in place as well as plans for the future use of the properties. We noted no material issues in this respect.

Area of focus	How our audit addressed the area of focus
Assumptions in pension scheme accounting	
See note 1 and note 25 to the financial statements for the Group's disclosures of the accounting policies and assumptions used for the multi-employer pension schemes. The Group participates in two defined benefit pension schemes; the Isle of Wight Local Government Pension Scheme and the Southern Housing Group Pension Scheme. These schemes are both accounted for as defined benefit schemes with the Group's share of assets and liabilities from the schemes being included in the financial statements to show the net pension position of each scheme. There are net pension liabilities of £7,528k and £2,331k respectively for these schemes. The Group also participates in a number of defined contribution schemes and a multi-employer defined benefit scheme that is accounted for as a defined contribution scheme in accordance with FRS102 para 28.11, as sufficient information is not available to apply defined benefit accounting. There is an agreement relating to the multi-employer scheme whereby the Group pays additional contributions to fund the deficit in the scheme. In accordance with FRS102 para 28.11A, the present value of these contributions is included in financial statements as a liability of £5,228k.	We have involved our own pension experts to perform a review of the actuary reports for the two defined benefit pension schemes that apply defined benefit accounting. This included assessing the methodology used for the valuation and the underlying assumptions included to assess whether these were reasonable. We did not identify any issues in this area. We have reviewed the accounting treatment of the defined contribution schemes and the multi-employer defined benefit scheme that is accounted for as a defined contribution scheme. We are aware that the Group is in the process of working through a change to their pension risk management strategy. We have reviewed information that has been used by the Group as part of their strategic considerations and are satisfied that there is not sufficient information available to account for any of the multi-employer schemes on a defined benefit basis.
Fair value of financial instruments	
See note 1 to the financial statements for the Group's disclosures of the accounting policies, judgements and estimates, relating to the fair value of financial instruments, and notes 19 and 29 for further information. The Group applies the recognition and measurement methodology of sections 11 and 12 of FRS102 for financial derivatives. The key assumptions in the measurement and valuation are with reference to market inputs. We considered the key areas of focus to be the: • accounting policies; • assumptions used to estimate the valuation of derivatives; and • disclosure of financial instrument transactions.	We evaluated and tested the accounting policy for the valuation of financial instruments to ensure that it is consistent with the requirements of FRS102. We did not identify any issues. The Group uses external valuations to determine the fair value of the swap portfolio. With the involvement of our own valuation experts, we reviewed and re-performed a sample of valuations based on the assumptions available from the valuers and market data to check they were materially correct. We noted no material issues. 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 material issues.

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 and the Group's share of the joint venture operation. We scoped all trading entities to audit for Group reporting purposes because they all required individual statutory audits.

For the other joint venture entity, 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 95% 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 to us. The Group audit team approved the component materiality having regard to the size and risk profile of the component. The Group audit team specified the nature of the report to be received from the component team.

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 on the individual financial statement line items and disclosures and in evaluating 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:

Overall Group materiality	£2,002k
How we determined it	1% of turnover
Rationale for benchmark applied	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 £99k 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 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 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 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:	
• information in the Annual Report is: - materially inconsistent with the information in the audited financial statements; or - 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 - otherwise misleading.	We have no exceptions to report.
• the statement given by the directors on page 59 that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group and Association's performance, business model and strategy is materially inconsistent with our knowledge of the Group and Association acquired in the course of performing our audit.	We have no exceptions to report.
• the section of the Annual Report on page 53 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	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:	
• the directors' confirmation on page 49 of the Annual Report, 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.	We have nothing material to add or to draw attention to.
• the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
• the directors' explanation on page 51 of the Annual Report, 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.	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:

- a satisfactory system of control over transactions has not been maintained; or
- we have not received all the information and explanations we require for our audit; or
- proper accounting records have not been kept by the Association; or
- the Association's financial statements are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

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 & 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 the 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 2016/17 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.

Sotiris Kroustis (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

London,18 July 2017

(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.

06. Group financial statements

For the year ended 31 March 2017

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

Consolidated statement of comprehensive income

For the year ended 31 March 2017

	Note	Group 2017 £000s	Group 2016 £000s	Association 2017 £000s	Association 2016 £000s
Turnover	2	**200,176**	177,508	**181,273**	163,954
Cost of sales	2	**(24,185)**	(9,962)	**(19,061)**	(5,642)
Gross profit		**175,991**	167,546	**162,212**	158,312
Operating costs	2	**(111,385)**	(110,041)	**(111,922)**	(109,031)
Surplus on operations		**64,606**	57,505	**50,290**	49,281
Surplus on revaluation of investments	2	**20,549**	5,198	**13,451**	5,198
Operating surplus		**85,155**	62,703	**63,741**	54,479
Gain on disposal of fixed assets	5	**13,605**	19,328	**6,740**	8,613
Share of operating surplus in joint ventures	15	**495**	118	**-**	-
Interest receivable and similar income	6	**1,520**	3,179	**2,106**	1,921
Interest payable and similar charges	7	**(33,954)**	(35,150)	**(34,206)**	(35,442)
Gift aid received		**-**	-	**373**	20,235
Surplus before tax		**66,821**	50,178	**38,754**	49,806
Taxation	9	**(4,856)**	12	**-**	-
Surplus for the year		**61,965**	50,190	**38,754**	49,806
Other comprehensive income					
Actuarial (loss)/gain in respect of pension schemes		**(2,377)**	629	**(2,377)**	629
Total other comprehensive income		**(2,377)**	629	**(2,377)**	629
Total comprehensive income for the year		**59,588**	50,819	**36,377**	50,435
Total comprehensive income attributable to:					
the Association		**59,093**	50,701	**36,377**	50,435
jointly controlled entities accounted for by the equity method		**495**	118	**-**	-
		59,588	50,819	**36,377**	50,435

All results for the current and prior years are attributable to continuing operations.
The notes on pages 73 to 116 form part of these financial statements.

Consolidated statement of financial position

As at 31 March 2017

	Note	Group 2017 £000s	Group 2016 £000s	Association 2017 £000s	Association 2016 £000s
Fixed assets					
Property, plant and equipment	10	**1,809,331**	1,750,319	**1,708,061**	1,669,342
Investment properties	11	**78,753**	47,401	**78,608**	47,637
Investment in social homebuy	12	**8,125**	8,330	**300**	300
Listed and unlisted investments	13	**10,816**	12,517	**10,816**	12,517
Investment loans	14	**1,436**	-	**19,471**	9,140
Investment in joint ventures	15	**1,789**	84	**1,294**	25
		1,910,250	1,818,651	**1,818,550**	1,738,961
Current assets					
Stock	16	**59,009**	37,942	**28,910**	21,954
Trade and other debtors	17	**11,109**	13,666	**10,601**	31,457
Cash and cash equivalents		**125,506**	144,894	**107,592**	109,263
		195,624	196,502	**147,103**	162,674
Less creditors: amounts falling due within one year	18	**(65,579)**	(51,491)	**(50,403)**	(41,212)
Net current assets		**130,045**	145,011	**96,700**	121,462
Total assets less current liabilities		**2,040,295**	1,963,662	**1,915,250**	1,860,423
Creditors: amounts falling due after more than one year	19	**(1,496,455)**	(1,480,979)	**(1,431,842)**	(1,414,900)
Provisions for liabilities and charges	21	**(167)**	(131)	**-**	(25)
Post employment benefits	25	**(9,859)**	(8,326)	**(9,859)**	(8,326)
Total net assets		**533,814**	474,226	**473,549**	437,172
Reserves					
Called up share capital		-	-	-	-
Retained equity		**533,384**	473,737	**473,119**	436,742
General reserve		**430**	430	**430**	430
Share of joint venture reserves		**-**	59	**-**	-
Total reserves		**533,814**	474,226	**473,549**	437,172

The financial statements on pages 69 to 116 were authorised for issue by the Board of Directors on 17 July 2017 and signed on its behalf by

Arthur Merchant
Chair

Paul Rees
Board member

Kathryn Worth
Company Secretary

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

Consolidated statement of changes in reserves

For the year ended 31 March 2017

Group	Retained equity £000s	General reserve £000s	Share of joint venture reserves £000s	Total reserves £000s
Reserves at 1 April 2015	422,686	430	291	423,407
Comprehensive income for the year				
Surplus for the year from the statement of comprehensive income	50,072	-	118	50,190
Total comprehensive income for the year	50,072	-	118	50,190
Other comprehensive income for the year				
Actuarial loss on pension schemes	629	-	-	629
Joint venture distributions	350	-	(350)	-
Total other comprehensive income for the year	979	-	(350)	629
Reserves at 31 March 2016	**473,737**	**430**	**59**	**474,226**
Comprehensive income for the year				
Surplus for the year from the statement of comprehensive income	62,024	-	(59)	61,965
Total comprehensive income for the year	62,024	-	(59)	61,965
Other comprehensive income for the year				
Actuarial loss on pension schemes	(2,377)	-	-	(2,377)
Total other comprehensive income for the year	(2,377)	-	-	(2,377)
Reserves at 31 March 2017	**533,384**	**430**	**-**	**533,814**

Association	Retained equity £000s	General reserve £000s	Share of joint venture reserves £000s	Total reserves £000s
Reserves at 1 April 2015	386,307	430	-	386,737
Comprehensive income for the year				
Surplus for the year from the statement of comprehensive income	49,806	-	-	49,806
Total comprehensive income for the year	49,806	-	-	49,806
Other comprehensive income for the year				
Actuarial loss on pension schemes	629	-	-	629
Total other comprehensive income for the year	629	-	-	629
Reserves at 31 March 2016	**436,742**	**430**	**-**	**437,172**
Comprehensive income for the year				
Surplus for the year from statement of comprehensive income	38,754	-	-	38,754
Total comprehensive income for the year	38,754	-	-	38,754
Other comprehensive income for the year				
Actuarial loss on pension schemes	(2,377)	-	-	(2,377)
Total other comprehensive income for the year	(2,377)	-	-	(2,377)
Reserves at 31 March 2017	**473,119**	**430**	**-**	**473,549**

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

Consolidated statement of cash flows

For the year ended 31 March 2017

	Note	Group 2017 £000s	Group 2016 £000s
Cash flow from operating activities			
Profit before tax		**66,821**	50,178
Gain on disposal of fixed assets		**(13,605)**	(19,328)
Share of operating surplus in joint ventures		**(495)**	(118)
Interest and financing costs		**32,434**	31,971
Operating surplus		**85,155**	62,703
Adjustments for:			
Depreciation	10	**21,703**	20,659
Component write off		**846**	839
Revaluation surplus on investments		**(19,881)**	(5,210)
Distribution from joint venture		**-**	(2,144)
Government grants utilised in the year		**(9,633)**	(9,582)
Stock		**(22,377)**	(1,339)
Trade and other debtors		**1,722**	3,689
Trade and other creditors		**733**	(1,284)
Provisions		**(808)**	(241)
Corporation tax paid		**-**	(3,194)
Net cash generated from operating activities		**57,460**	64,896
Cash flow from investing activities			
Purchase of property, plant and equipment		**(86,511)**	(78,599)
Purchase of investment properties		**(9,770)**	(2,889)
Proceeds from disposal of property, plant and equipment		**23,887**	34,931
Repayment of loan capital by joint ventures		**-**	500
Distributions received from joint ventures		**442**	2,494
Investment loans		**(1,436)**	-
Interest received		**1,078**	3,238
Government grants received		**1,218**	(636)
Proceeds from sale of investments		**442**	913
Net cash used in investing activities		**(70,650)**	(40,048)
Cash flow from financing activities			
Interest paid		**(34,562)**	(35,384)
Loan repayments		**(6,636)**	(5,568)
New secured loans		**35,000**	20,000
Net cash used in financing activities		**(6,198)**	(20,952)
Net (decrease)/increase in cash and cash equivalents		**(19,388)**	3,896
Cash and cash equivalents at the beginning of the year		**144,894**	140,998
Cash and cash equivalents at the end of the year		**125,506**	144,894

At 31 March 2017, restricted cash comprised balances on bank accounts held on trust for the Group's shared owners totalling £8,896,000 (2016: £8,379,000). Cash also includes a restricted balance of £3,212,000 (2016: nil) where a charge is held as security to cover future development costs on a particular scheme.

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 investment properties and financial instruments). The accounting policies have been consistently applied. The Association and the Group are public benefit entities registered in England.

Key accounting judgements and estimation uncertainty

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 (PPE). All other properties are held as investment properties. Shared ownership properties are not depreciated as the leaseholder is responsible for property maintenance. 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 to 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 carried out annually at a 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. Stock and PPE in the course of construction are assessed against the net realisable value of the asset. Investment properties are held for long-term rental returns. The Group values these properties at market value through the use of external professional valuers who use valuation models common to the sector.

See note 11 "Investment properties" for more details on the method employed.

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. Derivative financial instruments are non basic and are measured at fair value.

Management uses valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This involves developing estimates and assumptions consistent with how market participants would price the instrument. 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 the ageing profile and historical recovery rates to determine recoverability.

Post employment benefits

Estimation of pension assets and liabilities 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 uses qualified 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 (Reading) Holdings Limited are accounted for using the equity accounting method in these consolidated financial statements. Affinity Housing Services (Reading) is accounted for as a joint venture operation. SSL has accounted for its investment in Triathlon Homes LLP as an investment at cost as it is not a parent organisation.

Going concern

Having reviewed the future business plans, 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, the Group continues to adopt the going concern basis in preparing its financial statements.

Cash and cash equivalents

Cash and 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.

Cash includes a restricted balance of £3,212,000 (2016: nil) where a charge is held as security to cover future development costs on a particular scheme.

Financial instruments

The Group has chosen to adopt sections 11 and 12 of FRS102 in respect of financial instruments.

- **Financial assets**

  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 for objective evidence of impairment. Any impairment loss is taken to the statement of comprehensive income. Where a reversal of the impairment is required, the impairment charge is reversed up to the original impairment loss and is recognised as a credit in 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 assets are derecognised when the contractual rights to the cash flows from the financial asset either expire, or are settled or if the Group transfers to another party substantially all of the risks and rewards of ownership of the financial asset.

- **Financial liabilities**

  Basic financial liabilities, including trade and other payables, bank loans and 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 discounts estimated future cash payments through the expected life of the financial instrument to the net carrying amount.

  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 remeasured at their fair value. Changes in the fair value of derivatives are recognised in the

1. Principal accounting policies (continued)

statement of comprehensive income in interest payable and similar charges.

Financial liabilities are de-recognised when the liability is extinguished. The fair value of derivative financial instruments is based on a presumption that the close-out amount that would be paid to the counterparty to settle the liability would not incorporate changes in the entity's credit risk since inception of the contract.

Premiums on issue of debentures 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.

Turnover

- **Rent receivable**
  Rental income from social housing and private rental 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 in the following 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 first 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. The cumulative grant amortised is disclosed as part of the contingent liabilities until the property it funds is disposed of or ceases to be used for social housing purposes.

  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 is carried as deferred income in the balance sheet and amortised to the statement of comprehensive income through turnover, over the life of the structure of the properties to which it relates when they are ready to let.

  Social Housing Grant becomes recyclable at the point the related property is sold and is transferred to a recycled capital grant fund until it is reinvested in a replacement property. If there is no requirement to recycle or repay the grant on disposal of the assets, any unamortised grant remaining within creditors is released and recognised as income in the statement of comprehensive income.

1. Principal accounting policies (continued)

- **Gift Aid**
  Gift Aid income is recognised in the Association and as a distribution in 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 together with amortised cost charges.

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 Association. Taxation is chargeable on the surpluses of Southern Home Ownership Limited, Southern Space Limited and Southern Development Services Limited. Surpluses either in whole or in part are transferred to the parent by a Gift Aid distribution. The Group is registered for Value Added Tax (VAT). 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 from commencement on site, 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 that result in an increase in the net rental stream over the lives of the properties, thereby enhancing the economic benefits of the assets, are capitalised as improvements. This may be a result of an increase in net 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. The following useful economic lives are used:

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

It is Group policy to ensure resident shared owners maintain 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 are 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. Therefore, 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.

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

Other tangible fixed assets

Other tangible fixed assets are stated at historic costs less accumulated depreciation and any accumulated impairment losses. Historic cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

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:

Investment properties

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

Properties for market rent or commercial lettings are included as investment properties and are recorded at fair value with changes in the market value reported in the statement of comprehensive income. Fair value is determined annually with an appropriately qualified external valuer being employed at least every three years. No depreciation is provided in respect of investment properties.

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 as concessionary loans.

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 joint ventures

Joint ventures are those entities over which the Group exercises joint control through a contractual arrangement. Affinity Housing Services (Reading) is accounted for as a jointly controlled operation with the share of operations brought directly into the Group and Association financial statements. Affinity (Reading) Holdings limited is accounted for as a jointly controlled entity. In the Association it is held at cost less any impairment, in the Group it is held using the equity method of accounting. 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, stock and properties under construction for outright sale are valued at the lower of cost and net realisable value. Cost comprises land, materials, direct labour, direct development overheads and interest capitalised during the development period from commencement on site. 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.

Post employment benefits

The Group operates four defined benefit schemes including the Social Housing Pension Scheme (SHPS), all of which are closed to new members. Although SHPS is defined benefit, it is accounted for as a defined contribution scheme due to insufficient information being available to account on a defined benefit basis. There are two defined contribution schemes. Employer contributions paid are charged to the statement of comprehensive income.

2. Particulars of turnover, cost of sales, operating costs and operating surplus

Group	2017 Turnover £000s	2017 Cost of sales £000s	2017 Operating costs £000s	**2017 Operating surplus £000s**	2016 Turnover £000s	2016 Cost of sales £000s	2016 Operating costs £000s	2016 Operating surplus £000s
Social housing lettings	156,645	-	(108,219)	**48,426**	154,260	-	(107,155)	47,105
Other social housing activities								
Charges for support services	2,944	-	(2,264)	**680**	3,195	-	(2,265)	930
Current asset property sales	18,933	(12,183)	-	**6,750**	10,005	(5,642)	-	4,363
Other	-	-	-	**-**	1	-	-	1
Non-social housing activities								
Commercial income	1,900	-	(106)	**1,794**	1,728	-	(116)	1,612
Private rental lettings	864	-	(379)	**485**	620	-	(238)	382
Open market sales	18,231	(12,002)	-	**6,229**	7,115	(4,320)	-	2,795
Other	659	-	(417)	**242**	584	-	(267)	317
Total of operations	200,176	(24,185)	(111,385)	**64,606**	177,508	(9,962)	(110,041)	57,505
Revaluation surplus on all investments	20,549	-	-	**20,549**	-	-	5,198	5,198
Total of operating activities	**220,725**	**(24,185)**	**(111,385)**	**85,155**	177,508	(9,962)	(104,843)	62,703

Association	2017 Turnover £000s	2017 Cost of sales £000s	2017 Operating costs £000s	**2017 Operating surplus £000s**	2016 Turnover £000s	2016 Cost of sales £000s	2016 Operating costs £000s	2016 Operating surplus £000s
Social housing lettings	150,502	-	(108,925)	**41,577**	147,923	-	(106,167)	41,756
Other social housing activities								
Charges for support services	2,944	-	(2,264)	**680**	3,195	-	(2,265)	930
Current asset property sales	18,685	(13,748)	-	**4,937**	10,005	(5,642)	-	4,363
Other	-	-	-	**-**	1	-	-	1
Non-social housing activities								
Commercial income	1,883	-	(106)	**1,777**	1,711	-	(116)	1,595
Private rental lettings	760	-	(379)	**381**	536	-	(238)	298
Other sales	5,313	(5,313)	-	**-**	-	-	-	-
Other	1,186	-	(248)	**938**	583	-	(245)	338
Total of operations	181,273	(19,061)	(111,922)	**50,290**	163,954	(5,642)	(109,031)	49,281
Revaluation surplus on all investments	13,451	-	-	**13,451**	-	-	5,198	5,198
Total of operating activities	**194,724**	**(19,061)**	**(111,922)**	**63,741**	163,954	(5,642)	(103,833)	54,479

2. 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	**2017 Total £000s**
Rent receivable net of identifiable service charges	91,541	13,712	7,585	8,237	10,904	**131,979**
Service charges receivable	8,802	1,318	-	481	4,339	**14,940**
Gross rental income	**100,343**	**15,030**	**7,585**	**8,718**	**15,243**	**146,919**
External management fee	93	-	-	-	-	**93**
Grant amortisation	6,591	593	177	484	1,788	**9,633**
Turnover from social housing lettings	**107,027**	**15,623**	**7,762**	**9,202**	**17,031**	**156,645**
Management	(26,177)	(3,916)	(1,682)	(1,447)	(7,901)	**(41,123)**
Service charge costs	(10,597)	(1,587)	(682)	(603)	(3,996)	**(17,465)**
Rent losses from bad debts	(376)	(56)	(24)	(21)	(139)	**(616)**
Routine maintenance	(16,626)	(2,491)	(1,070)	(976)	-	**(21,163)**
Planned maintenance	(2,370)	(355)	(152)	177	-	**(2,700)**
Depreciation	(17,037)	(2,553)	(1,097)	(1,018)	-	**(21,705)**
Component write-off	(2,659)	(398)	(171)	(145)	-	**(3,373)**
Other costs	-	-	-	(3)	(71)	**(74)**
Operating costs on social housing lettings	**(75,842)**	**(11,356)**	**(4,878)**	**(4,036)**	**(12,107)**	**(108,219)**
Operating surplus on social housing lettings	**31,185**	**4,267**	**2,884**	**5,166**	**4,924**	**48,426**
Void losses	**646**	**127**	**214**	**172**	**-**	**1,159**

Group	General needs £000s	Supported and older people's housing £000s	Affordable rent £000s	Intermediate rent £000s	Shared ownership £000s	2016 Total £000s
Rent receivable net of identifiable service charges	91,399	14,019	5,595	8,425	11,002	130,440
Service charges receivable	8,506	1,305	-	760	3,979	14,550
Gross rental income	**99,905**	**15,324**	**5,595**	**9,185**	**14,981**	**144,990**
External management fee	106	-	-	-	-	106
Grant amortisation	6,274	564	147	474	1,705	9,164
Turnover from social housing lettings	**106,285**	**15,888**	**5,742**	**9,659**	**16,686**	**154,260**
Management	(26,725)	(4,148)	(1,451)	(1,516)	(8,377)	(42,217)
Service charge costs	(9,412)	(1,444)	(505)	(544)	(3,538)	(15,443)
Rent losses from bad debts	(113)	(17)	(6)	(6)	(37)	(179)
Routine maintenance	(16,483)	(2,528)	(884)	(1,323)	-	(21,218)
Planned maintenance	(5,430)	(833)	(291)	(980)	-	(7,534)
Depreciation	(14,870)	(2,281)	(798)	(911)	-	(18,860)
Component write-off	(1,540)	(236)	(85)	(83)	-	(1,944)
Other costs	-	-	-	9	231	240
Operating costs on social housing lettings	**(74,573)**	**(11,487)**	**(4,020)**	**(5,354)**	**(11,721)**	**(107,155)**
Operating surplus on social housing lettings	**31,712**	**4,401**	**1,722**	**4,305**	**4,965**	**47,105**
Void losses	**1,037**	**159**	**228**	**219**	**-**	**1,643**

2. Particulars of income and expenditure from social housing lettings (continued)

Association	General needs £000s	Supported and older people's housing £000s	Affordable rent £000s	Intermediate rent £000s	Shared ownership £000s	**2017 Total £000s**
Rent receivable net of identifiable service charges	92,245	13,818	7,623	7,756	6,374	**127,816**
Service charges	8,802	1,318	-	479	2,755	**13,354**
Gross rental income	**101,047**	**15,136**	**7,623**	**8,235**	**9,129**	**141,170**
External management fee	93	-	-	-	611	**704**
Grant amortisation	6,591	593	177	469	798	**8,628**
Turnover from social housing lettings	**107,731**	**15,729**	**7,800**	**8,704**	**10,538**	**150,502**
Management	(26,856)	(4,023)	(1,728)	(1,462)	(8,406)	**(42,475)**
Service charge costs	(10,597)	(1,587)	(682)	(577)	(3,317)	**(16,760)**
Rent losses from bad debts	(376)	(56)	(24)	(20)	(118)	**(594)**
Routine maintenance	(16,626)	(2,491)	(1,070)	(905)	-	**(21,092)**
Planned maintenance	(2,370)	(355)	(152)	(129)	-	**(3,006)**
Depreciation	(17,047)	(2,553)	(1,097)	(928)	-	**(21,625)**
Component write-off	(2,659)	(398)	(171)	(145)	-	**(3,373)**
Operating costs on social housing lettings	**(76,531)**	**(11,463)**	**(4,924)**	**(4,166)**	**(11,841)**	**(108,925)**
Operating surplus on social housing lettings	**31,200**	**4,266**	**2,876**	**4,538**	**(1,303)**	**41,577**
Void Losses	**646**	**127**	**214**	**164**	**-**	**1,151**

Association	General needs £000s	Supported and older people's housing £000s	Affordable rent £000s	Intermediate rent £000s	Shared ownership £000s	2016 Total £000s
Rent receivable net of identifiable service charges	92,299	14,157	5,595	7,911	6,162	126,124
Service charges	8,506	1,305	-	470	2,645	12,926
Gross rental income	**100,805**	**15,462**	**5,595**	**8,381**	**8,807**	**139,050**
External management fee	106	-	-	-	602	708
Grant amortisation	6,274	564	147	449	731	8,165
Turnover from social housing lettings	**107,185**	**16,026**	**5,742**	**8,830**	**10,140**	**147,923**
Management	(27,211)	(4,173)	(1,460)	(1,503)	(8,462)	(42,809)
Service charge costs	(9,412)	(1,444)	(505)	(520)	(2,927)	(14,808)
Rent losses from bad debts	(113)	(17)	(6)	(6)	(35)	(177)
Routine maintenance	(16,483)	(2,528)	(884)	(910)	-	(20,805)
Planned maintenance	(5,430)	(833)	(291)	(300)	-	(6,854)
Depreciation	(14,870)	(2,281)	(798)	(821)	-	(18,770)
Component write-off	(1,540)	(236)	(85)	(83)	-	(1,944)
Operating costs on social housing lettings	**(75,059)**	**(11,512)**	**(4,029)**	**(4,143)**	**(11,424)**	**(106,167)**
Operating surplus on social housing lettings	**32,126**	**4,514**	**1,713**	**4,687**	**(1,284)**	**41,756**
Void losses	**1,037**	**159**	**228**	**219**	**-**	**1,643**

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, committee members, the Group Chief Executive and any other person who is a member of the Group Strategy Team) was as follows:

Group	2017 £000s	2016 £000s
Emoluments	**1,135**	985
Compensation for loss of office	-	87
Pension contributions	**40**	27
Non executive Board member emoluments	**144**	125
	1,319	1,224

The remuneration (excluding pension contributions and NI) payable to the Group Chief Executive, who is also the highest paid director, was:

	£	£
Salary	**270,743**	256,122
Benefits in kind	**10,382**	10,336
Total remuneration	**281,125**	266,458

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. There are no different pension arrangements for the Executive Directors who participate in a bonus scheme, non-consolidated for pension purposes. The awards are determined by personal performance against objectives and targets.

4. Employee information

Monthly average number of full-time equivalent employees (FTE = 35 hours per week):	**Group 2017 FTE**	Group 2016 FTE	**Association 2017 FTE**	Association 2016 FTE
Housing management	**593**	622	**593**	622
Office staff	**231**	220	**229**	217
Average number of full-time equivalent employees	**824**	842	**822**	839

Staff costs (for the above employees)	**Group 2017 £000s**	Group 2016 £000s	**Association 2017 £000s**	Association 2016 £000s
Wages and salaries	**26,394**	25,358	**26,261**	25,117
Social security costs	**2,665**	2,464	**2,650**	2,435
Other pension costs	**1,735**	3,720	**1,718**	3,693
Termination benefits	**1,006**	514	**1,006**	514
	31,800	32,056	**31,635**	31,759

Remuneration paid to staff including executives in bands from £60,000 upwards:

FTE = 35 hours per week	**Group 2017 FTE**	Group 2016 FTE
£60,000 - £70,000	**26**	29
£70,000 - £80,000	**26**	21
£80,000 - £90,000	**9**	8
£90,000 - £100,000	**8**	6
£100,000 - £110,000	**2**	3
£110,000 - £120,000	**5**	3
£120,000 - £130,000	**4**	1
£130,000 - £140,000	**1**	2
£140,000 - £150,000	**2**	2
£150,000 - £160,000	**2**	-
£160,000 - £170,000	**-**	1
£180,000 - £190,000	**1**	-
£240,000 - £250,000	**-**	1
£300,000 - £310,000	**-**	1
£310,000 - £320,000	**1**	-

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

5. Gain on disposal of fixed assets

Group	Shared ownership staircasing 2017 £000s	Other tangible fixed assets 2017 £000s	**Total 2017 £000s**	Shared ownership staircasing 2016 £000s	Other tangible fixed assets 2016 £000s	Total 2016 £000s
Sale proceeds	21,924	2,537	**24,461**	33,492	2,536	36,028
Cost of sales	(10,261)	(530)	**(10,791)**	(14,785)	(489)	(15,274)
Incidental sale expenses	(48)	(17)	**(65)**	(1,268)	(158)	(1,426)
	11,615	**1,990**	**13,605**	17,439	1,889	19,328

Association	Shared ownership staircasing 2017 £000s	Other tangible fixed assets 2017 £000s	**Total 2017 £000s**	Shared ownership staircasing 2016 £000s	Other tangible fixed assets 2016 £000s	Total 2016 £000s
Sale proceeds	12,320	2,087	**14,407**	15,850	2,536	18,386
Cost of sales	(7,235)	(385)	**(7,620)**	(8,651)	(489)	(9,140)
Incidental sale expenses	(30)	(17)	**(47)**	(475)	(158)	(633)
	5,055	**1,685**	**6,740**	6,724	1,889	8,613

6. Interest receivable and similar income

	Group 2017 £000s	Group 2016 £000s	**Association 2017 £000s**	Association 2016 £000s
Interest and investment income				
Interest/income from investments	**964**	2,406	**1,685**	1,273
Interest from bank deposits	**556**	773	**421**	648
Total	**1,520**	3,179	**2,106**	1,921

7. Interest payable and similar charges

Interest and finance costs charged	Group 2017 £000s	Group 2016 £000s	Association 2017 £000s	Association 2016 £000s
On loans	(36,079)	(35,085)	(35,835)	(35,367)
Less: interest payable capitalised	4,166	1,127	3,670	1,117
	(31,913)	(33,958)	(32,165)	(34,250)
Deferred income written back	136	136	136	136
Total interest expense on financial liabilities	(31,777)	(33,822)	(32,029)	(34,114)
Losses on fair value of derivative financial liabilities	(1,809)	(982)	(1,809)	(982)
Total	**(33,586)**	(34,804)	**(33,838)**	(35,096)

On loans includes the interest expense on derivatives.

Other finance costs: pension schemes	Group 2017 £000s	Group 2016 £000s	Association 2017 £000s	Association 2016 £000s
Group pension scheme				
Expected return on pension scheme assets	1,196	1,105	1,196	1,105
Interest on pension scheme liabilities	(1,381)	(1,299)	(1,381)	(1,299)
Isle of Wight Council pension scheme				
Expected return on pension scheme assets	164	151	164	151
Interest on pension scheme liabilities	(239)	(232)	(239)	(232)
SHPS				
Interest on deficit funding agreement	(108)	(71)	(108)	(71)
Total	**(368)**	(346)	**(368)**	(346)
Total interest and similar charges	**(33,954)**	(35,150)	**(34,206)**	(35,442)

The Group's weighted average interest rate for borrowing is 5.05% per annum (2016: 5.12% per annum). Deferred income written back relates to debenture premium.

8. Surplus before tax

The operating surplus before tax is stated after charging:	**Group 2017 £000s**	Group 2016 £000s	**Association 2017 £000s**	Association 2016 £000s
Depreciation:				
Property	**19,499**	17,010	**19,419**	16,920
Other tangible fixed assets	**2,204**	1,850	**2,204**	1,850
Component write off	**1,726**	1,949	**1,725**	1,944
Stock cost of sales recognised as an expense	**24,185**	9,962	**19,061**	5,642
Operating lease charges:				
Property	**232**	246	**232**	246
Other equipment	**322**	229	**322**	229
Auditors' remuneration:				
External audit fee (including expenses, excluding vat)	**162**	206	**138**	182

9. Taxation

UK corporation tax	**Group 2017 £000s**	Group 2016 £000s	**Association 2017 £000s**	Association 2016 £000s
Current tax at 20% (2016: 20%)	**4,863**	(21)	-	-
Adjustment to tax charge in respect of previous years	**(2)**	2	-	-
Current tax at 20% (2016:20%)	**4,861**	(19)	-	-
Deferred tax expense				
Short term timing difference	**(5)**	7	-	-
	4,856	(12)	**-**	**-**

The current tax charge for the year is lower (2016: lower) than the standard rate of corporation tax in the UK (20% (2016: 20%)). The differences are explained on the next page.

9. Taxation (continued)

Current tax reconciliation	**Group 2017 £000s**	Group 2016 £000s	**Association 2017 £000s**	Association 2016 £000s
Surplus on ordinary activities before tax	**66,821**	50,178	**38,754**	49,806
Share of joint venture taxable surplus	-	1,184	-	-
less surplus from charitable activities	**(38,754)**	(49,806)	**(38,754)**	(49,806)
Taxable surplus on ordinary activities before tax	**28,067**	1,556	-	-
Current tax at 20% (2016: 20%)	5,613	312	-	-
Effects of:				
Expenses not deductible/(income not taxable)	(782)	4,738	-	-
Income not taxable for tax purposes	(259)	(754)	-	-
Amounts (charged)/credited directly to equity or otherwise transferred	(75)	(4,026)	-	-
Adjustment to tax charge in respect of previous years	(2)	2	-	-
Adjustment to taxable surplus of LLP share	468	(139)	-	-
Deferred tax not recognised	(107)	(145)	-	-
Total tax charge (see previous page)	**4,856**	(12)	-	-

Factors that may affect future tax charges

The standard rate of corporation tax in the UK remained unchanged in 2017 at 20%.

Further changes were announced in the autumn 2016 statement reducing the rate of corporation tax to 19% from 1 April 2017 and then a further reduction to 17% from 1 April 2020.

10. 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**
Cost					
At 1 April 2016	1,602,359	232,817	50,528	51,702	**1,937,406**
Transfer between categories	-	(25,992)	25,992	-	**-**
Transfer to/from investment properties	279	-	(17,350)	-	**(17,071)**
Schemes completed	25,356	37,411	(62,767)	-	**-**
Additions: New properties	219	-	97,528	-	**97,747**
Existing properties	16,181	-	-	-	**16,181**
Other fixed assets	-	-	-	1,898	**1,898**
Components written off	(1,726)	-	-	-	**(1,726)**
Transfer to stock	(7,371)	-	-	-	**(7,371)**
Disposals	(417)	(9,511)	-	(55)	**(9,983)**
At 31 March 2017	**1,634,880**	**234,725**	**93,931**	**53,545**	**2,017,081**
Accumulated depreciation					
At 1 April 2016	165,325	-	-	21,762	**187,087**
Charge for year	19,499	-	-	2,204	**21,703**
Eliminated in respect of disposals	(985)	-	-	(55)	**(1,040)**
At 31 March 2017	**183,839**	**-**	**-**	**23,911**	**207,750**
Net book value					
At 31 March 2017	**1,451,041**	**234,725**	**93,931**	**29,634**	**1,809,331**
At 31 March 2016	1,437,034	232,817	50,528	29,940	1,750,319

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**
Cost					
At 1 April 2016	1,592,062	157,962	53,742	51,702	**1,855,468**
Transfer between categories	-	(23,860)	23,860	-	**-**
Transfer to/from investment properties	279	-	(18,096)	-	**(17,817)**
Schemes completed	24,904	23,400	(48,304)	-	**-**
Additions: New properties	-	-	68,173	-	**68,173**
Existing properties	16,176	-	-	-	**16,176**
Other fixed assets	-	-	-	1,898	**1,898**
Components written off	(1,725)	-	-	-	**(1,725)**
Disposals	(477)	(6,871)	-	(55)	**(7,403)**
At 31 March 2017	**1,631,219**	**150,631**	**79,375**	**53,545**	**1,914,770**
Accumulated depreciation					
At 1 April 2016	164,364	-	-	21,762	**186,126**
Charge for year	19,419	-	-	2,204	**21,623**
Eliminated in respect of disposals	(985)	-	-	(55)	**(1,040)**
At 31 March 2017	**182,798**	**-**	**-**	**23,911**	**206,709**
Net book value					
At 31 March 2017	**1,448,421**	**150,631**	**79,375**	**29,634**	**1,708,061**
At 31 March 2016	1,427,698	157,962	53,742	29,940	1,669,342

10. Property, plant and equipment (continued)

A total funding value of £1,647 million (2016: £1,798m) secured against 15,519 (2016: 15,339) properties has been pledged as security on debt.

Accommodation in management comprises:

	Group 2017 Units	Group 2016 Units	Association 2017 Units	Association 2016 Units
Units owned and managed:				
General needs	**17,237**	17,251	**17,237**	17,251
Housing for older people	**2,305**	2,303	**2,305**	2,303
Supported housing	**277**	277	**277**	277
Intermediate market rent	**938**	953	**885**	900
Private rent (investment properties)	**115**	70	**115**	70
Affordable Rent	**1,109**	926	**1,109**	926
Leasehold	**2,547**	2,522	**1,532**	1,398
Shared ownership	**2,848**	2,762	**1,463**	1,438
	27,376	27,064	**24,923**	24,563
Units managed on behalf of other landlords:				
General needs	**7**	7	**7**	7
Supported housing	**67**	67	**67**	67
Intermediate market rent	**-**	-	**53**	53
Leasehold	**90**	83	**1,105**	1,207
Shared ownership	**-**	-	**1,385**	1,324
	164	157	**2,617**	2,658
Total units managed (including freeholds)	**27,540**	27,221	**27,540**	27,221
Total units owned	**27,376**	27,064	**24,923**	24,563

Housing properties are reviewed for impairment if there is an indication that impairment may have occurred. 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, in the review carried out in the year ended March 2016 it was concluded that no impairment charge was required against its social housing properties. The assumptions in the assessment were reviewed in the year ended March 2017 and the conclusion of no impairment required found to remain valid.

10. Property, plant and equipment (continued)

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
Cost					
At 1 April 2016	21,636	21,836	2,100	6,130	**51,702**
Additions	936	165	-	797	**1,898**
Disposals	-	(23)	(32)	-	**(55)**
At 31 March 2017	**22,572**	**21,978**	**2,068**	**6,927**	**53,545**
Accumulated depreciation					
At 1 April 2016	4,526	10,400	1,912	4,924	**21,762**
Charge for year	373	1,031	8	792	**2,204**
Disposals	-	(23)	(32)	-	**(55)**
At 31 March 2017	**4,899**	**11,408**	**1,888**	**5,716**	**23,911**
Net book value					
At 31 March 2017	**17,673**	**10,570**	**180**	**1,211**	**29,634**
At 31 March 2016	17,110	11,436	188	1,206	**29,940**

11. Investment properties

At 31 March 2017 all commercial properties were market valued externally by Jones Lang Lasalle Limited and White, Druce and Brown Limited both qualified RICS Chartered Surveyors, in accordance with the RICS Valuation – Professional Standards January 2014. The desktop valuation adopted a rent capitalisation methodology using floor areas and rental values. In the instance of properties having a dual use as offices and commercial lettings the cost is split by using the proportion of floor area with office carrying cost being disclosed in property plant and equipment.

The valuation methodology adopted in the prior year for smaller commercial properties involved management using a benchmarked multiple of existing rents whilst the larger commercial properties were valued externally. A yield rate of 9% was used to determine the value of these properties based on their passing annual rent.

Residential properties held for investment and rented at market rents were valued at open market value basis subject to tenancies by Jones Lang Lasalle Limited.

The valuation used a discounted cashflow model, over a 10-year period, with the net income in the final year capitalised into perpetuity.

	Group 2017 £000s	Group 2016 £000s	**Association 2017 £000s**	Association 2016 £000s
Valuation at 1 April	**47,401**	39,011	**47,637**	38,895
Additions	**12,488**	2,925	**19,205**	3,277
Transfer to fixed assets	**(1,017)**	-	**(1,017)**	-
Valuation adjustment	**19,881**	5,465	**12,783**	5,465
At 31 March	**78,753**	47,401	**78,608**	47,637

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. There are no concessionary loans committed but not taken up at year end.

	Group 2017 £000s	Group 2016 £000s	**Association 2017 £000s**	Association 2016 £000s
HomeBuy and Starter Home Initiatives	**8,125**	8,330	**300**	300

13. Listed and unlisted investments

	Group 2017 £000s	Group 2016 £000s	**Association 2017 £000s**	Association 2016 £000s
Listed investments	**4,459**	6,167	**4,459**	6,167
Unlisted investments	**6,357**	6,350	**6,357**	6,350
	10,816	12,517	**10,816**	12,517

Listed investments represent holdings in managed funds.

The year-end valuations of investments managed by external fund 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 is advised by the fund managers.

The unlisted investment is an interest bearing cash deposit placed as a guarantee for a loan from The Housing Finance Corporation Limited (THFC).

Movement on listed and unlisted investments	Fair value £000s	Amortised cost £000s	Total £000s
At 1 April 2016	6,167	6,350	12,517
Reclassification	(2,376)	-	(2,376)
	3,791	6,350	10,141
Change in value	668	-	668
Interest received	-	7	7
At 31 March 2017	**4,459**	**6,357**	**10,816**

The reclassification of £2,376,000 comprises £1,436,000 to investment loans to a joint venture entity and £940,000 to investments in joint ventures.

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 £17,269,338 (2016: £495,293) and 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 £766,038 (2016: £8,664,830). This facility is up to £15m and interest is charged at the base lending rate + 4%. These loans are secured via a charge on Southern Space Limited's assets.

Investment loan	Group 2017 £000s	Group 2016 £000s	Association 2017 £000s	Association 2016 £000s
Cost				
Investment loan to wholly owned subsidiary	-	-	18,035	9,140
Investment loan to joint venture entity	1,436	-	1,436	-
	1,436	-	**19,471**	9,140

	Wholly owned subsidiary £000s	Joint venture entity £000s	Association £000s
At 1 April 2016	9,140	-	9,140
Net increase in loan	8,895	1,436	10,331
At 31 March 2017	**18,035**	**1,436**	**19,471**

Southern Housing Group Limited holds:

- 100% of the ordinary share capital of Southern Development Services Limited
- 100% of the ordinary share capital of Southern Space Limited

The reclassification of £1,436,000 is part of a movement from listed and unlisted investments in note 13.

15. Investments in joint ventures

	Group 2017 £000s	Group 2016 £000s	**Association 2017 £000s**	Association 2016 £000s
Triathlon Homes LLP	**-**	-	**-**	-
Affinity Housing Services (Reading)	**-**	25	**-**	25
Affinity (Reading) Holdings Limited				
Reclassification from unlisted investments	**1,294**	-	**1,294**	-
Share of accumulated surplus	**495**	59	**-**	-
Net investment in joint ventures	**1,789**	84	**1,294**	25

Southern Housing Group Limited holds:

A 50% partnership capital in Affinity Housing Services (Reading), a joint venture with Windsor & District Housing Association, which is accounted for as a jointly controlled operation. 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%. The indirect interest is accounted for through the accounting of Affinity Housing Services (Reading). The direct interest is accounted for as a jointly controlled entity. In the Association it is held at cost less impairment and in the Group it is held using the equity method of accounting.

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.

Following Triathlon Homes LLP transitioning to FRS 102 in 2016, 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 Homes LLP, the Group's share of the net assets is written down to nil.

Therefore, the following figures are not included within the investments in joint ventures:

15. Investments in joint ventures (continued)

	Triathlon Homes LLP 2017 £000s	Triathlon Homes LLP 2016 £000s
Turnover	5,156	6,250
(Loss)/profit before taxation	(1,279)	1,211
Taxation	-	-
Profit after taxation	**(1,279)**	1,211
Share of assets		
Share of fixed assets	75,497	74,370
Share of current assets	7,186	6,602
	82,683	80,972
Share of liabilities		
Due within one year	(2,410)	(3,405)
Due after one year	(84,319)	(83,211)
	(86,729)	(86,616)
Investment summary		
Investment at cost	-	-
Share of accumulated reserves	(4,046)	(2,311)
	(4,046)	(2,311)

16. Stock

	Group 2017 £000s	Group 2016 £000s	Association 2017 £000s	Association 2016 £000s
Properties under construction	42,926	37,942	25,954	21,954
Completed properties	16,083	-	2,956	-
	59,009	37,942	**28,910**	21,954

Stock recognised in cost of sales during the year for the Group was £24,011,000 (2016: £9,763,000) and the Association was £18,980,000 (2016: £5,492,000).

17. Trade and other debtors

	Group 2017 £000s	Group 2016 £000s	Association 2017 £000s	Association 2016 £000s
Due within one year:				
Rent arrears and service charges	**8,505**	7,367	**8,170**	7,132
Less: provision for bad and doubtful debts	**(3,177)**	(2,865)	**(3,070)**	(2,778)
	5,328	4,502	**5,100**	4,354
Amounts due from group undertakings	**-**	-	**775**	20,155
Other debtors	**3,176**	5,507	**2,298**	4,185
Corporation tax	**21**	857	**-**	-
Prepayments and accrued income	**2,584**	2,800	**2,428**	2,763
	11,109	13,666	**10,601**	31,457

18. Creditors: amounts falling due within one year

	Group 2017 £000s	Group 2016 £000s	Association 2017 £000s	Association 2016 £000s
Social housing grant received in advance	**139**	139	**-**	-
Recycled capital grant fund (RCGF)	**4,805**	4,864	**2,223**	2,315
Disposal proceeds fund (DPF)	**-**	2	**-**	2
Amounts due to group undertakings	**-**	-	**3,319**	3,805
Accruals and deferred income	**19,990**	19,647	**14,803**	14,661
Corporation tax	**4,020**	-	**-**	-
Other taxation and social security	**70**	751	**69**	750
Other creditors	**17,342**	15,089	**11,155**	8,994
Capital grant on properties for sale	**2,563**	3,372	**2,563**	3,372
Pension deficit funding contribution liability	**614**	593	**614**	593
Housing loans	**15,371**	7,034	**14,992**	6,720
Derivative financial instruments (note 29)	**665**	-	**665**	-
	65,579	51,491	**50,403**	41,212

Amounts collected from shared ownership leaseholders in respect of service charges, not yet expended, of £9,068,000 (2016: £8,653,000) are reflected above in other creditors.

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

	Group 2017 £000s	Group 2016 £000s	Association 2017 £000s	Association 2016 £000s
19a Housing loans	**688,630**	667,688	**665,190**	643,863
19b Deferred income	**743,651**	749,934	**708,202**	714,031
19c Pension deficit contribution liability	**4,614**	4,958	**4,614**	4,958
19d Recycled capital grant fund (RCGF)	**10,913**	11,772	**5,189**	5,421
19e Disposal proceeds fund (DPF)	**100**	82	**100**	82
Derivative financial instruments (note 29)	**48,547**	46,545	**48,547**	46,545
	1,496,455	1,480,979	**1,431,842**	1,414,900

19a Housing loans	Group 2017 £000s	Group 2016 £000s	Association 2017 £000s	Association 2016 £000s
Housing loans falling due after one year	**616,621**	596,594	**593,009**	572,603
Bonds	**76,000**	76,000	**76,000**	76,000
Loan set up cost	**(3,073)**	(3,222)	**(3,021)**	(3,164)
Effective interest adjustment	**(918)**	(1,684)	**(798)**	(1,576)
Loans at amortised cost	**688,630**	667,688	**665,190**	643,863

Housing loans are all secured by specific charges on 15,519 (2016: 15,339) of the Group's housing units and are repayable in instalments due as follows:

	Group 2017 £000s	Group 2016 £000s	Association 2017 £000s	Association 2016 £000s
In one year or less	**15,371**	7,034	**14,992**	6,720
Between one and two years	**44,261**	36,383	**43,843**	36,005
Between two and five years	**28,649**	44,401	**27,049**	42,981
In five years or more	**619,711**	591,810	**598,117**	569,617
	692,621	672,594	**669,009**	648,603
Total	**707,992**	679,628	**684,001**	655,323

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

Housing loans bear hedged fixed rates of interest ranging from 1.55% to 11.45% 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 (1,324 of the 15,519 total secured properties) to cover any adverse mark-to-market valuations.

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.

19b Deferred income	**Group 2017 £000s**	Group 2016 £000s	**Association 2017 £000s**	Association 2016 £000s
Social and other housing grant b/fwd	**749,358**	758,671	**713,455**	719,172
Social housing grant received in the year	**2,877**	1,561	**2,877**	1,561
Grant repaid	**(1,149)**	(20)	**(1,149)**	(20)
Grant abated	**(257)**	(176)	**(336)**	(176)
Grant on disposals	**-**	-	**-**	-
Transfer from /(to) RCGF	**1,279**	(2,775)	**1,193**	616
Transfer from /(to) DPF	**(16)**	26	**(16)**	26
Grant amortisation released to income on disposals	**696**	1,654	**310**	860
Amortisation of social housing grant in year	**(9,633)**	(9,583)	**(8,628)**	(8,584)
Deferred income - social housing grant c/fwd	**743,155**	749,358	**707,706**	713,455
Premium on debentures	**440**	576	**440**	576
Share of joint venture deferred income	**56**	-	**56**	-
	743,651	749,934	**708,202**	714,031

19c Pension liability	**Group 2017 £000s**	Group 2016 £000s	**Association 2017 £000s**	Association 2016 £000s
Pension deficit funding contribution liability	**4,614**	4,958	**4,614**	4,958

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

19d Recycled capital grant fund

Balance relating to the HCA	Group 2017 £000s	Group 2016 £000s	Association 2017 £000s	Association 2016 £000s
Balance at 1 April	6,832	5,695	4,509	4,056
Grant released on sales	1,593	2,366	1,242	1,468
Interest added to fund	28	31	19	21
Intra-group transfer	-	-	540	346
Grant recycled into new schemes	(2,189)	(1,400)	(2,189)	(1,400)
Balance as at 31 March	6,264	6,692	4,121	4,491
Comprising amounts:				
Due within one year	831	2,150	831	1,642
Due in more than one year	5,433	4,542	3,290	2,849

Balance relating to the GLA	Group 2017 £000s	Group 2016 £000s	Association 2017 £000s	Association 2016 £000s
Balance at 1 April	9,804	8,157	3,227	2,470
Grant released on sales	1,828	3,594	748	1,125
Interest added to fund	34	48	11	15
Intra-group transfer	-	-	-	1,444
Grant repaid	-	(46)	-	-
Grant recycled into new schemes	(2,212)	(1,809)	(695)	(1,809)
Balance as at 31 March	9,454	9,944	3,291	3,245
Comprising amounts:				
Due within one year	3,974	2,714	1,392	673
Due in more than one year	5,480	7,230	1,899	2,572
Total due within one year	4,805	4,864	2,223	2,315
Total due in more than one year	10,913	11,772	5,189	5,421

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

19e Disposal proceeds fund Balance relating to the HCA	Group 2017 £000s	Group 2016 £000s	Association 2017 £000s	Association 2016 £000s
Balance at 1 April	56	56	56	56
Balance as at 31 March	56	56	56	56
Comprising amounts:				
Due within one year	-	2	-	2
Due in more than one year	56	54	56	54

Balance relating to the GLA	Group 2017 £000s	Group 2016 £000s	Association 2017 £000s	Association 2016 £000s
Balance at 1 April	28	52	28	52
Released on sales	16	122	16	122
Interest added to fund	-	1	-	1
Recycled into new schemes	-	(147)	-	(147)
Balance as at 31 March	44	28	44	28
Comprising amounts:				
Due within one year	-	-	-	-
Due in more than one year	44	28	44	28
Total due within one year	-	2	-	2
Total due in more than one year	100	82	100	82

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 as disclosed in note 31.

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

	Note	**Group 2017 £000s**	Group 2016 £000s	**Association 2017 £000s**	Association 2016 £000s
Government funding received	19b	**743,155**	749,358	**707,706**	713,455
Grants amortised in the year (contingent liabilities)		**9,633**	9,583	**8,628**	8,584

21. Provisions for liabilities and charges

Housing property defects and repairs	**Group 2017 £000s**	Group 2016 £000s	**Association 2017 £000s**	Association 2016 £000s
Balance at 1 April	**131**	142	**25**	25
Unused repairs provision	**(25)**	(11)	**(25)**	-
Movement on defects provision	**61**	-	**-**	-
Balance as at 31 March	**167**	131	**-**	25

Housing property repairs provision:

The closing balance reflects a defects provision in respect of new sales properties in Southern Space Limited of £167,000 (2016: £131,000) which we expect to be for less than one year. The movement in the year represents an increase in this defects provision and a removal of the repairs provision of £25,000 from 2016 in Southern Housing Group Limited which is no longer required.

22. Called-up share capital

Shares of £1 each issued and fully paid:	2017 £	2016 £
Balance at 1 April	9	9
Shares issued during year	1	1
Shares surrendered during year	(2)	(1)
As at 31 March	**8**	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 2017 £000s	Group 2016 £000s	Association 2017 £000s	Association 2016 £000s
Capital expenditure contracted but not provided for in the financial statements	119,686	164,281	90,777	137,208
Capital expenditure authorised but not contracted	235,733	157,407	174,081	107,528

Committed development expenditure for the Group and Association will be financed through £5,800,000 grant 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 2017 £000s	**Equipment 2017 £000s**	**Total 2017 £000s**	Total 2016 £000s
Future minimum lease payments:				
Within one year	29	122	**151**	458
Between one and five years	144	159	**303**	405
Over five years	91	-	**91**	83
	264	281	**545**	946

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 four 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's 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.

Income on all operating leases is recorded in the statement of comprehensive income as the rent falls due.

The Group's residential market rented properties are cancellable operating leases ranging from four weeks to two months notice periods.

The Group's commercial properties are non-cancellable operating leases.

The Group's future minimum operating lease receipts on commercial properties were:

	2017 £000s	2016 £000s
Operating lease income due:		
Less than one year	**2,086**	1,532
Later than one year and not later than five years	**5,875**	2,570
Later than five years	**4,492**	1,845
	12,453	5,947

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 one 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 2017 £000s	Group 2016 £000s	**Association 2017 £000s**	Association 2016 £000s
Southern Housing Group Pension scheme	**(7,528)**	(6,051)	**(7,528)**	(6,051)
Isle of Wight Pension scheme	**(2,331)**	(2,275)	**(2,331)**	(2,275)
Total net deficit	**(9,859)**	(8,326)	**(9,859)**	(8,326)

25. Post employment benefits (continued)

Southern Housing Group Pension Scheme

Southern Housing Group Limited is the sponsoring employer of a funded defined benefit pension scheme (the Plan) 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 2016, updated to 31 March 2017, 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 2016.

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 calculations carried out as at 31 March 2017 by an independent qualified actuary.

During the year the Group paid contributions at a rate of 24% plus an additional annual payment of £981,765 (2016: £564,840) towards an identified deficit.

The employer contribution rate to be applied from 1 April 2017 is 24%.

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

Actuarial assumptions	**2017 % pa**	2016 % pa
Rate of increase in salaries	**2.90**	2.60
Discount rate	**2.55**	3.45
Inflation assumption - RPI	**3.40**	3.10
Inflation assumption - CPI	**2.40**	2.10

Mortality assumptions	**Male**	**Female**
Current pensioner aged 65	**22.20**	24.20
Future retiree upon reaching 65	**23.80**	26.00

The major categories of scheme assets as a percentage of total schemes assets are:

	2017 %	2016 %
Equities	**48.60**	47.00
Property	**4.20**	4.80
Diversified growth fund & LDI	**46.10**	47.40
Cash	**1.10**	0.80
Total	**100.00**	100.00

25. Post employment benefits (continued)

Net defined benefit asset (liability)	2017 £000s	2016 £000s
Fair value of scheme assets	43,408	34,553
Present value of defined benefit obligation	(50,936)	(40,604)
Defined benefit liability recognised in balance sheet	**(7,528)**	**(6,051)**

Total expense recognised in statement of comprehensive income	2017 £000s	2016 £000s
Current service cost	493	600
Administration expenses	217	295
Recognised in arriving at operating profit	710	895
Net interest on the net defined benefit liability	185	194
Total recognised in the profit and loss account	**895**	**1,089**

Total amounts taken to other comprehensive income	2017 £000s	2016 £000s
Actual return on scheme assets - gains and (losses)	8,633	37
less amounts included in net interest on the net defined benefit liability	(1,196)	(1,105)
Remeasurement gains and (losses)		
Return on scheme assets excluding interest income	7,437	(1,068)
Actuarial (losses)/gains	(9,551)	1,470
Remeasurement (losses)/gains recognised in other comprehensive income	**(2,114)**	**402**

Changes in the present value of the defined benefit obligation	2017 £000s	2016 £000s
Present value of defined benefit obligation at beginning of year	40,604	41,092
Benefits paid	(1,180)	(1,006)
Administration expenses paid	(217)	(295)
Current service cost	493	600
Administration costs	217	295
Interest cost	1,381	1,299
Remeasurement gains and (losses)		
Actuarial gains/(losses)	9,551	(1,470)
Employee contributions	87	89
Present value of defined benefit obligation at end of year	**50,936**	**40,604**

25. Post employment benefits (continued)

Changes in the fair value of assets	2017 £000s	2016 £000s
Fair value of scheme assets at beginning of year	**34,553**	34,560
Interest income	**1,196**	1,105
Remeasurement gains and (losses)		
Return on scheme assets excluding interest income	**7,437**	(1,068)
Contributions by employer	**1,532**	1,168
Employee contributions	**87**	89
Benefits paid	**(1,180)**	(1,006)
Administration expenses	**(217)**	(295)
Fair value of scheme assets at end of year	**43,408**	34,553

The Social Housing Pension Scheme

The company participates in the scheme, a multi-employer scheme that 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 1.33% per annum at 31 March 2017. The unwinding of the discount rate is recognised as a finance cost.

Reconciliation of opening and closing deficit funding contribution	Period ended 31 March 2017 £000s	Period ended 31 March 2016 £000s
Deficit funding contribution at start of period	**5,551**	3,919
Unwinding of the discount factor (interest expense)	**108**	71
Deficit contribution paid	**(593)**	(396)
Remeasurements - impact of any change in assumptions	**162**	(37)
Remeasurements - amendments to the contribution schedule	**-**	1,994
Deficit funding contribution at end of year	**5,228**	5,551

Deficit contributions paid during the year that have been recognised as an expense were £593,000 (2016: £396,000). Employer contributions for the year recognised as an expense were £74,000 (2016: £69,000).

25. Post employment benefits (continued)

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 Isle of Wight pension scheme, using the projected unit credit method, was carried out at 31 March 2016 by a qualified independent actuary.

It has been agreed that an employer contribution rate of 28.3% of pensionable pay plus an additional amount of £170,000 will apply for 2017/18 (2016/17: 28.3% plus £122,000).

The major assumptions used in this valuation were:

Actuarial assumptions	2017 % pa	2016 % pa
Pension increase rate	**2.40**	2.10
Salary increase rate	**2.80**	4.10
Discount rate	**2.50**	3.40
Inflation assumption - RPI	**3.40**	3.10
Inflation assumption - CPI	**2.40**	2.10

Mortality assumptions	Male	Female
Current pensioner aged 65	**22.30**	24.70
Future retiree upon reaching 65	**23.90**	26.50

The major categories of scheme assets as a percentage of total schemes assets are:

	2017 %	2016 %
Equities	**68.00**	66.00
Property	**5.00**	6.00
Bonds	**26.00**	28.00
Cash	**1.00**	0.00
Total	**100.00**	100.00

Net defined benefit asset (liability)	2017 £000s	2016 £000s
Fair value of scheme assets	**5,477**	4,896
Present value of defined benefit obligation	**(7,808)**	(7,171)
Defined benefit liability recognised in balance sheet	**(2,331)**	(2,275)

25. Post employment benefits (continued)

Total expense recognised in statement of comprehensive income	2017 £000s	2016 £000s
Current service cost	49	51
Recognised in arriving at operating profit	49	51
Net interest on the net defined benefit liability	239	232
Total recognised in the profit and loss account	**288**	**283**

Total amounts taken to other comprehensive income	2017 £000s	2016 £000s
Actual return on scheme assets - (losses)/gains	559	(80)
Remeasurement gains and (losses)		
Return on scheme assets excluding interest income	559	(80)
Remeasurement gains and (losses)	(652)	430
Remeasurement (loss)/gains recognised in other comprehensive income	**(93)**	**350**

Changes in the present value of the defined benefit obligation	2017 £000s	2016 £000s
Present value of defined benefit obligation at beginning of year	7,171	7,588
Benefits paid	(313)	(280)
Current service cost	49	51
Interest cost	239	232
Remeasurement gains/(losses)		
Actuarial gains/(losses)	652	(430)
Employee contributions	10	10
Present value of defined benefit obligation at end of year	**7,808**	**7,171**

Changes in the fair value of assets	2017 £000s	2016 £000s
Fair value of scheme assets at beginning of year	4,896	4,935
Interest income	164	151
Remeasurement gains and (losses)	559	(80)
Contributions by employer	161	160
Employee contributions	10	10
Benefits paid	(313)	(280)
Fair value of scheme assets at end of year	**5,477**	**4,896**

25. Post employment benefits (continued)

Defined Contribution Schemes

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

Zurich Assurance Limited	£773,005 (2016: £744,421)
Social Housing Pension Scheme	£ 77,214 (2016: £77,497)

As explained above, the Group is party to various post-retirement arrangements, some of which are accounted for as defined benefit schemes and others, where sufficient information is currently not available to apply defined benefit accounting, as defined contribution schemes in accordance with the requirements of FRS102 paras 28.11 and 28.11A.

The Group is currently working through a pensions risk management and consolidation strategy, involving, amongst other things the potential in future for the bulk transfer of assets and liabilities between schemes. This strategy may, depending on the timing of new information becoming available following commercial negotiations, result in schemes currently subject to defined contribution accounting to be accounted for as defined benefit schemes.

There are ongoing discussions with one of the pension administrators for a scheme currently subject to defined contribution accounting. Following those discussions, indicative information has been made available during the year on the Group's ongoing liabilities as at 30 September 2016 on a technical provisions basis. However, at the year end, there is insufficient information to determine the Group's share of assets or liabilities, in accordance with FRS102, and therefore defined contribution accounting has continued to be adopted.

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 held by parent (Southern Housing Group Limited)
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
Spruce Homes Limited	Companies Act 2006 Number 10181074		Provision of housing for private rent	100% shares
Southern Housing Construction Limited	Companies Act 2006 Number 10181046		Provision of construction services	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 Southern Space Limited

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:

Payments received by Southern Housing Group Limited	2017 £000s	2016 £000s
Admin support and development costs from Southern Space Limited and Southern Development Services Limited	1,573	1,273
Loan interest from Southern Space Limited	1,100	687
Director's services and profit distribution from Affinity Housing Services (Reading)	205	405
Provision of financial services for Triathlon Homes LLP	140	140
Gift Aid from Southern Development Services Limited	373	5,570
Total	**3,391**	**8,075**

Payments made by Southern Housing Group Limited	2017 £000s	2016 £000s
Development costs paid to Southern Space Limited	11,102	16,180
Development costs paid to Southern Development Services Limited	24,803	5,202
Total	**35,905**	**21,382**

Payments totalling £20,740 were made in the normal course of business to Aston Rose Limited, a company related to a Director of the Group. Aston Rose Limited provide managing agent services to two estates.

Payments totalling £1,333 were made to Southern Housing Group Limited by a Board member who was a leaseholder during the year.

Assets	2017 £000s	2016 £000s
Intercompany debtor due from Southern Space Limited to Southern Housing Group Limited	18,036	9,140
Redeemable loan notes due from Affinity Reading (Holdings) Limited	1,436	-

Liabilities	2017 £000s	2016 £000s
Intercompany creditor due from Southern Housing Group Limited to Southern Space Limited and Southern Development Services Limited	3,377	3,805

Intra-group transactions for Southern Home Ownership with non-regulated group members are as follows:

	2017 £000s	2016 £000s
Sale of land to Southern Space Limited	7,400	-
Development costs paid to Southern Development Services Limited	907	1
Intercompany debtor due from Southern Space Limited	-	37
Intercompany creditor due to Southern Development Services Limited	716	-

29. Financial assets and liabilities

Financial instruments

The Group has the following financial instruments:

	Group 2017 £000s	Group 2016 £000s	Association 2017 £000s	Association 2016 £000s
Financial assets at fair value through profit or loss				
- Investments at market value	**4,459**	3,790	**4,459**	3,790
	4,459	3,790	**4,459**	3,790
Financial assets that are measured at amortised cost				
- Cash and cash equivalents	**125,506**	144,894	**107,592**	109,263
- Investments at amortised costs	**6,357**	8,727	**6,357**	8,727
- Long term joint venture investment	**1,436**	-	**1,436**	-
- Social HomeBuy investment	**8,125**	8,330	**300**	300
- Rent and service charge arrears	**5,328**	4,502	**5,100**	4,354
- Other debtors	**3,176**	5,507	**2,298**	4,185
	149,928	171,960	**123,083**	126,829
Financial liabilities measured at fair value through profit or loss				
- Derivative financial instruments	**49,212**	46,545	**49,212**	46,545
	49,212	46,545	**49,212**	46,545
Financial liabilities measured at amortised cost				
- Trade and other payables	**37,336**	36,080	**29,281**	41,212
- Bonds	**75,487**	75,447	**75,487**	75,447
- Bullet loans	**159,936**	160,715	**159,936**	160,715
- Revolver loans	**44,591**	44,669	**44,591**	44,669
- Other loans	**427,071**	397,210	**403,201**	373,014
	744,421	714,121	**712,496**	695,057

Financial instruments

Southern Housing Group Limited has the following standalone derivative transactions as at 31 March 2017:

	Market value	
	2017 £000s	2016 £000s
£20m 3 yearly cancellable swap at a fixed rate of 4.77%, next option date July 2019	**(12,730)**	(11,855)
£25m 30 year cancellable swap at a fixed rate of 4.57%, option date November 2023	**(15,422)**	(14,349)
£30m 27 year swap at a fixed rate of 4.9875% discounted by compound RPI above 3.20%	**(19,475)**	(17,126)
£25m 5 year swap at a fixed rate of 2.75%	**(152)**	(666)
£25m 5 year swap at a fixed rate of 3.055%	**(514)**	(1,059)
£25m 5 year swap at a fixed rate of 3.3%	**(919)**	(1,490)
	(49,212)	(46,545)

29. Financial assets and liabilities (continued)

Financial instruments (continued)

Derivative financial instruments are held by the Group to manage the interest rate risks and reduce interest rate volatility. When calculating the mark to market valuations on (i) the embedded and (ii) standalone interest rate swaps, the prevailing interest rates are used to discount the cashflows as at 31 March 2017.

Accrued interest is included in the derivatives at fair value.

Bullet loans

The Group's financing facility includes seven bullet loans including three with THFC Limited totalling £134,000,000, two with Dexia totalling £7,000,000, Funding for Homes Limited of £9,500,000 and Housing Securities Limited of £8,600,000. The bullet loans accrue interest on both a quarterly and six monthly basis at rates varying between 1.71% and 10.197%. The bullet loans are due for repayment from March 2018 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.

Other loans

The Group's financing facility includes 46 other loans totalling £403,860,192. The loans accrue interest on a monthly, quarterly and six monthly basis with two loans at indexed rates, 17 loans at Libor + 0.25% to Libor + 1.25% and 28 loans ranging from 1.3% to 11.45%. The final repayment of the loans ranges from March 2018 to December 2044. These are secured by a charge over the Group's housing properties.

Southern Home Ownership Limited's financing facility includes two other loans totalling £4,900,000 and £19,090,500. 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.

30. Samuel Lewis Foundation

The Samuel Lewis Foundation is a separate charity with Southern Housing Group Limited 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, Southern Housing Group Limited.

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

Fund balances are represented by:

	2017 £000's	2016 £000's
Property, plant & equipment	**13,989**	15,206
Investments	**1,125**	952
Total assets less current liabilities	**15,114**	16,158
Creditors: amounts falling due after more than one year		
Social housing and other grants	**(7,443)**	(7,426)
Total net assets	**7,671**	8,732
Net income from permanent endowed assets		
Income from lettings	**1769**	1,773
Less expenditure on letting activities	**(880)**	(857)
Surplus on letting activities	**889**	916
Income from Investments	**11**	7
	900	923

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

31. 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 £13,516,000 (2016: £13,720,000) 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.

At March 2017, the value of cumulative amortised grant that would require to be recognised as a liability if the properties funded were disposed of or ceased to be used for social housing purposes was £117,599,000 (2016: £105,662,000).

32. Post balance sheet events

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

Contact us

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

0845 612 0021
020 7553 6400
communications@shgroup.org.uk
@SHGroupUK
shgroup.org.uk

SHG0127-SP-0817