Annual Report and Group Financial Statements

2017-2018

Southern Housing Group

shgroup.org.uk

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

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

Contents

Chair of the Board and Chief Executive’s introduction

Arthur Merchant
Chair of the Board

Tom Dacey
Group Chief Executive

2017-18 was dominated by the Grenfell Tower tragedy. Our customers' health and safety has always been paramount for us of course, but following Grenfell it came into even sharper focus as we doubled our efforts to ensure that our residents were safe in their homes. There is no greater duty as a landlord.

There has been considerable public debate about the causes of the fire and no doubt that will continue as the public enquiry continues. No one could fail to have been moved by the personal accounts of the victims and our sympathies are with the families and friends of those affected.

We will pay close attention to the findings of the public enquiry. We are also analysing the implications of Dame Judith Hackitt’s review of building regulations.

In October came a welcome end to the uncertainty about the social housing rent settlement post 2020 – nevertheless we continue to look carefully at, and plan for, the likely consequences of Universal Credit. This was the backdrop to a productive but challenging year for the Group. We are proud that this year we've been able to continue to grow and invest in our business. Despite many challenges, the Group’s surplus for the year was £45m.

Every penny of that surplus and more is reinvested in building and maintaining homes, and delivering services and support to our customers. Our track record demonstrates the significant value we create through the work that we do.

We were pleased to see a number of new initiatives come to fruition this year. We launched our private rent brand, Spruce, in November 2017. We established our first ever development construction framework and set up Southern Housing Construction, our in-house construction arm, as part of our strategy to control build quality and costs.

This will play a key role in supporting the delivery of our Development Strategy and will be underpinned by work with lenders to increase our long term capacity to grow, and our resilience to adverse events.

Our prospects for delivering new homes in line with our Development Strategy look positive. The number of new homes completed in 2017-18 was not as high as expected. We had 700 homes under construction at the year end but supply chain challenges pushed practical completions for a number of homes into the following financial year and we expect this will be reflected in the number of new homes completing in the new financial year.

This year a huge amount of hard work went into the successful application for planning permission for 540 new homes in Shoreham-by-Sea and, in parallel, we closed the deal on the land needed for the third phase of our development at Bow River Village. We also completed on our first major stock acquisition since 2015 with 496 homes coming into the Group from Hyde Housing on 30 April 2018. We are very pleased to welcome our new customers.

We never forget that we have social objectives at the heart of our business. This year our social value programme, working with the Group’s contractors, brought in the equivalent of nearly £250,000 of investment in training and other opportunities for customers. Our team, brought together from across the whole business, has been working to help minimise the impact of Universal Credit on customers and more than 19,000 customers benefited from our community investment support this year.

This is also the year that we launched a three-year Community Investment Strategy which identifies four key priorities for us: tackling poverty, improving health and wellbeing, supporting neighbourliness and communities, and helping customers sustain their tenancies.

The Group is in good shape for the years ahead – developing new homes, maintaining and improving our existing homes, delivering excellent customer services and supporting our customers. There will be a lot of changes and challenges to navigate but we have every confidence that the Group is robust, resilient and on a clear course to deliver on its strategic objectives.

It's been a challenging year for the sector but I am delighted to see how well the Group has managed and how well placed it is to move ahead. This has been Tom's last year as Chief Executive having announced his retirement in early 2018. After a rigorous recruitment process we are delighted to be welcoming his successor, Alan Townshend.

I'm sure everyone will join me and the Board of Southern Housing Group in thanking Tom for his extraordinary contribution to the Group and the sector as a whole. We look forward to working with Alan as we move into the next chapter of the Group's history.

Arthur Merchant
Chair of the Board

A business with social objectives

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The Group at a glance

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 27,500 homes and work with more than 40 local authorities. We employ over 900 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 for the year of £45m and invested £119m in existing and new homes. Our strategy is to grow our business and create value for our customers in delivering our social objectives.

78% of turnover from social housing lettings

Homes England G1/V1 rating

£45m surplus for the year in 2017-18

Over 27,500 homes in London and the South East

900+ employees

Full spectrum of housing products

Work with 40+ local authorities

72,000 customers

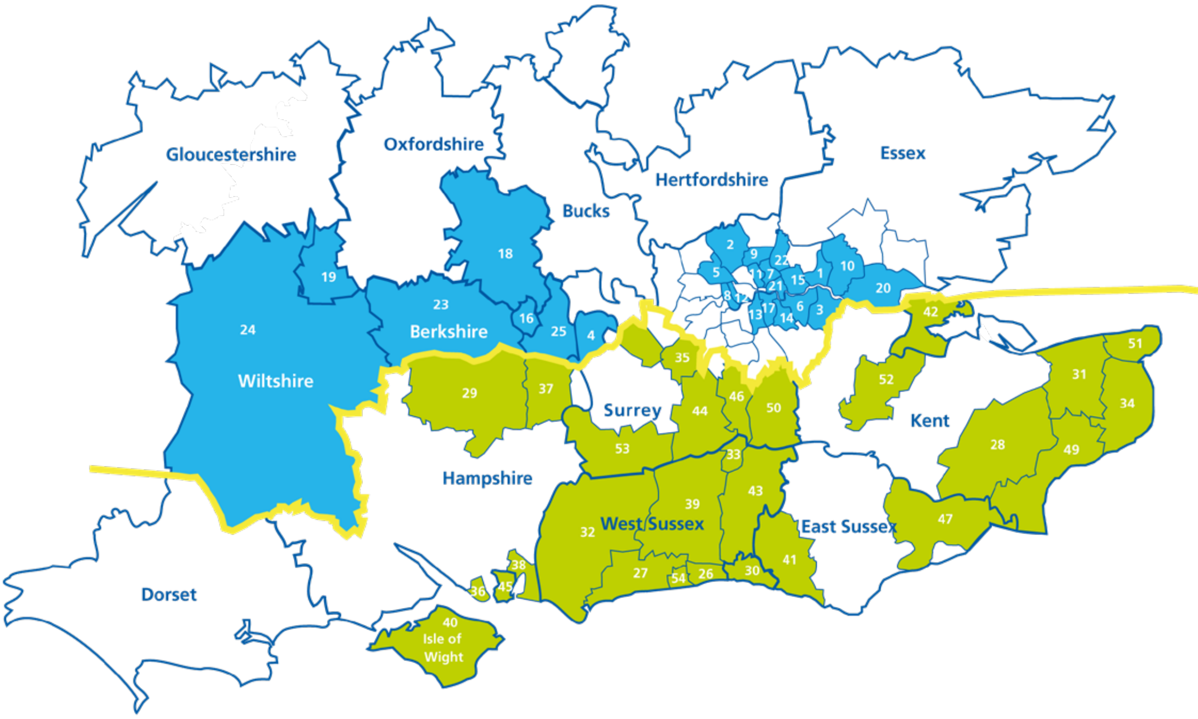
£119m invested in homes in 2017-18

£200m turnover in 2017-18

197 new homes delivered in 2017-18

Moody's rating A2 (stable)

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

Board KPIs

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

The 2017-18 Board KPIs:

Surplus on operations

£49m

£65m in 2016-17

Overall customer service satisfaction

73%

74% in 2016-17

Average repair costs

£211

£240 in 2016-17

Social housing lettings interest cover

1.14

1.45 in 2016-17

Gearing headroom

18%

19.53% in 2016-17

Operating margin

25%

32% in 2016-17

Average voids core re-let time

26 days

30 days in 2016-17

Liquidity coverage

1.47x

1.25x in 2016-17

Numbers housed

new lets, sales, re-sales and re-lets

2144

2045 in 2016-17

Rent arrears

as % of rent due

3.77%

3.63% in 2016-17

New homes

197

393 in 2016-17

Gas servicing

% complete

99.75%

99.96% in 2016-17

KPI definitions

Overall customer satisfaction with service is the overall percentage of customers satisfied with the service they have received from the Group. Customers are regularly surveyed throughout the year.

Average cost of repair is the average cost of day to day repairs defined as the total cost of day-to-day repair jobs divided by the total number of repairs for the financial year.

Gas servicing - % complete is the number of properties with a valid gas certificate at the end of the period divided by the number of properties on contract.

Operating margin for the Group is the surplus on operations from all activities divided by total income. This includes non-recurring costs and excludes gains on the disposal of fixed assets and revaluation of investments.

Gearing headroom (Southern Housing Group Limited) is measured as debt divided by reserves and grant compared to our tightest gearing covenant

New homes is the number of new homes that have been certified as having achieved Practical Completion (PC), including Affordable/ Social Rent, Shared Ownership, Private Sale, and Private Rent.

Social housing lettings interest cover for the Group measures the extent to which surplus from the Group's social housing lettings business covers our total net interest cost over the same period.

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

Surplus on operations is the amount of money left after we deduct the expenditure incurred in generating our turnover. This includes all non-recurring expenditure and excludes gains made on the disposal of fixed assets or revaluation of investments.

Liquidity coverage is calculated by dividing our two year cash requirement by our available liquidity (cash and undrawn facilities).

Rent arrears collection is current arrears as a percentage of rent due. This is total arrears of current tenants as a percentage of the annualised gross rent.

Voids – average core re-let time (in days) is the average re-let time in days for all tenures combined.

Commentary

- Our overall customer satisfaction score is consistently strong at 73% compared to 74% last year and 73% the year before that. We expect the measures put into place over the last three years of the Building our Future programme and as a response to our Corporate Strategy challenge #4: *Excel at customer service*, will result in sustainable improvement in satisfaction.

- Our response to Corporate Strategy challenge #2: *Provide more quality homes*, shows that the numbers of people housed has risen this year and we had 700 homes under construction at the year end. The number of new homes is not as high as expected this year. Supply chain challenges pushed practical completions for a number of homes into the following financial year and we expect this will be reflected in the number of new homes completing in the new financial year.

- Our Corporate Strategy challenge #5 is *Remain financially strong*. Headroom against our gearing loan covenant has reduced slightly as a result of increased investment, but remains very strong and within the Board's financial risk appetite, and liquidity has been strengthened.

- Empty Homes letting time: This year the Group has put in place a new team and new process which has reduced the average void property turnaround time from 30 days in 2016/17 to 26 days this year. This continues the downward trajectory of void turnaround times from a peak of 43 days in 2013/14. Rent arrears have risen slightly on last year. This reflects a significant increase in the number of our customers on Universal Credit, on top of dealing with increasing living costs and stagnating incomes. We will continue our proactive tenancy sustainment support programme for customers going on to Universal Credit.

- Operating costs have increased by £11.2m year on year due to over £6m on non-recurring costs which were incurred to take greater control of our defined benefit pension scheme obligations and expediting planned health and safety works. The additional increased spend relates to a planned increase in repairs, maintenance and improvement of existing homes following the award of new contracts and improvements in our stock condition data. This additional expenditure reduced surplus on operations, social housing lettings interest cover and operating margin. Excluding non-recurring costs, underlying surplus on operations would be £55.4m, social housing lettings interest cover would be 1.33 and operating margin would be 28%. The improvement in the average cost of a repair per property provides evidence of underlying improvements.

Strategic report

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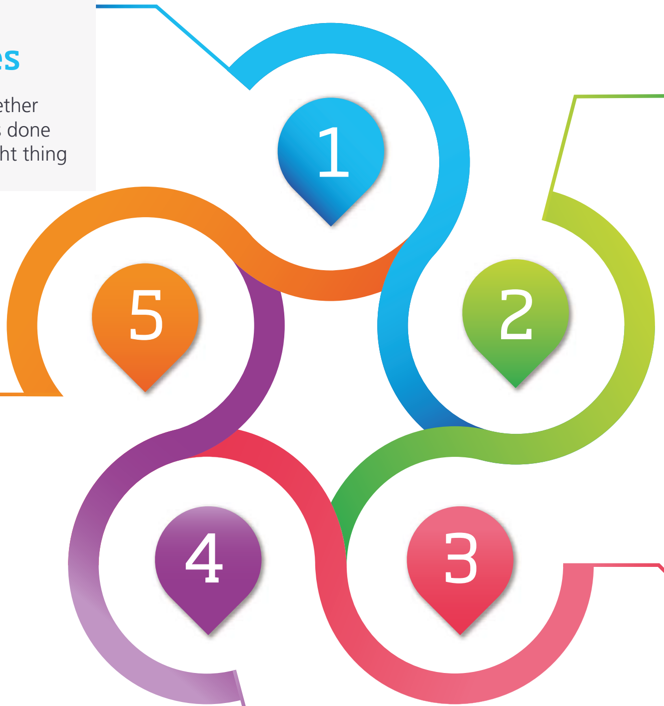
Our Corporate Strategy

This year saw the launch of our new Corporate Strategy. The challenges we face as an organisation and our strategic responses in our Corporate Strategy are informed by the changes in the political, economic and social environment that we work in. Every year we review our progress against the challenges we have set ourselves.



Live by our values

- We work together
- We get things done
- We do the right thing

Provide more quality homes

- Use our capacity to build new homes
- Make sure we meet our design and sustainability standards
- Provide more low rent homes for low income households

Stay safe and secure

- Maintain and improve the safety of our homes
- Improve our estates and living environments
- Keep our colleagues safe
- Be a great place to work

Excel at customer service

- Listen to our customers
- Do the basics brilliantly
- Make it easy to do business with us
- Provide products and services that meet the needs of our different customer groups

Remain financially strong

- Generate a surplus
- Demonstrate value for money
- Grow the business
- Reinforce our cultural and digital transformation

Our five Corporate Strategy challenges are:

Challenge #1

Live by our values

Our values as an organisation are that we get things done, we work together and we do the right thing. These values set out what colleagues expect of each other, and what our customers expect from us. When we are under challenging and changing circumstances, these values will help us to deliver the best we can – because living our values is all in a day's work.

Challenge #2

Provide more quality homes

This challenge builds, quite literally, on our previous strategy successes. London and the South East needs more new homes of all tenures, and our social purpose is to help meet these needs. We proudly reinvest every penny of our profits in new homes and to providing well-designed, quality, affordable, sustainable homes to our customers.

Challenge #3

Stay safe and secure

The safety of customers and colleagues has always been a priority, but post the Grenfell Tower disaster and as we embrace agile working, we must ensure our residents and colleagues are safe and secure.

Challenge #4

Excel at customer service

The Building our Future programme has shaped the services we offer and how we deliver those services. We must continue to adapt to meet rising customer needs and expectations, and harness technological advances to benefit our customers to make doing business with the Group easier and more satisfying for them, especially as the economy puts household budgets under pressure.

Challenge #5

Remain financially strong

We are financially strong as a business, however, we operate in a tough financial climate that is affected by politics and economics. We need to balance being commercially astute with our social purpose of being a business with social objectives. By operating commercially we can generate a surplus to invest in new homes, maintain existing homes and offer services that make a meaningful difference to the quality of our customers' lives.

Corporate Strategy challenge #1

Live by our values

In March 2018 we launched a set of values and behaviours for colleagues.

The values set out what is expected of colleagues across the Group and what our customers expect from us.

When we are under challenging and changing circumstances, these values are our framework for delivering the best outcomes we can.

Our values

We do THE RIGHT THING

Creating change doesn't just happen. We believe each of us needs to make choices which have the power to improve the way we work. Choosing what's right, not what's easy is true strength of character.

We work TOGETHER

Tackling challenging situations is always easier when we share ideas and support each other. Working together is the difference between solving a problem after it's happened, and staying one step ahead.

We get THINGS DONE

Keeping promises sometimes means going above and beyond to keep them. Finding solutions and making things happen is what sets us apart and helps keep our customers happy – it's when we're at our best.

Employer of choice

Our people are key to our success and we invest in activities and programmes to ensure we can attract, recruit, develop and retain talented people within our business.

Our "Tell us what you think" colleague survey in 2017 highlighted some key areas of focus for us as a Group. Over 67% of colleagues responded to the survey and directors have been working with their teams on action plans to improve employee engagement in their departments. The Group Staff Forum and members of the People and Communications group worked together on running a series of listening sessions across the Group to understand the key survey results in more detail. The recommendations and feedback from these sessions will contribute to the delivery of those action plans to make Southern Housing Group a great place to work. We have already delivered on a range of actions such as changing our annual appraisal process which has been welcomed across the Group.

Induction and training

We have revised our induction programme with our new "Welcome Get Together" approach to make sure our team members are given the best possible start to their career with the Group. A priority at induction is to introduce new colleagues to our values and behaviours and to affirm our commitment to delivering customer service excellence wherever we work within the Group. We've invested significantly to provide extensive training opportunities in a variety of areas, which provides access to different career paths within the organisation and ensures that we create a strong pipeline of talented people. Our excellent in-house learning and development programmes and access to external technical and professional training ensure we can deliver outstanding career progression opportunities. We also ensure that we get the basics right by delivering a range of targeted health and safety training interventions from practical skills such as working at heights and manual handling to mental health awareness training for managers.

Apprentice and work placement programmes

We believe in enhancing prospects for people at all stages of their careers. For each of the past seven years we have offered permanent apprenticeship posts 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.

We have also been running an apprenticeship programme in the our Technology Services Team as part of the National Apprenticeship Scheme in partnership with Northbrook College. The apprentices will achieve formal IT qualifications and gain experience that they can build on in the future.

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

Paying the Living Wage

We began our commitment to paying living wage levels in 2015, and in 2016, we endorsed payment of the Living Wage as a Group policy for every employee. The rate increases on an annual basis in line with the Living Wage Foundation recommendations.

Leadership development

The Group has a strong history of offering leadership and development training to colleagues across the organisation.

In late 2016 the Group rolled out a new Leadership and Management Development Programme. The programme has 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 with excellent feedback to date and waiting lists of colleagues eager to attend future programmes.

Building on that work we have introduced a quarterly Group Strategy Team (GST) open forum meetings designed to enable, empower and engage with our senior leadership team from across the business.

As part of the work undertaken by the People and Communications group within the Building our Future project, a range of initiatives have been developed to help support colleagues on their career journey within the Group. This has included feedback on recruitment and induction processes and how they might be improved together with opportunities for work shadowing, coaching and mentoring for colleagues.

As we continue on our journey towards customer service excellence through the Building our Future programme we will further improve our training opportunities and implement innovative people programmes to make sure we can continue to hire, retain and develop a high performing workforce to deliver customer service excellence.

Corporate Strategy Challenge #2

Provide more quality homes

We know that there is a growing need for more new homes of all tenures, and our social purpose is to help meet those needs. We proudly reinvest every penny of our profits and more in new homes and to provide and maintain well-designed, quality, affordable, sustainable homes to our customers.

Development

As part of the social housing sector, the Group plays a key role in providing good quality and truly affordable homes. This underpins our strategy and is reflected in our development programme. We continue to prioritise affordable housing and currently plan for 60% of future homes to be available on affordable tenures.

This financial year the Group successfully bid to secure a grant to deliver 601 affordable homes over the next five years as part of the Mayor of London's Homes for Londoners initiative. With the grant per home now fixed, we will receive £10.7m of new grant and use £9.55m of recycled grant. The Group is actively identifying further development opportunities to provide additional homes in the capital.

In 2016-2017, Homes England introduced another funding programme targeted at shared ownership. The Group bid for and secured £4.88m to help build 155 shared ownership homes in the South East.

In 2017-18, we completed 197 new homes; this is less than planned due to a number of schemes slipping behind schedule but the good news is that these will complete in 2018-19. With 700 homes currently under construction, 2018-19 will be one of the Group's busiest years on the development front.

Just after the end of the financial year, the Group purchased 496 homes from Hyde Housing. These span a range of tenures from general needs and shared ownership to supported housing.

This year we re-organised our Development Directorate with an eye to the future delivery plans. Technical and commercial expertise was increased in recognition of the challenges that lie ahead with a larger and more diverse development programme.

The Group refreshed and implemented a framework for consultants including architects, employer's agents and structural engineers to support the delivery of its new homes pipeline. It also established a construction framework for the very first time.

Provide more quality homes

- Use our capacity to build new homes
- Make sure we meet our design and sustainability standards
- Provide more low rent homes for low income households

2017-18 saw the arrival of our in-house construction arm, Southern Housing Construction, to help ensure control over quality and costs. It will play a key role in supporting the delivery of the development strategy. The team started working on its first scheme in Hove, East Sussex, after the year end in 2017-2018.

897
new homes delivered or in construction in 2017-18

We established a Regeneration Team as part of our New Business Team, to lead on delivering the 'hidden homes' element of the development programme. The team's goal is to deliver new homes on existing schemes by maximising the use of land and buildings, improving public realm, creating socially, environmentally and economically sustainable homes.

The Acquisitions and Partnerships Team is working to expand our development activities in London and the South East. This year the team successfully completed on the acquisition of two sites for Phase 3 of Bow River Village, one of our largest multi-tenure developments in London, which will provide a minimum of 400 much-needed quality homes for affordable rent, shared ownership and private sale in east London.

This year also brought the exciting news of planning permission granted for 540 new homes, public realm and retail space at the Group's site at Free Wharf in Shoreham-by-Sea, West Sussex. This was followed by the news that the Group helped secure £10m in funding linked to this scheme from the government as part of its commitment to investing in areas with the potential to deliver more housing.

This financial year the Group has laid solid building blocks to put us in a good position to increase our output of new homes over the next five years.

Sustainability

We are committed to reducing our impact on the environment and to providing comfortable, energy efficient homes with low running costs for our customers.

In 2016-17, we signed off our new Environmental Sustainability Strategy, which draws together sustainability elements from other existing strategies, and provides a framework for us to deliver our Environmental Sustainability Policy, and to measure and improve our environmental performance.

The new strategy builds on the achievements and lessons learned from the previous strategy in terms of how we build new homes, improve our existing housing stock, how we make sure our offices are sustainable as well as how we support our customers. The strategy also highlights new areas of focus, including embedding sustainability into our corporate culture, estate care and biodiversity and environmental innovation.

Each year we will report on our progress on the new strategy, and update our environmental targets and plans for the following year.

New homes

We want to incorporate features into our new homes that help to reduce the environmental impact of our developments, both in the initial construction and in the long-term running of the buildings. We aim to deliver:

- High quality homes that fully meet the needs and aspirations of our customers
- Low energy consumption and reduced fuel poverty
- Sustainable development with low maintenance costs

We believe that the best means of providing affordable, lower carbon homes is by reducing the need for energy use. We therefore require designers to apply a 'fabric first' approach to carbon reduction, designing homes that are well insulated and airtight. Cameron Close, our first PassivHaus development on the Isle of Wight, is an example of the standards we aim to achieve in our new homes.

The environmentally friendly approach to design deployed in the build of these award winning homes has delivered significant savings to our customers, particularly around heating costs.

A two year monitoring programme since occupation has shown that:

- The building design is performing very well and most properties are operating below the PassivHaus design criteria, considerably better than a traditional new build.
- The combined average daily gas and electricity running costs in both years were 50% lower than for the average of UK households. The bulk of these savings are in the reduction in heating energy.
- The average CO_2 emissions for Cameron Close were 60% lower than the average UK household in 2015.
- Residents are very satisfied with the lower utility bills and internal temperature and comfort levels.
- In all properties, the winter temperatures experienced were very comfortable and the houses did not suffer from summer overheating.

We will be reviewing our design brief and employer's requirement in 2018 and will look to incorporate what we've learned from the Cameron Close development.

Existing homes

We want to promote energy efficiency and contribute to the elimination of fuel poverty by improving the thermal efficiency of our homes and properties. The effect of investing in energy efficiency measures can be seen by the improvement in our performance against the government's Standard Assessment Procedure (SAP) for energy rating of dwellings. The Group's average SAP level across all its stock at 31 March 2018 was 67.95. Our current target is to achieve an average of 71 in the next five-year period (to 2022). Knowing the SAP ratings of our homes helps us to make investment decisions to target the poorest performing, coldest homes for energy efficiency improvements to deliver both better quality and value for money for our customers.

For the last 12 months, the Group has been working with Warmfront to undertake a cavity wall insulation (CWI) survey and installation programme. Over this period more than 1800 properties have had CWI installed, equivalent to the value of £950k which has been fully funded by energy company Eon through their Energy Company Obligation (ECO).

This has improved the Energy Performance Certificate (EPC) rating of over 900 properties and increased the average SAP rating across the whole of our stock by 0.4 points.

Community Investment

Our Home Energy Advice Team (HEAT) is a group of advisors who visit customers in their home to offer guidance and support on saving money, energy and achieving a warm home at an affordable cost. This year, HEAT visited 584 homes, achieving an average £207 of savings per home.

Breakdown of energy savings recommended by HEAT

£37,045
energy and water tarriffs switch

£21,429
change in customers' behaviour

£35,980
Warm Home Discount

£10,726
installation of free energy saving devices

£30,251
energy grants, discounts and debt cleared

584
homes visited

Corporate Strategy Challenge #3

Stay safe and secure

Maintain and improve the safety of our homes

This year the tragedy of Grenfell Tower has thrown an urgent spotlight on safety. The Group has an ongoing programme to maintain and improve the safety of our homes and this is embedded in the new Corporate Strategy specifically.

We have completed 100% of Fire Risk Assessments across our stock helping to ensure our homes are safe and secure. We also took the decision to bring this important work in-house to maintain control of the service quality and the data relating to the work.

In parallel with this work the Group completed significant procurement projects to appoint new major works, repairs and gas contracts. One of our key objectives is being able to deliver excellent services that provide good value for money and ensure we maintain high safety ratings across our homes.

Improve our estates and living environments

As part of a systematic review of our service delivery we have been looking at providing more services like cleaning and gardening via an in-house service. We already know that customers are more satisfied in schemes where we have directly employed caretakers and cleaners. This year we have invested in four innovative Estate Care pilot projects designed to look at how we can better maintain and improve the living environments on our estates, provide better services and deliver excellent value for money. These pilot projects included an innovative project addressing fly-tipping and bulky waste that saw significant improvements in recycling rates.

Safeguarding

Safeguarding remains a top priority for us – keeping our customers safe from harm and abuse. This year, we put in place new training for our staff and contractors, particular those who work most closely with our customers. We've also worked to promote safeguarding among our customers – what people need to know to recognise harm and keep themselves and others safe.

Stay safe and secure

- Maintain and improve the safety of our homes
- Improve our estates and living environments
- Keep our colleagues safe
- Be a great place to work

Keep our colleagues safe and be a great place to work

We have created four local hub offices that will support our staff to work locally in the field, so that they can provide a great service to customers, ensure that homes and estates are kept in good repair, and are safe and secure.

In 2017-18 we also brought in some improvements to our Skyguard lone working system for colleagues. Skyguard is a networked personal safety device system designed to support our colleagues when they are working alone. We take our duty of care around lone working very seriously. Around 593 colleagues across the Group have Skyguard devices and we have a regular programme of training and monitoring usage to ensure that colleagues are protected from unnecessary risk.

Equality, Diversity and Inclusion

At Southern Housing Group, we are proud to say "it's ok to be you".

We know that our customers are diverse in their cultures, backgrounds and needs. At Southern Housing Group we don't just provide homes – we provide support and specialist help to a range of different communities including customers with learning disabilities, young and older people.

We believe that having a clear understanding of the needs of our customers, whatever their backgrounds or circumstance, is key to providing excellent customer services.

We also understand how important it is to have a culture where people feel their individuality is valued and feel comfortable about bringing their whole selves to work – whatever that may be. At Southern Housing Group, we want to understand the richness of that difference and the unique perspectives that our shared diversity contributes to our daily lives so that we can best serve the communities and people we work for.

It’s about trust and openness and the way we work together with our customers and each other, respecting others and appreciating our differences.

This is the approach that’s right for us – we are an organisation rooted in social inclusion with a strong heritage and a commitment to building diverse communities. As a business with social objectives, we know it makes good business sense to celebrate the unique talents of all colleagues. This reflects and respects and enhances the way that we deliver to our customers.

We know we're not there yet – but we can see where we want to be – and we will continue our journey to get our culture and services right for everyone.

On that basis we have set ourselves three strategic aims over the next three years (2017-2020) which we believe will help drive our business forward:

- We will advance equality of opportunity by developing our leadership. Managers at all levels will demonstrate effective leadership that promotes equality, diversity and inclusion.
- We will eliminate discrimination and have an inclusive work environment where staff respect and value each other’s and our customer’s diversity and wellbeing.
- We will develop an excellent understanding of our customers to ensure our services are delivered in a way that does not discriminate, promotes equality and inclusion, and respects the diversity of our customers and the communities in which they live.

We are committed to offering equal pay for men and women and we are addressing the issues in our current gender pay gap.

We have a zero-tolerance policy of discrimination and harassment of any kind.

Our working arrangements include flexible and compressed hours, which supports a wide range of 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. We have training interventions in place on recruitment and selection as well as equality, diversity and inclusion workshops to underpin our commitment to these aims.

Corporate Strategy Challenge #4

Excel at customer service

Building our Future

This year our customer service improvements start to move from the Building our Future programme to becoming business as usual.

To help ensure this work moves seamlessly into business as usual we're focused on understanding our customers better and meeting their needs.

To help us deliver excellent customer services we're using customer journey mapping and customer segmentation. Customer Journey Mapping is a visual representation of a customer's experience of the Group through the eyes of the customer, this includes their emotions, levels of satisfaction and needs. Customer Segmentation helps us identify how we can excel at delivering tailored customer services, from knowing how often customers like to be contacted to helping sustain tenancies and preventing arrears.

We are pleased to report that tangible improvements have been delivered to our customers in regard to the first eight weeks of tenancy and in the process of issuing keys and fobs. From the intelligence gathered as a result of utilising the tools, we will soon be launching our Customer Experience Strategy. The strategy will set out what our values are concerning our customers, what we want to do and how we are going to action our plans, mindful as ever, that we are a business with social objectives.

We have also extended our customer service offer in the creation and refurbishment of four larger agile working hubs. Work is ongoing to create a total of 20 smaller hubs, and the Group has made good progress towards equipping employees working in the field with the latest software technology to be able to access the information and systems they need, when they need it.

This enables staff to spend more time face to face with customers in their homes and at times that suit them. For the benefit of staff, the hubs allow colleagues to drop into a quiet place to work, connect to the network, charge devices and enjoy beverage and meal breaks. Tom Dacey, Chief Executive of the Group said, *"We are giving staff a lot more licence and a lot more freedom to work in the best way for our customers and themselves. We are liberating colleagues to work in different ways."*

Excel at customer service

- Listen to our customers
- Do the basics brilliantly
- Make it easy to do business with us
- Provide products and services that meet the needs of our different customer groups

Customer Service improvements

As well as the improvements delivered through the Building our Future programme, our Customer Service Directorate has been working hard to enhance existing business functions with some excellent results.

Customer Service Centre

Our Customer Service Centre handles the majority of the incoming calls and emails to the Group, and also provides customers with service on social media and our webchat application.

Following a change to its structure in 2017-18, the team is now consistently beating our service standard of 80% of calls answered within 20 seconds despite an increase in the number of calls coming in.

This is due to a combination of dedicated staff and smart management which has analysed periods of peak demand and made sure resources are in place when they're most needed.

The new system has not only resulted in more calls taken, but a reduced abandonment rate of 1.1% in March 2018 against 6.5% in March 2017, a better average answer speed of 8 seconds – down from 45 seconds last year, and a significantly reduced maximum wait time.

Empty Homes and Lettings Team

Our Empty Homes and Lettings Team ensure that once a customer leaves one of our properties, it is made ready and let to a new tenant as soon as possible. By reducing the amount of time a property sits vacant the team makes sure the Group can maximise rental income from all of its stock.

The Empty Homes and Lettings Team was created last year as part of the Building our Future programme to centralise functions that had previously been carried out by different teams across the business.

This year the team has reduced the average void property turnaround time from 30 days in 2016-17 to 26 days this year. This continues the downward trajectory of void turnaround times from a peak of 43 days in 2013-14.

Customer Voice Forums

Following the launch of the Customer Voice Forums in 2016-17 we have revised our approach to customer engagement. We think it's key to hear as many customer voices as possible so we've made it easier for our customers to have a say in how we work.

We've reduced the commitment required from our customers by introducing roles with different levels of engagement so customers can work with us despite competing demands on their time. We've been careful to retain some more dedicated roles for customers who want to and can devote more of their time.

This new approach has seen us more than double the number of customers working with us to 25 inducted members. We are continuing to recruit and aim to have a member representing each of our 57 patches by the end of the year.

Community Investment and Care

Making lives better

Over the past year, we placed a significant focus on the challenges our customers face around welfare reform and increasing poverty, which directly impact their ability to sustain their tenancies.

This year saw a significant increase in the number of our customers on Universal Credit, on top of dealing with increasing living costs and stagnating incomes. Austerity measures have had an adverse effect on services that used to support communities, such as youth provision and social services-related activities. As a result, we've had to stretch our services and focus more resources on supporting our customers to sustain their tenancies.

Here are some of the ways we supported our customers over the past year:

- We placed a stronger focus on co-production as part of our care and support services on the Isle of Wight, to ensure our customers' voices are at the forefront of service improvement.
- We launched a Community Investment hotline to make it easy for both colleagues and customers to access the right support at the right time.
- We improved our sheltered housing service by embedding our scheme-based management offer. As a result, we've seen greater customer satisfaction and we've been able to let our sheltered properties more quickly.

Community Investment

The Group's Community Investment Team plays a key role in delivering the our social objectives and ensuring our customers have the support to sustain their tenancies and improve their lives.

This includes help with money management and access to benefits, volunteering opportunities and community projects, employment skills, and support with accessing computers and getting online.

In 2017-18 we launched a three-year Community Investment Strategy that identified four key priorities for the service: tackling poverty, improving health and wellbeing, supporting neighbourliness and communities, and helping customers sustain their tenancies. These priorities were identified through extensive consultation with colleagues and customers and our knowledge of issues facing our customers and the business.

19,127

customers benefited from our community investment support in 2017-18

Community Partnerships Team

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

630
people benefitted from community partnerships in 2017-18.

Community centres

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

6,250
people accessed our community centres.

Youth development

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

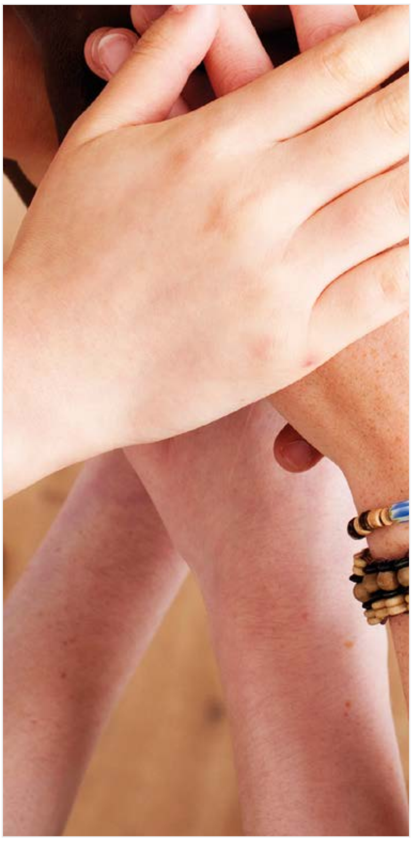
704
young people engaged in 2017-18.

Employment and training

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

1,339
people benefitted from employment and training support.

£6.5m
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.

119
customers helped in 2017-18.

Financial Skills Team

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

£2.13m
income generated for the benefit of our customers.

Volunteering

Building confidence and increasing skills.

233
people volunteered in 2017-18.

Community grants

Making grants available to customers and for projects benefiting customers. This supports a range of community activities.

£142k
in grants to

7,000
customers

Care and Supporting Independence (CASI)

Our CASI Team support some of the most vulnerable people on the Isle of Wight. This year they made great progress towards our aim of putting our customers first in everything we do.

This year, we placed a big focus on outcomes for our customers, from improvements to our residential care home for customers with learning disabilities and autism, to the increasing number of customers we're successfully helping to live independently in their own homes.

Looking ahead, we'll be growing our customer involvement and strengthening our approach to assuring quality within our services. We'll also be working more closely with our partners to deliver sustainable services that are fit for the future, and going beyond our regulatory requirements to deliver excellent customer service.

Some of our highlights include:

Helped
105
people move on successfully from our hostels

Supported over
38
people into work/training/volunteering

Averaged
97%
successful outcomes for people in our community outreach services

Averaged
83%
successful move on from supported services

Here are some of the things the team has achieved this past year:

New Quality Assurance and Engagement Team

Our new Quality Assurance and Engagement Team is helping us put our customers at the heart of everything we do – from helping us co-design and co-deliver our services, to helping us exceed our regulatory requirements and deliver best practice

Moving on for mental health

We are the largest provider of accommodation and support to people with mental health needs on the Island, and our mental health service has seen some big successes over the past year. Almost 50 people have moved on from our mental health hostels to more independent living, and we continue to work in partnership with external agencies as part of each customer's resettlement support.

Major updates for 22 Argyll Street

We partnered with Fair Haven Housing Trust to undertake major renovations to 22 Argyll St in Ryde, our home for customers with learning disabilities. Our grand opening was in September and residents can now enjoy renovated communal areas including a bigger lounge and room for an additional resident.

A new strategy to help people with learning disabilities

Our customers have been working with the Isle of Wight Council to develop a new strategy for people with learning disabilities. Living Well with a Learning Disability on the Isle of Wight focuses on three key themes chosen by people with a learning disability: living my life, keeping safe, and staying healthy.

Celebrating young people's achievements

In November, we marked the achievements of some of our young customers at the Young People's Service Annual Awards. The service is a partnership between Southern Housing Group and Sovereign Housing Association and offers safe, secure accommodation and support for people aged 16-25. Over the past year, we've helped more than 100 young customers move on to more independent living.

Our 10th SID

In October, we hosted our tenth annual Supported Involvement Day, which celebrates our supported customers and the colleagues who work with them. It was our biggest and best yet, and the feedback we had from customers was fantastic.

Awards and accolades

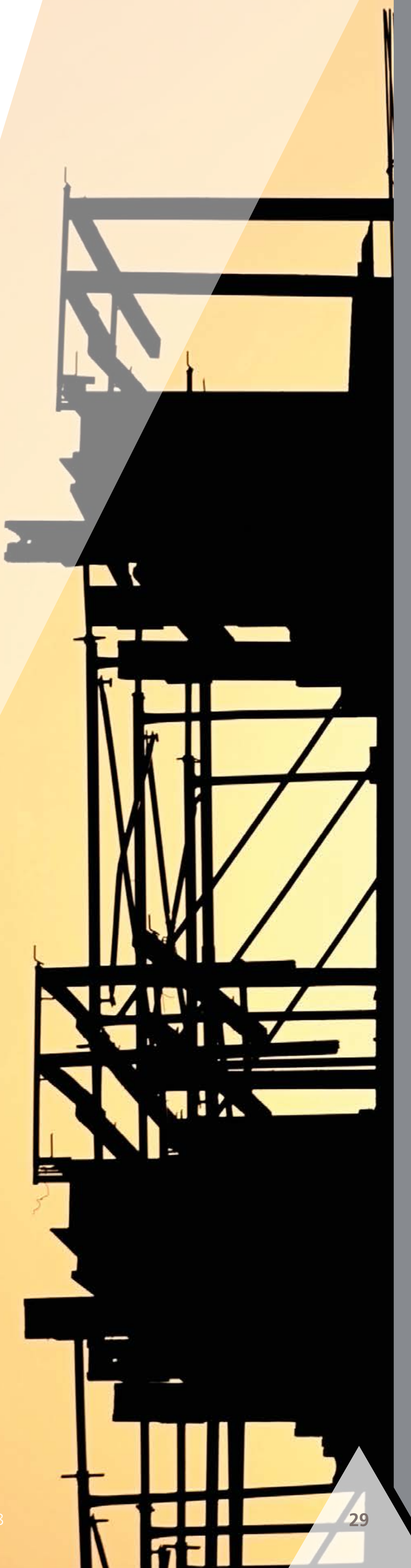
We recently won the 2018 Tpas South Region Awards for how we engage with our supported customers, and were shortlisted for the Skills for Care Accolades Awards for the support we give our registered managers. Tina Stuart, CASI's CQC Service Manager, was also shortlisted for the National Learning Disabilities and Autism Awards for her leadership work.

Positive feedback from CASI customers:

> “*You've helped me grow, have more confidence, recognise bad situations/people and life skills I haven't recognised yet. I will always remember you all and make you proud of me.*”

> “*I've made many friends here and I have good relationships with the staff. I feel like I'm living my life the way I want to live, and I wouldn't want that to ever change. St Helena is the best thing that's ever happened to me and I really love my life here. I'm very happy.*”

> “*I'm undergoing the frightening migration from disability living allowance to personal independence payments and although I've helped many other people do the forms, I wasn't able to objectively look at my own situation. Chris has been a godsend when it comes to this. He's understanding, never judgemental, and always professional. I feel less alone and frightened knowing I can rely on this service if I have to go through the appeals process.*”



Sheltered housing

Toward the end of 2016, we launched a new sheltered housing offer that saw Scheme Services Coordinators based in each of our 53 sheltered housing schemes, Monday to Friday. This has made a big difference to our sheltered housing customers; with more face to face contact, they feel safer and more secure in their homes. Over the past year, we worked to embed this service, which has enabled us to do more for our sheltered housing customers.

Here are some of the ways we helped our sheltered housing customers over the past year:

- We worked with Our Organisation Makes People Happy (OOMPH), a social enterprise dedicated to enhancing the mental, physical and emotional wellbeing of older adults. Trainers from OOMPH have been working with our sheltered housing team to find new ways to engage with our sheltered housing customers to tackle isolation and loneliness. Through their OOMPH training, our colleagues have engaged with residents through activities such as a tennis and strawberry-themed event at Charles Court in Worthing, and helping customers at Lea Bon Court in east London take part in local community activities.

- We partnered with InCommon, a social enterprise that focuses on maintaining independence and building strong mutual support networks amongst older people in sheltered accommodation. InCommon worked with customers at two of our sheltered housing schemes: Courtney King House in Brighton and Janson and Gurney Roads in east London. We worked with InCommon to help bring together residents at these schemes, address cultural barriers to doing so, and support residents who were more isolated.

- We worked with Independent Arts to support our sheltered housing customers on the Isle of Wight creatively. Independent Arts is an independent charity that uses the arts to improve wellbeing and quality of life, and reduce isolation. This year, they awarded grants and resources to our customers to enable them to take part in photography and sculpture activities, and enjoy a day out.

- We launched a new audit of all our sheltered housing schemes to improve the living environment for residents and make them a better places to live. The audit looks at where each scheme can be improved and updated to ensure our residents are comfortable and happy within their homes and communal areas.

- We strengthened our partnership with the Group's Community Investment Team to ensure sheltered housing customers get the help they need. This included small grants for residents and schemes to help pay for events, outings, and gardening projects, and financial support for residents through the Group's Financial Skills Team. In one instance, one of our Financial Skills Officers secured a major outcome for two of our customers in their 80s, which saw them £25,000 better off.

- We worked with the Group's reinvestment pro gramme to undertake a major refurbishment of Hogarth Court in east London, improving security and communal spaces for residents.

- We worked with residents at Courtney King House in Brighton, and with other teams across the business, on our new agile working hub here, creating a business space within the scheme that respects the site as first and foremost a home for our residents.

Community social value 2017-18

Who have we helped?

40
Community projects helping **100s**

Gardening events
DIY training
handy person days
coffee mornings
Food hampers

7
into work

Social value £ equivalent
£235,000

Who we worked with

AD Construction Group Ltd
Amber
Bevan Brittan LLP
Chas Berger & Son LTD
Durkan Ltd
DW Support Services
Penningtons Manches LLP
Sharrats Solicitors
Wates Living Space

Direct funding

£15,000 from Chas Berger for a youth programme in Hackney

£4,099 from Wates Living Space for a family community project

£3,500 from multiple contractors for Christmas in a Box

£7,500 from DW Support Services to help refurbish the Bunkers Hill scheme play area

£6,500 from Durkan for youth projects in London

£6,500 from AD Constructions to help refurbish the Bunkers Hill scheme play area

> **It's really important to make sure the services we buy directly benefit our customers. Social value has allowed us to deliver significant opportunities for our customers that go hand-in-hand with the Community Investment services we offer.**
>
> **Raj Kaur,**
> Employment Skills and Development Officer

Corporate Strategy Challenge #5

Remain financially strong

Financial Review

Accounting policies

The accounting policies are set out on pages 83 to 124 of the Group financial statements starting on page 78 of this report.

Remain financially strong

- Generate a surplus
- Demonstrate value for money
- Grow the business
- Reinforce our cultural and digital transformation

Group financial performance

Investment	2017-18 £m	2016-17 £m	Funding	2017-18 £m	2016-17 £m
In existing homes	**15**	16	Surplus for the year	**45**	62
In new homes	**104**	98	Treasury management	**68**	48
			Grant and other	**6**	4
Total	**119**	114		**119**	114

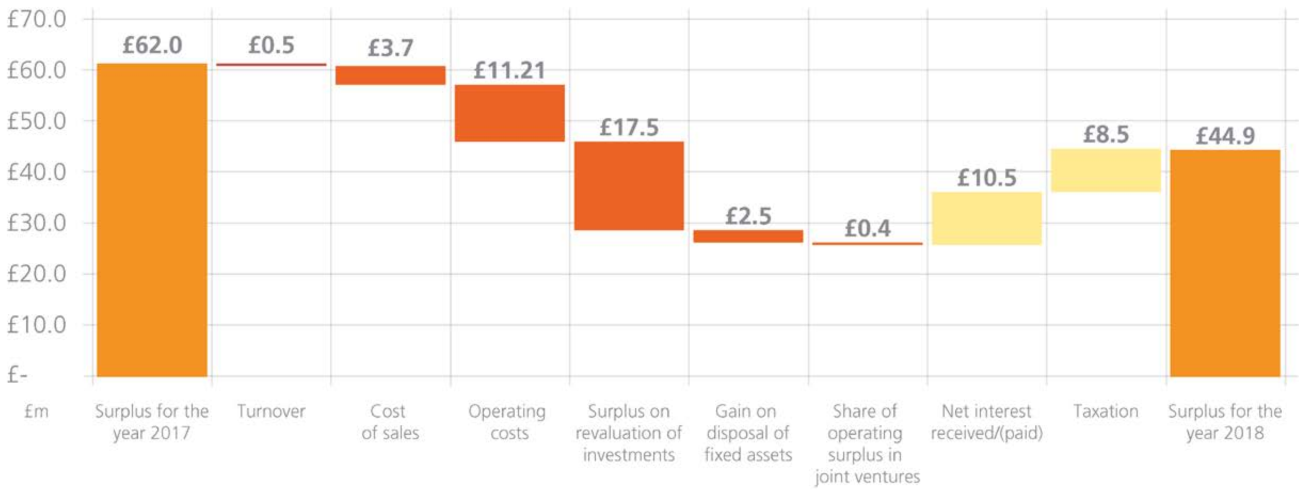
For the fourth successive year the Group invested more than its surplus, a total of £119m, in existing and new homes. This figure was funded through £45m from surplus, £68m treasury management and £6m from government grant and other working capital movements.

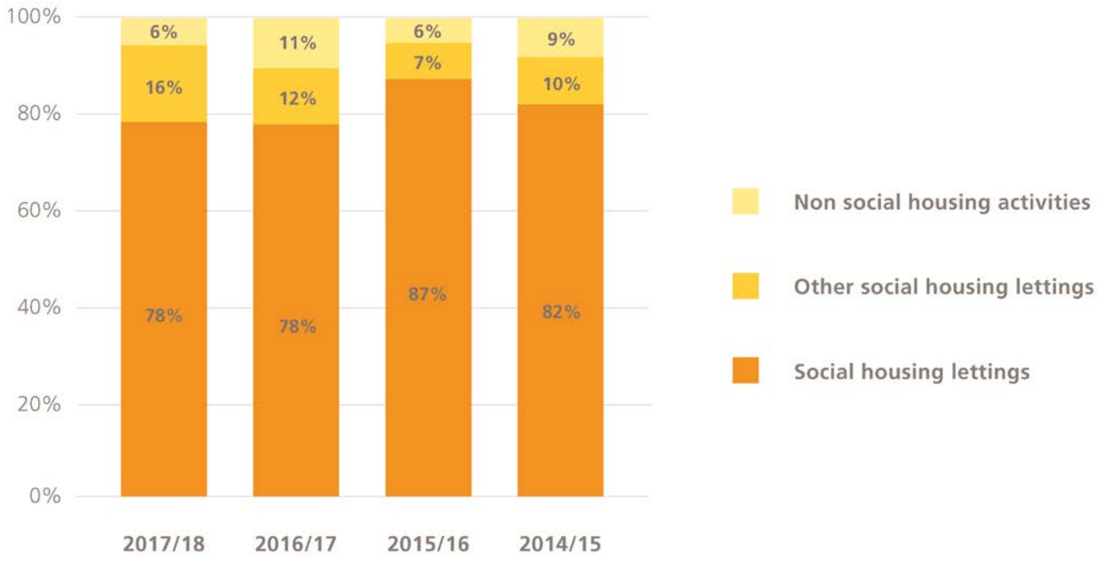
Surplus and operating margins for the year are lower than the historic trend as a result of increased operating costs.

Operating costs have increased by £11.2m year on year due to over £6m of non-recurring costs which were incurred to take greater control of our defined benefit pension scheme obligations and expediting planned health and safety works.

	Social Housing Lettings £m	Other social housing and non- social housing £m	**2017-18 Total £m**	2016-17 Total £m	2015-16 Total £m	2014-15 Total £m
Turnover	155	45	**200**	200	178	185
Operating costs and cost of sales	(117)	(34)	**(151)**	(135)	(120)	(125)
Surplus on operations	38	11	**49**	65	58	60
Operating margin	25%	24%	**25%**	32%	33%	32%
Surplus on revaluation of investments and disposal of fixed assets			**14**	34	24	30
Interest and taxation			**(18)**	(37)	(32)	(55)
Surplus for the year			**45**	62	50	35
Capitalised investment in existing homes			**15**	16	10	10
Capitalised investment in new homes			**104**	98	84	47
£ invested for every £ surplus			**£2.64**	**£1.84**	**£1.88**	**£1.63**

The year on year movement in surplus is explained by the chart below.





- Turnover from operations was consistent at £200m (2016-17 £200m). Social housing lettings remain the largest proportion of our turnover, consistent at 78% (2016-17 78%). Of the remaining 22% (2016-17 22%), sales from new developments represent 17% (2016-17 19%) with first tranche shared ownership sales (part of "other social housing") representing a greater proportion than open market sale (shown as non-social housing) compared to the prior year. Turnover from lettings in the private rented and commercial sectors (also included within non social housing) has increased by 55% to £4.3m (2016-17 £2.8m). Turnover from support services delivered on the Isle of Wight (also included with other social housing) is constant at £4.4m (2016-17 £4.4m).

- Operating costs have increased by £11.2m year on year due to over £6m of non recurring costs which relate to taking greater control of our defined benefit pension scheme obligations and bringing forward planned health and safety works. Bringing forward health and safety work was part of an overall increase in expensed and capitalised expenditure on repairing, maintaining and improving existing homes as a result of mobilising new contracts and improved stock condition data. Capitalised investment in existing homes includes a specific £1.2m provision for the replacement of cladding which is required on one of our twenty six towers.

- We saw a much smaller increase in the annual revaluation of investments. The revaluation movement in the year relates to investment properties comprising homes let in the private and commercial rented sectors.

- There was a reduction of gains from fixed asset disposal as a result of the volume of shared ownership staircasing reducing to 153 (2016-17 176) with full staircasing to 100% ownership by customers making up 44% of these transactions (2016-17 59%).

- We experienced a favourable movement of £7.3m in the market valuation of free standing derivatives (in 2016-17 the favourable movement was £1.8m). Underlying interest costs were £30.3m, a reduction from £31.8m in the previous year as a result of improved treasury management.

- The movement of tax charges relates to the reversal of the prior year provision for tax being relieved through gift aid claims.

Value for money metrics and analysis

The Group has a clear strategy to increase investment in new and existing homes and grow our social value. We have been working with new and existing lenders during 2017-18 to increase long term capacity to invest and withstand adverse events, and expect future years metrics to reflect these value for money gains.

During 2017-18 the Board measured value for money against the 15 metrics contained within the sector scorecard alongside its 12 Board KPIs. For 2018-19 and going forward, as part of our continuing strategy to embed value for money into everything we do, we have included the seven new regulatory value for money metrics into our existing Board KPIs. Additionally, we are currently implementing operational performance measures against our strategic objectives, which will include measures of effectiveness, efficiency and economy.

Measure	2015	2016	2017	G15 2017	**2018**
1. Reinvestment %	2.7%	5.2%	6.3%	5.7%	**6.4%**
2a. New supply - Social housing units %	1.4%	0.8%	1.0%	1.5%	**0.3%**
2b. New Supply Non Social housing units %	3.9%	1.0%	5.4%	1.8%	**4.5%**
2c. Total New Supply housing units	1.6%	0.8%	1.4%	1.7%	**0.7%**
3. Gearing %	49%	49%	45%	47%	**39%**
4. EBITDA MRI	179%	194%	172%	217%	**137%**
5. Headline social Housing cost per unit	£3,665	£4,041	£4,086	£4,398	**£4,545**
6a. Operating Margin - Social housing Lettings %	33%	31%	32%	37%	**25%**
6b. Operating Margin - Overall %	32%	32%	32%	33%	**25%**
7. Return on capital Employed	3%	3%	3%	3.9%	**3%**

This table shows the Group's performance against the seven regulatory value for money metrics benchmarked against G15 peers:

- Increased investment in new and existing homes to £119m ensured reinvestment remained consistent at 6% of property value. Although this appears higher than the G15 average, it is worth noting the average value of a home in our balance sheet is £65,000, compared to the G15 average of £81,000. New non-social supply appears high due to the relatively small proportion of our existing stock that is non-social. Despite increasing investment, new total and social housing supply metrics reduced due to the timing of developments completing. However, our work with new and existing lenders gives us the opportunity to increase supply in future years. We had 700 homes under construction and completed the acquisition of 496 homes from Hyde Housing on 30 April 2018.

- The small increase in gearing relates to increased investment and gearing remains low at 39%.

- EBITDA MRI, social housing cost per unit, operating margins and return on capital employed have all reduced due to higher operating costs in 2017-18. Operating costs increased in the year as a result of over £6m non-recurring costs which included the cost of taking greater control of our defined benefit pension obligations, and a forecasted overall increase in expenditure on repairing and maintaining existing homes. Underlying social housing letting and overall operating margins before non-recurring expenditure were 28% and 28% respectively. When taking non-recurring expenditure into account social housing letting margin was 25% and overall operating margin was 25%.

Definitions:

1. **Reinvestment %** looks at the investment in properties (existing stock as well as new supply) as a percentage of the value of total properties held.

2. **New supply delivered** sets out the number of new social housing and non-social housing units that have been acquired or developed in the year as a proportion of total social housing units and non-social housing units owned at period end.

3. **Gearing %** measures how much of the adjusted assets are made up of debt and the degree of dependence on debt finance. It is often a key indicator of a registered provider's appetite for growth.

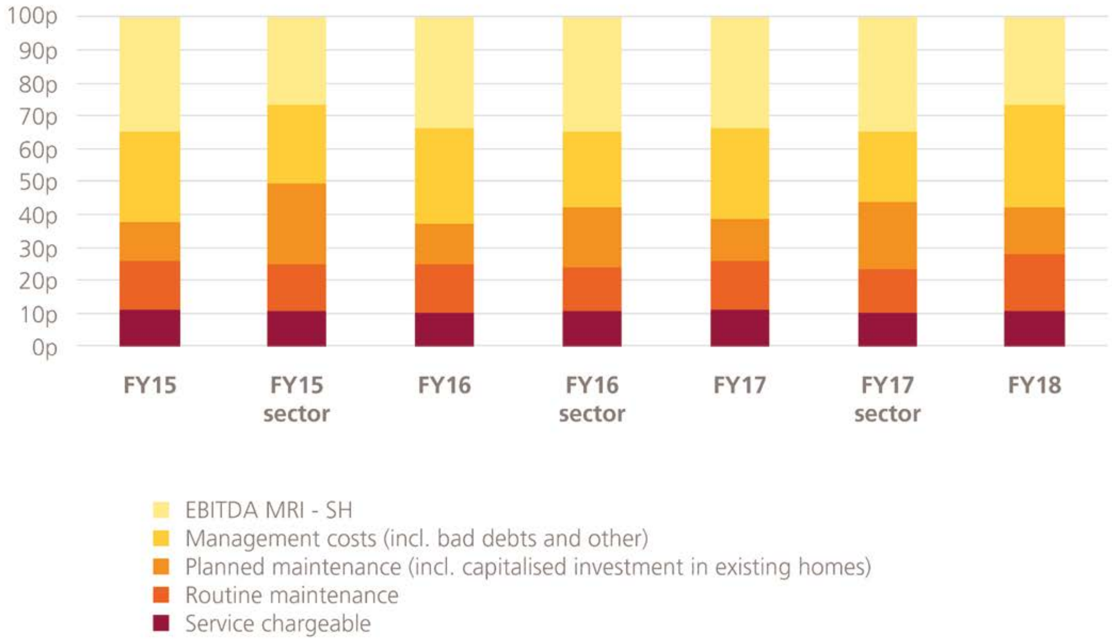
4. **Earnings before interest, tax, Depreciation, amortisation, major repairs included (EBITDA MRI) Interest Cover %** seeks to measure the level of surplus compared to interest payable; the measure avoids any distortions stemming from the depreciation charge.

5. **Headline social housing cost per unit** assesses the headline social housing cost per unit as defined by the regulator. The cost measures set out in the metric are unchanged from the metric used in the regulator's 2016 publication *Delivering better value for money.* However, the denominator has been changed from units managed to units owned and/or managed from 2018 onwards.

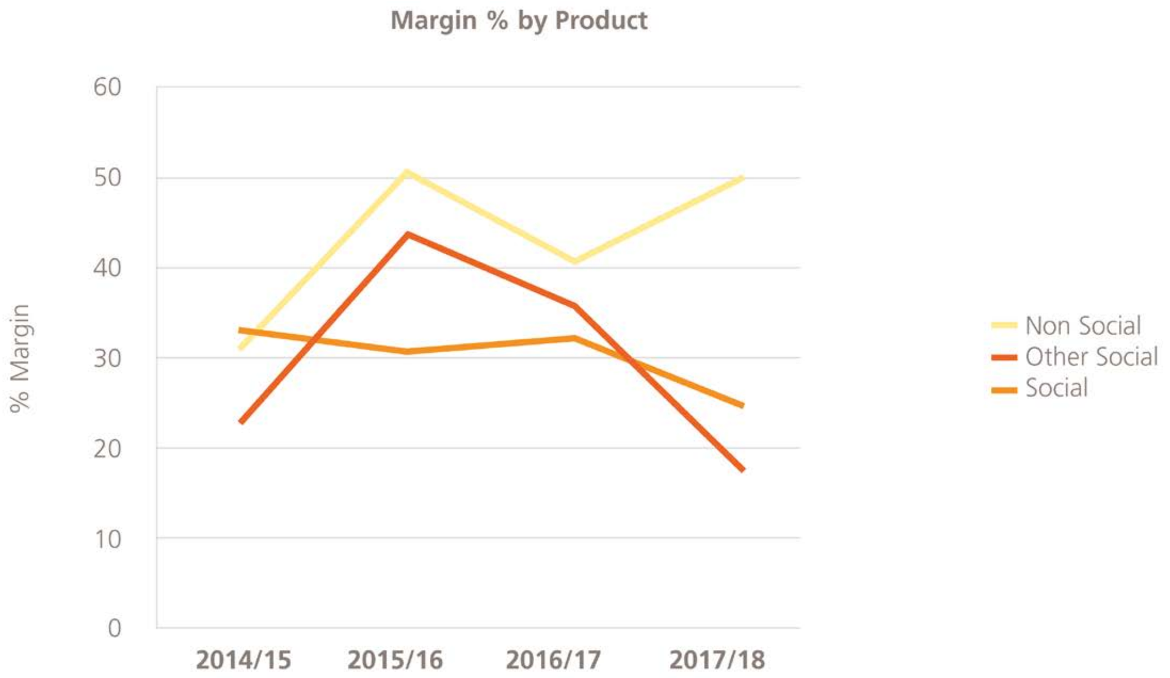
6. **Operating margin** demonstrates the profitability of operating assets before exceptional expenses are taken into account. Increasing margins are one way to improve the financial efficiency of a business.

7. **Return on capital employed (ROCE):** This metric compares the surplus to total assets less current liabilities and is a common measure in the commercial sector to assess the efficient investment of capital resources.

The chart below shows social housing lettings costs as a proportion of revenue showing how many pence of each rent pound is being invested in different areas compared to all English housing associations, the sector, providing over 1,000 homes. EBITDA MRI-SH is the amount of pence left over to fund additional quality homes that we provide. The chart shows that we are increasing the proportion of each rent pound being spent on repairing, maintaining and improving existing properties. It also shows where we have opportunities to become more efficient, such as management costs, which would mean more pence in the pound are available to invest in areas which make the greatest difference to existing and new customers.



Returns by activity



- Non social housing margins have improved due to strong 50% (FY17 41%) margins achieved on open market sales and increasing margins from letting in the private rented sector to 61% (FY17 57%).
- The margin on other social housing activities has reduced due to mix of shared ownership schemes being developed, with a higher proportion of "off the shelf" first tranche shared ownership sales during the year which return to lower margin but recycle capital faster.
- Operating margin on social housing lettings activity reduced to 25% due to the increase in operating costs. When excluding non-recurring costs, the underlying margin increases to 28%.
- Due to the reduction in margin from social housing lettings, overall operating margin reduced to 25% (PY 32%).Our operating margin excludes gains on the sale of fixed assets and the revaluation of investments.

Group Financial position

SOFP	**2017-18 £m**	2016-17 £m	2015-16 £m	2014-15 £m
Housing properties	**1,840**	1,780	1,720	1,679
Fixed assets and investments	**167**	131	98	91
Stock and work in progress	**60**	59	38	35
Working capital	**36**	88	118	112
Pensions	**(9)**	(10)	(8)	(9)
	2,094	2,048	1,966	1,908
Grant	**756**	762	770	780
Loan and other financial instruments	**756**	752	722	705
Reserves	**582**	534	474	423
	2,094	2,048	1,966	1,908
Homes owned	**27,562**	27,376	27,064	28,074
Homes managed	**27,710**	27,540	27,221	28,181

- Housing properties, fixed assets and investment, stock and work in progress increased by a total £97m as a result of the £119m investment in existing and new homes less depreciation of £24m.
- Working capital has reduced as a result of a reduction in cash held by £53m.
- Pension liabilities reflect the impact of adopting full defined benefit accounting. The deficit relating to the bulk transfer of assets and liabilities from the Social Housing Pension Scheme (SHPS) was £3.2m at 31 March 2018. The adoption of a proactive risk management strategy for all Group pension liabilities has resulted in a reduced exposure compared to the prior year where £9.9m related to defined benefit schemes with a further £5.2m relating to SHPS at 31 March 2017.
- Grant has reduced by £6m as a result of amortization for the year offset by £2.5m received.
- Loans reflect £30m new borrowing during the year offset by loan repayments and a reduction in the market valuation of stand alone derivatives at 31 March 2018.

Treasury Management

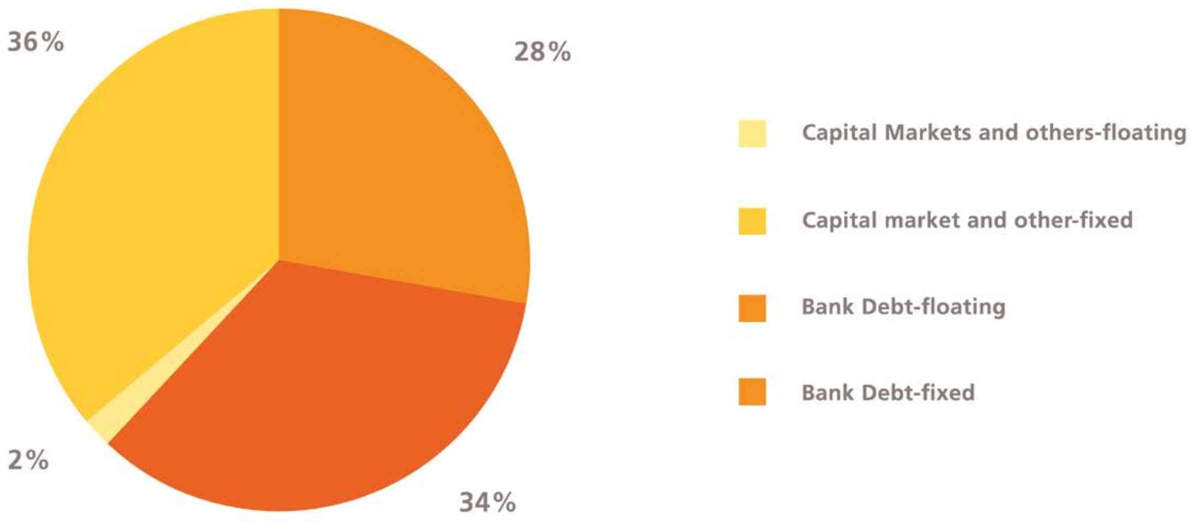
Having retained our A1 (negative) Moody's credit rating, the rating was downgraded to A2 (stable) as part of a sector wide action in September 2017 following Moody's decision to downgrade the UK's sovereign rating to Aa2 from Aa1. Our rating remains at the upper end of Moody's rated housing associations. The Group retains its Homes England G1/V1 regulatory grade for governance and financial viability.

Since the middle of 2017 the Group has been carrying out work with existing lenders to re-negotiate current loan agreements to increase the Group's financial capacity for long term investment and headroom in line with the Board's risk appetite. This project was completed at the end of May 2018, with the Group's new gearing covenant substantially increasing capacity and resilience with the widening of the Group's on-lending restrictions allowing significant flexibility in future Group investment.

Southern Housing Group Limited - On-lending to Subsidiaries	2018 £000s	2017 £000s
Southern Space Limited	27,091	18,035
Southern Home Ownership Limited	1,432	-
Spruce Homes Limited	2,921	-
Affinity (Reading) Holdings Limited	1,803	1,436
Total On-lending	**33,247**	19,471

At 31 March 2018 the Group had total facilities of £892m, of which £723m was drawn. The pie chart below highlights the split between bank and non-bank drawn debt as well as whether the debt is fixed or variable.

Group's funding mix as at 31 March 2018



62% of the Group's drawn facilities are from bank funding with the remaining 38% being non-bank debt or local authority loans. The Group has reduced its weighted average cost of capital during the year to 4.54% (2017: 5.10%).

The Group's debt contains a mix of 70% fixed and 30% variable rate. £100m free-standing derivatives taken out in 2007 increase fixed rate debt to 85% at 31 March 2018. The free standing derivatives had a mark to market exposure of £38m at the same date. Security is placed against the mark to market position.

As part of the work with existing lenders on building long term capacity and resilience, on the 27 April 2018 the Group removed all of its £100m standalone derivatives and shortened £30m of embedded fixed rate SWAPs. The standalone derivatives were traded at £3.6m lower than the balance sheet liability at 31 March 2018 and the embedded SWAPs were shortened at a cost of £5.1m. Therefore the net effect on the 2018-19 statement of consolidated income will be a cost of £1.5m.

Debt Type	Sum of outstanding £m	%	SWAP adjustment £m	Post-SWAP position £m	%
Fixed	503	70%	£100	603	85%
Variable	219	30%	(£100)	119	15%
Grand total	722	100%	£0	722	100%

As part of its loan agreements, the Group is required to secure properties against its debt. At year end the Group has specific charges placed against 15,081 properties (2016-17: 15,519).

As at 31 March 2018 the Group had liquidity of £236m against a policy requirement of 18 month committed cash flow forecast (excluding sales income) of £193m. Following year end the Group has completed a £75m revolving credit facility which further increases liquidity.

Facility	Available £'000
Available cash in bank	£66,552
Undrawn bank facilities	£119,275
Retained bond	£50,000
Total	**£235,827**

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 Regulator of Social Housing.

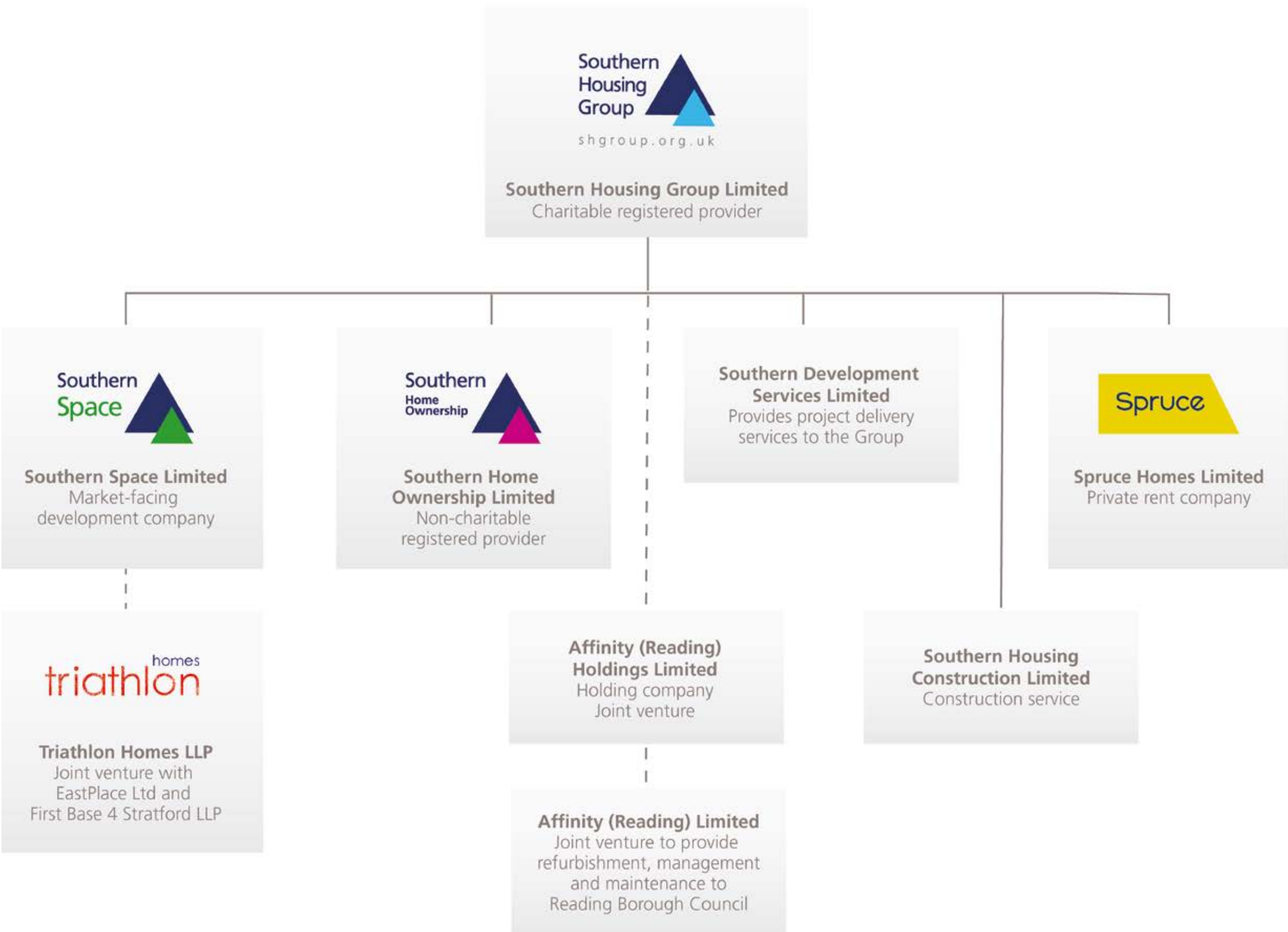
Southern Space Limited develops properties for outright sale, generating profits for the Group to reinvest and has a one third share in Triathlon Homes LLP, which owns and manages over 1,300 affordable homes at the East Village, the former Olympic Park.

Southern Housing Group Limited has a total 50% share in Affinity (Reading) Holdings Ltd which in turn holds 100% of Affinity (Reading) Ltd 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.

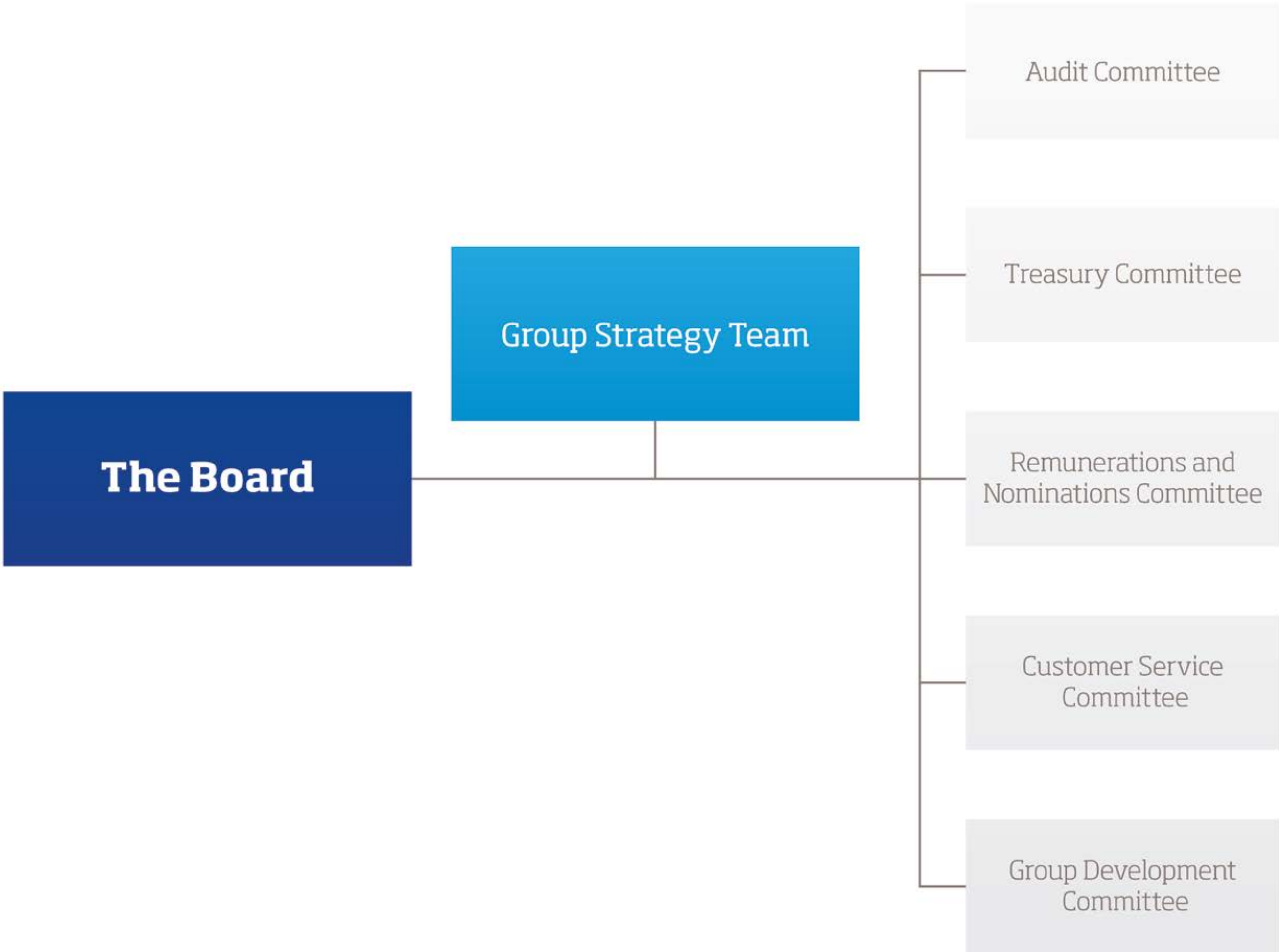
Spruce Homes Limited is a wholly owned subsidiary of Southern Housing Group Limited. Spruce Homes Ltd commenced trading in June 2017 providing homes for private rent.

Southern Housing Construction Ltd is a wholly owned subsidiary of Southern Housing Group Limited and will provide construction services to the Group. It was dormant during 2017-18.



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.

Southern Housing Group Board members

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. 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.

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.

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.

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 (FSG).

Paul Rees

was at PricewaterhouseCoopers LLP 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 of 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.

James Francis

was appointed Group Finance Director in 2016. James has held Board-level Finance Director positions in G15 organisations since 2010. Prior to working in the housing sector, James spent 8 years in corporate finance and accountancy where he qualified as a Chartered Accountant in 2004. James is a volunteer Chair for local social purpose organisations.

Joanna Hawkes

joined the Board in July 2017
Jo has over 30 years' experience in the private sector having worked with a number of blue chip companies in differing sectors in corporate finance and treasury roles. This has included asset finance roles within Hilton International and as treasurer of rolling stock lessor Angel Trains. For the last five years she has been Group Treasurer of Marks and Spencer plc with responsibilities global treasury, pensions investment strategy and financial oversight of Business Services, the Captive Insurer and M&S Bank. She is a fellow of the Association of Corporate Treasurers and a qualified accountant. She is also Chair of the Finastra DB pension scheme.

Robert Clark

joined the Board in July 2017
A qualified member of RICS since 1974, Robert Clark retired as CEO of Durkan Ltd in 2016, having been with the company 36 years. As Managing Director and CEO, he was responsible for the management of all construction projects, strategic IT and HR management, overseeing major IT infrastructure installations and achieving Investors In People accreditation. Durkan's turnover grew from £6m in 1983 to a forecast turnover of £160m in 2016. His board & committee experience includes Housing Associations, construction training, the Housing Forum, the Hertfordshire Housing Conference and lobbying or providing evidence to Parliamentary Committees and MPs. For 19 years, he has been a Board Member of his local Residents Association and served as Chair for 6 years.

Appointments and current annual payment rates

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 in July 2017.

Role	
Group Chair	£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	£3,000

The Remuneration and Nominations Committee appointment process

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

- 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, including open advertising via social media platform LinkedIn and paid advertising in recognised non-executive websites. It was not necessary to engage any external paid for search consultancies during the year.
- 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.
- Appointment letters contain details of the time commitment required for the position. On appointment a declaration of other interests is made and renewed annually and where there are any changes through the year.

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.

Directors' and officers' liability insurance cover

The Group maintains liability insurance cover for its directors and officers comprising the standard cover provided as part of its National Housing Federation membership fee and takes an additional £5m in cover under a separate independent policy.

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 (PricewaterhouseCoopersLLP) was appointed in 2012-13 following a competitive tendering process.
- 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 Group Strategy Team (GST) on internal audit findings.

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
- Ensuring there is an appropriate induction and training framework in place 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

The UK Corporate Governance Code requires large, listed companies (FTSE 350) to have an externally-facilitated Board performance evaluation every three years.

The Group's Board has a strong commitment to corporate governance. In 2016 the Group engaged an independent consultant, George Bartlett Limited to conduct a formal and rigorous performance evaluation of the Board of Southern Housing Group, its committees and individual directors.

The methodology employed for the evaluation included: observation of a Group Board meeting; a briefing for Board members on the objectives; process and prospective output of the evaluation; completion by the Board members of a comprehensive online questionnaire; an interview with each Board member; a detailed report; and a facilitated discussion for the Board members on the conclusions and recommendations in the report.

In 2017 George Bartlett Ltd was engaged to conduct a further review of certain aspects of the Group's corporate governance, specifically:

- To undertake an independent review as to whether all of the agreed recommendations made to the Group's Board in 2016 had been implemented
- To update the comparison between the Group's compliance with the annotated version of UK Code 2014 (as updated by the 2016 version of the UK Code)
- To update the report produced for the Board in 2016 on the Group's compliance with the governance aspects of the HCA's Standard published in April 2015
- To undertake a more detailed review of the committees of the Group's Board, and
- To assist the Chair with the annual assessment of the performance of individual directors in October and November 2017.

In May 2017 the Senior Independent Director (SID) and the non-executive directors met without the officers or the Chair of the Board present, to appraise the Chair's performance. The SID was supported in this by the Company Secretary and the external consultant, George Bartlett Ltd.

The Chair of the Board met with the non-executive directors without officers present prior to the Board meeting in March 2018 in line with the requirements of UK Corporate Governance Code.

Attendance records in 2017/18

	GST	SHGL Board	SHGL Board Seminars	SHGL Committees: R&N	SHGL Committees: Treasury	SHGL Committees: Customer Services	SHGL Committees: Audit	SHGL Committees: Group Development	Spruce Homes Ltd Board	SHCL Board	SSL Board	SDSL Board	SHO Board	Members who joined or retired/resigned for the year
John Andrew							4/4							
Jaiprakash Agrawal					4/4									
David Brewer								3/4			3/4		3/4	Joined SSL 17/07/2017
Simone Buckley		5/5	2/3			4/4								Retired SHO 16/11/2017
Sarah Chaudhry								4/4			N/A		4/4	Retired SSL 21/04/2017
Justin Chittock		1/1	1/1		1/1		1/1							Retired from SHGL 17/07/2017
Robert Clark		4/4	3/3					4/4		3/3	4/4		4/4	Joined SHGL 17/07/2017
Maureen Corcoran		4/5	3/3			3/4								
Tom Dacey	M/ED	5/5	3/3	4/4	3/4	1/4	4/4	3/4	3/3		3/4	1/1	3/4	Retired SSL 21/04/2017
Jay Doraisamy						4/4								Joined 17/07/2017
Oliver Eiss					4/4				3/3					
James Francis	M/ED	5/5	3/3		3/4	1/4	4/4	3/4			3/4		3/4	Joined SHGL 11/12/2017
John Furmidge						3/4								
Abi Gray				2/3		4/4								Joined R&N 25/09/2017
Simon Goulding	M	4/5			1/4		4/4							
Chris Harris	M	5/5	3/5	1/4		4/4	1/4			2/3				
Joanna Hawkes		5/5	3/3		4/4									Joined SHGL 17/07/2017
Alan Head								2/4		3/3			2/4	Retired SSL 21/04/2017
Steve Johnson		5/5	3/3	2/4		1/4	1/4	3/4			3/4			Retired SSL 21/04/2017

	GST	SHGL Board	SHGL Board Seminars	SHGL Committees					Spruce Homes Ltd Board	SHCL Board	SSL Board	SDSL Board	SHO Board	Members who joined or retired/resigned for the year
				R&N	Treasury	Customer Services	Audit	Group Development						
Margaret Littlejohns								2/4						
Michael McDonagh		1/2	0/1											Joined 09/11/2017 Resigned 11/06/2018
Arthur Merchant		C 5/5	3/3	4/4	2/4		1/4	1/4						
Karen Moscrop							4/4							Joined 17/07/2017
Darrell Porter					2/2									Joined 09/11/2017
Paul Rees		5/5	3/3				4/4							
Ahmereen Reza						4/4								
Tim Richards		1/1	1/1	1/1				1/1			1/1		1/1	Retired SSL and SHO 17/07/2017 Retired SHGL 17/07/2017
Carol Rosati		5/5	3/3	4/4					3/3					
Kate Smith	M	0/1		1/1	0/1	0/1	1/1	0/1	1/1		0/1	1/1	0/1	Retired Spruce 17/07/2017; Retired SHO 17/07/2017; Retired SDSL 19/07/2017
Alan Townshend	M	5/5	3/3					4/4		3/3	4/4	1/1	4/4	
Mary Watkins				3/3		3/3								Joined 17/07/2017

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

Alan Townshend
Group Development Director

James Francis
Group Finance Director

Simon Goulding
Group Director of Compliance

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.

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 including Brexit.	1. Engagement of the Group Board and Group Strategy Team (GST) anticipates and responds to external changes. 2. The Group regularly meets with other housing associations, engages and lobbies with the Regulator for Social Housing, GLA and the Government to discuss key social housing issues. 3. Revised 2018 Business Plan has been stress tested to include significant increase in Health and Safety expenditure and downturn scenarios. 4. Continue to develop our risk methodology to ensure that risks are understood and managed across the Group. 5. The Group's Head of Strategy and Policy role includes horizon scanning and the reviewing of new legislation. 6. Revised funding structure in place to support the business strategy and provide headroom for a market downturn.
The Group's Business Continuity Management Plan is inadequate and has not been successfully tested which causes serious financial and/or reputational damage following a major incident.	1. Group crisis reporting procedures ensures that the Communications team is able to respond effectively. 2. Documented business continuity plans are in place for the principal office locations and are regularly updated. 3. Good track record of responding to emergency events that have occurred. 4. KPMG internal audit completed on BCM arrangements. 5. Incident scenario exercises completed at London, Horsham and Isle Of Wight offices with the Local Incident Management teams.
London Property market goes through a cyclical re-adjustment which results in a slow down in sales and and a reduction in property prices.	1. The Group has a small number of homes for outright sale in London this year. 2. Exit strategy to include tenure change to Shared Ownership, Private Rent and/or Intermediate Rent products. 3. The Group tends to operate outside of the 'Prime' London Market i.e. under £1000 sq. ft. 4. Monitoring construction pace to consider speeding up or slowing down. 5. Pre-sold 'off plan' high value London stock. 6. Sales pipeline risk monitoring and marketing intelligence process for all private sale and shared ownership developments.
Serious breach of health and safety and fire regulations leads to serious injury or death. This may leave the Group open to legal challenge, financial penalties and in extreme cases imprisonment of officers.	1. Gas servicing and maintenance procedures. 2. CDM inspection arrangements involving specialist internally appointed staff. 3. Fire regulation approach standardised under one specialist supplier. 4. Estate inspections extended to include health and safety issues. 5. Specialist water hygiene testing undertaken in identified blocks 6. Lift contract in place and yearly H&S inspections also undertaken by the Group's Insurers. 7. Asbestos surveys for all properties including garages have been completed. 8. Robust contract reviews in place for new R&M and Gas Contracts. 9. Board appraised of revised Out of Hours emergency response. 10. Delivery of effective asbestos training and development programme in place and on-going.
The rapid roll out of universal credit will have an adverse economic impact on many residents, resulting in increased rent arrears and reduced revenue.	1. Welfare Reform strategy group in place to monitor strategic change and operational impact 2. Strong referral and triage processes in place to capture customers at risk of universal credit arrears. 3. Engagement in strategic peer discussions to ensure understanding of best practice. 4. Recognition of priority across the group. 5. Business plan assumptions include financial analysis of the likely impact of external policy changes.

Risk	Mitigation
Crystallisation of S75 pension debt or significantly increased deficit in pension schemes due to changes in the value of investments.	1. On-going proactive review of Pensions Risk minimisation strategy by the Board. 2. Monitoring of membership. 3. Devonshire's appointed as Advisers/LCP as actuaries. 4. SHPS scheme exited and transferred to Southern Housing Group PP scheme. 5. Further delayed crystallisation of Isle Of Wight Local Government Pension Scheme (LGPS). 6. Increasing take up of Defined Contributions schemes. 7. Continued focus on reducing pension risk and orphan liability risk.
The Group becomes less attractive for funders and investors as a result of sub-optimal management leading to: (i) inflexibility and inability to conduct planned business; (ii) re-pricing of debt and resultant increase the cost of borrowing; (iii) an inability to access new funding.	1. Credit rating downgraded to A2 (stable) as a direct result of the UK sovereign downgrade. 2. New Treasury policy approved (March 2018). 3. Monthly compliance reporting against Treasury risk management policy. 4. Project concluded to restructure funding portfolio to allow capacity to deliver development strategy and maintain a level of covenant headroom which ensures we can withstand plausible stresses to our business. 5. Ongoing engagement with Lenders.
Inaccurate source data and / or inconsistent ways of reporting, casts doubt on our ability to properly monitor, control, and report on our performance.	1. Review of source data by finance staff to cleanse and ensure accuracy. 2. Data Steering group agreeing on what data sets should be included in reports to ensure consistency of approach and a clear understanding of what we are reporting on. 3. Data programme including GST and Grant Thornton commenced. GST lead appointed (Group Finance Director). 4. Deliverables to address data quality and governance issues to be overseen and monitored by Data Steering Group 5. Data Project team in place.
Failure to deliver an effective IT strategy and service.	1. Citrix agile environment embedded and available at all offices. 2. Corporate Wi-Fi installed and upgraded 3. Remote access systems resilience installed 4. Scheme Wi-Fi improvements ongoing 5. Testing underway of agile technology 6. Agile Hubs and improved main offices in place and underway. 7. New integration, infrastructure and applications work undertaken. 8. Roll out plan for IT equipment has been approved by GST.
The Group fails to be compliant with the General Data Protection Regulation (GDPR).	1. Data Protection Officer in place to oversee compliance. 2. GDPR risk register in place. 3. GDPR project team recruited and established. 4. Project plan including policy review and staff training being developed for sign off.

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 Strategy Team (GST) and Audit Committee review the register quarterly and the Board reviews it on an annual basis.

Going concern

In accordance with provision C.2.2 of the UK Corporate Governance Code, the Board has assessed the prospects of the Group over a period of three years in line with its typical business planning and risk management review period.

Viability Statement

The Group's business plan includes information in relation to the Group's revenues, surpluses, cashflows, net debt and indicators of financial health* over a period of 5 years. This period is considered to provide the most appropriate data, risk analysis and time frame for assessing viability, given it is also used as the basis for the long term financial forecast return to the Regulator of Social Housing covering a 30 year period. The plan considers the potential impact of the principal risks to the business as described overleaf, and the cyclical nature of the relevant markets in which the Group operates, and incorporates a level of flexibility and headroom to mitigate against these risks in line with the Board's risk appetite. This is achieved through stress testing the business plan and presenting the impact on financial health indicators across a range of individual sensitivities and multi-variate scenarios, including variations in revenue, house prices, sales rates, build and operating costs and access to financing. The stress testing further considers the availability and impact of mitigating actions on the indicators of financial health.

Based on the results of this analysis, the Board has the reasonable expectation that the Group has the financial capacity to deal with a wide range of adverse scenarios and that the Group will be able to continue in operations and meet its liabilities as they fall due over the 5 year period of its assessment.

Financial Health Indicators*	2016-17	**2017-18**
Sales % of turnover	19%	**17%**
EBITDA MRI – SH interest cover	144%	**98%**
Social housing lettings interest cover	1.3	**1**
Operating margin	32%	**25%**
Debt to revenue ratio	3.5x	**3.6x**
On-lending % reserves	4%	**6%**
On-lending to non-RPs	£18m	**£28m**
Interest cover (covenant)	199%	**273%**
Gearing (covenant)	31%	**33%**

Audit Committee report

3

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	1. Risk strategy, top risks and management mitigations reviewed bi-annually 2. Areas and instances of potential fraud and speaking up were reviewed, together with control and process improvements 3. Reviewed a report on internal control assurance 4. Reviewed compliance with UK Code of Governance
Monitoring and reviewing the work of the internal audit function (outsourced to KPMG LLP)	1. Reviewed the annual cycle of internal audit reviews, aligning to the corporate risk map and timing of previous reviews 2. Reviewed progress against previous internal audit recommendations
Selecting the external auditors, monitoring their performance and approving the provision of non-audit services	1. Recommended the re-appointment of PricewaterhouseCoopers LLP 2. Reviewed the management letter the auditors presented and management's responses to this 3. Reviewed compliance statement 4. No non-audit services were provided this year in compliance with the approved policy and procedures
Monitoring the Group's financial performance	1. The Group's long term business plan and detailed stress testing was reviewed during the year 2. Reviewed the annual budget and recommended its adoption to the Group Board 3. Each meeting of the Committee reviewed financial performance with explanations of key variances 4. Reviewed the production, content and format of the annual report and Group financial statements and recommended its acceptance to the Group Board.
Regulatory compliance	1. Reviewed regulatory compliance. The Group is regulated by the HCA Regulation 2. Committee, which uses in-depth assessments (IDAs) as its key regulatory tool. 3. The HCA conducted an IDA of the Group in 2016.
Other	1. The Audit Committee's terms of reference were reviewed in line with the annual review cycle 2. The Group's financial regulations were reviewed in line with the annual cycle and recommended some minor amendments 3. The Committee reviewed the Assets and Liability Register quarterly

External audit

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.

During the financial year, the Committee has:

- Considered information presented by management on key matters on accounting judgements and policies, and agreed their appropriateness.
- Discussed with PwC the firm's reports and noted the key matters and significant judgements highlighted by PwC in respect of each set of financial statements. These reports were considered and approved.

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

Report of the Board

4

Statement of the Board's responsibilities

The Board is responsible for preparing the annual review 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 Private Registered Provider (PRP) 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 PRP will continue in business

The Board is responsible for keeping proper accounting records that are sufficient to show and explain the PRP'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 from April 2015. The Board is also responsible for safeguarding the assets of the PRP 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 50 and 51.

Board members serve as independent non-executive directors, with the exception of the Group Chief Executive and the Group Finance Director. 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
D1.5	Notice and contractual periods offered to directors	Not applicable
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 that it faces. They have been in place for the year to 31 March 2018 and up to the date of the approval of the Annual Report and the Financial Statements. The Board reviews processes at least annually, while the Audit Committee reviews them twice a year.

Main policies 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 2018 that might otherwise have resulted in material losses, contingencies or uncertainties which require disclosure in the financial statements.

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

Independent auditors' report

to the members of
Southern Housing Group Limited

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Report on the audit of the financial statements

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 2018 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 (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); 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.

We have audited the financial statements, included within the Annual Report and Group Financial Statements 2017-18 (the "Annual Report"), which comprise: the consolidated and association statements of financial position as at 31 March 2018; the consolidated and association statements of comprehensive income, the consolidated statement of cash flows, and the consolidated and association statements of changes in reserves for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

Materiality

- Overall group materiality: £1,997k (2017: £2,002k), based on 1% of revenue.

- Overall association materiality: £1,897k (2017: £1,813k), based on 0.9% of revenue.

Audit scope

- The group comprises five trading entities, two joint venture entities and one joint venture operation.

- We conducted a full scope audit of the five 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 100% of group revenue and 100% of group total assets.

Key audit matters

- Risk of fraud in revenue recognition (group and association).

- Impairment of property assets (group and association).

- Accounting for fire safety costs (group and association).

- Classification of investment properties (group and association).

- Accounting for pension schemes (group and association).

- Fair value of financial instruments (group and association).

The scope of our audit

As part of designing our audit, we determined materiality and assessed 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.

We gained an understanding of the legal and regulatory framework applicable to the group and the industry in which it operates, and considered the risk of acts by the group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the group and parent financial statements, including, but not limited to, 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. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with the Regulator of Social Housing, review of correspondence with legal advisors, enquiries of management, and review of internal audit reports in so far as they related to the financial statements. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Risk of fraud in revenue recognition *Group and association* See note 1 to the financial statements for the Group's disclosures of significant accounting policies relating to the recognition of revenue, and note 2 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 group recognised £147,396k for the year ended 31 March 2018. There is a risk of a fictitious property being set up or amended on the housing management	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). 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 they were set up, amended or removed appropriately. We performed data auditing procedures over rental income to test the completeness and accuracy of the rents charged per the housing management system. We tested the reconciliation between the general ledger and the housing management system. We then

Key audit matter	How our audit addressed the key audit matter
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 group recognised £34,932k for the year ended 31 March 2018. There is a risk of sales 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 group recognised £17,394k for the year ended 31 March 2018. There is a risk that other income may be deferred into the next year once the likely year-end position is known to be in line with expectation for the Group.	sampled properties with unusual characteristics from the data analytics to check these were appropriate and not indicative of any misstatement. We also tested samples of rents and service charges recognised around year-end by tracing to rental agreements. Income from the sale of properties was tested by tracing sampled transaction to invoices, contracts or completion statements and cash received to determine that the sale was recognised in the correct period. Other income was tested by tracing sampled transactions to underlying records, which comprised invoices and other third party supporting documentation, to determine whether the revenue was recognised in the correct period. No material exceptions were noted from our testing.
Impairment of property assets *Group and association* 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 property assets of the Group comprise • £1,703,092k of completed housing properties held at cost less depreciation; • £56,031k of stock in the course of development as well as £137,466k of housing properties under construction measured at cost; and • £3,527k of completed stock measured at cost. All property assets are subject to an impairment review if an impairment trigger event occurs. 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. The Group did not identify any impairment for 2017/18.	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. For stock and assets in the course of development we obtained and reviewed scheme appraisals and confirmed that the developments remained on forecast to be profitable. We confirmed the inputs, assumptions and methodology used in these calculations were consistent with our expectations. For properties completed and unsold at year end we traced individual properties sold after the year end and confirmed that the sale was profitable. No material exceptions were noted from our testing.

Key audit matter	How our audit addressed the key audit matter
Accounting for fire safety costs *Group and association* 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 note 21 for further information. The group has undertaken a fire safety programme across its land and property assets during the year. At the year-end, this has included planning works to take place in future periods to improve fire safety and remove cladding from one scheme. As a result, the group has incurred fire safety costs during the year. Consideration was needed as to whether a legal or constructive obligation arose from the group's actions, for example through communications to residents regarding the replacement of cladding. Provisions raised totalled £1,200k. These costs were capital in nature and a corresponding asset was recognised, with non-capital costs recognised as an expense.	We examined the nature of fire safety costs incurred during financial year. We tested a sample of the costs to examine and challenge whether they were expensed or capitalised, including the write-off of any existing costs replaced as a result of the works. In order to assess the completeness of such costs, we examined the communications with residents and cost estimates for works where cladding is to be removed from buildings. We also considered if this evidence met the criteria to recognise a provision. As part of this procedure, we considered the appropriateness of the costs to be capitalised and potential impairment of the underlying original asset. We also read the disclosures of the group to check the disclosure of such costs and that they were compliant with FRS 102. No material exceptions were noted from our testing.
Classification of investment properties *Group and association* 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 properties with differing tenures. Those held for market or commercial rents are required to be classified as investment properties and held at market value. Those held for social purposes are classified as property, plant and equipment and held at cost. At 31 March 2018 there was a balance of investment property of £108,944k. 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 at either cost or valuation.	We evaluated the accounting policies for the classification of these assets to check that they are consistent with FRS 102 and the Statement of Recommended Practice "Accounting by Registered Social Landlords" updated in 2014 (SORP). 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. No material exceptions were noted from our testing.

Key audit matter	How our audit addressed the key audit matter
Accounting for defined benefit pension schemes *Group and association* 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 Southern Housing Group Pension Scheme (SHGPP) and the Isle of Wight Local Government Pension Scheme. The group's share of assets and liabilities from the schemes is included in the financial statements to show the net pension position of each scheme. There are net pension liabilities of £6,504k and £2,215k respectively for these schemes. During the year the group exited the Social Housing Pension Scheme (SHPS), a multi-employer defined benefit scheme. SHPS was previously accounted for as a defined contribution scheme, with a liability recognised for the group's deficit funding agreement. The group's share of assets and liabilities from SHPS were transferred to a new section of the SHGPP as at 30 September 2017. As a result of the transfer, the group was able to estimate its share of the SHPS assets and liabilities and therefore apply defined benefit accounting for the first time. This was treated as a change in accounting policy, with the earliest period that it was practicable to apply defined benefit accounting being the opening reserves as at 1 April 2017. At the time defined benefit accounting was applied, the liability with respect to the deficit funding agreement was derecognised. The net adjustment to apply defined benefit accounting for the group's share of SHPS as at 1 April 2017 was a decrease to reserves of £1,738k. As part of the transfer, other costs were also incurred. At the 31 March 2018, the pension assets and liabilities attributable to the group's share of SHPS was recognised as a separate section within the SHGPP, which are included in the net pension liability of £6,504k. The valuation of the defined benefit pension schemes requires the use of several actuarial assumptions. There is a risk that incorrect actuarial assumptions may be used and that the SHPS scheme may not be appropriately accounted for and disclosed. The key actuarial assumptions are the discount rate, demographics, inflation, salary increases, pension increases, asset returns and market indices used to estimate the value of pension assets and liabilities, and to estimate the Group's share of SHPS assets and liabilities as at 1 April 2017 and 31 March 2018.	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. For the treatment of the SHPS transfer and estimations made to apply defined benefit accounting for the first time, we used pension experts to review the methodology and assumptions employed to estimate the group's share of SHPS assets and liabilities as at 1 April 2017 and 31 March 2018. For other costs associated with the SHPS transfer, we reviewed terms of the transfer agreement to understand the nature of these costs and to ensure they were classified correctly as employer contributions and other related pension costs. We read the disclosures of the group to check the disclosure of the group's defined benefit pension schemes and that they were compliant with FRS 102. No material exceptions were noted from our testing.

Key audit matter	How our audit addressed the key audit matter
Fair value of financial instruments *Group and association* 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. 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 read the disclosures of the Group to check the disclosure of the key financial instruments and that they were compliant with FRS102. No material exceptions were noted from our testing

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 and the company, the accounting processes and controls, and the industry in which they operate.

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

In addition, for one joint venture entity, a non-PwC component team performed a full scope audit under our instructions. 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.

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.

The full scope audits by the Group and component team covered 100% of Group revenue and 100% of Group total assets.

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 in aggregate on the financial statements as a whole.

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

	Group financial statements	Association financial statements
Overall materiality	£1,997k (2017: £2,002k).	£1,897k (2017: £1,813k).
How we determined it	1% of revenue.	0.9% of revenue.
Rationale for benchmark applied	We applied this benchmark, which is a generally accepted measure when applied auditing organisations with social objectives, 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 initially applied 1% to revenue, which is a generally accepted measure when applied auditing organisations with social objectives, to calculate overall materiality. However we reduced this to 0.9% to ensure the Association materiality was not greater than overall materiality for the Group financial statements. We believe this to be the most appropriate financial measure of the performance of the Association and the measure used by the users of the financial statements.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £67k and £1,897k. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £100k (group audit) (2017: £100k) and £95k (association audit) (2017: £91k) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the association's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and association's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Annual Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Annual Report for the year ended 31 March 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.
In light of the knowledge and understanding of the group and association and their environment obtained in the course of the audit, we did not identify any material misstatements in the Annual 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 UK Corporate Governance Code (the "Code"), we are required to report to you if we have anything material to add or draw attention to regarding:

- The directors' confirmation on pages 54 to 56 of the Annual Report 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.

- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.

- The directors' explanation on page 56 of the Annual Report 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 to report in respect of this responsibility.

Other Code Provisions

As a result of the directors' voluntary reporting on how they have applied the Code, we are required to report to you if, in our opinion:

- The statement given by the directors, on page 65, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's and association's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and association obtained in the course of performing our audit.

- The section of the Annual Report on pages 59 and 60 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have nothing to report in respect of this responsibility.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of the Board’s Responsibilities set out on page 63, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group’s and the association’s ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors’ responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC’s website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors’ report.

Use of this report

This report, including the opinions, has been prepared for and only for the parent’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 Section 128 of 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.

Other required reporting

Co-operative and Community Benefit Societies Act 2014 exception reporting

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 parent; or
- the parent financial statements are not in agreement with the accounting records

We have no exceptions to report arising from this responsibility.

The engagement partner on the audit resulting in this independent auditors' report is Sotiris Kroustis.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
Date: 10 July 2018

Group financial statements

For the year ended 31 March 2018

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Consolidated statement of comprehensive income

For the year ended 31 March 2018

	Note	**Group 2018 £000s**	Group 2017 £000s	**Association 2018 £000s**	Association 2017 £000s
Turnover	2	**199,722**	200,176	**215,743**	181,273
Cost of sales	2	**(27,931)**	(24,185)	**(43,022)**	(19,061)
Gross profit		**171,791**	175,991	**172,721**	162,212
Operating costs	2	**(122,634)**	(111,385)	**(123,424)**	(111,922)
Surplus on operations		**49,157**	64,606	**49,297**	50,290
Surplus on revaluation of investments	2	**3,011**	20,549	**2,555**	13,451
Operating surplus		**52,168**	85,155	**51,852**	63,741
Gain on disposal of fixed assets	5	**11,137**	13,605	**6,540**	6,740
Interest receivable and similar income	6	**1,300**	1,520	**1,271**	2,106
Interest payable and similar charges	7	**(23,368)**	(33,954)	**(23,502)**	(34,206)
Share of operating surplus in joint ventures		**62**	495	**-**	-
Gift aid received		**-**	-	**23,993**	373
Surplus before tax		**41,299**	66,821	**60,154**	38,754
Taxation	9	**3,636**	(4,856)	**(581)**	-
Surplus for the year		**44,935**	61,965	**59,573**	38,754
Other comprehensive income					
Actuarial gain/(loss) in respect of pension schemes		**6,066**	(2,377)	**6,066**	(2,377)
Total other comprehensive income		**6,066**	(2,377)	**6,066**	(2,377)
Total comprehensive income for the year		**51,001**	59,588	**65,639**	36,377
Total comprehensive income attributable to:					
the association		**50,939**	59,093	**65,639**	36,377
jointly controlled entities accounted for by the equity method		**62**	495	**-**	-
		51,001	59,588	**65,639**	36,377

All results for the current and prior years are attributable to continuing operations. The notes on pages 83 to 124 form part of these financial statements.

Consolidated statement of financial position

As at 31 March 2018

	Note	**Group 2018 £000s**	Group 2017 £000s	**Association 2018 £000s**	Association 2017 £000s
Fixed assets					
Property, plant and equipment	10	**1,873,904**	1,809,331	**1,755,603**	1,708,061
Investment properties	11	**108,944**	78,753	**103,359**	78,608
Investment in social Homebuy	12	**7,710**	8,125	**284**	300
Listed and unlisted investments	13	**12,946**	10,816	**12,946**	10,816
Investment loans	14	**1,803**	1,436	**30,634**	19,471
Investment in joint ventures	15	**1,851**	1,789	**1,294**	1,294
		2,007,158	1,910,250	**1,904,120**	1,818,550
Current assets					
Stock	16	**59,558**	59,009	**20,318**	28,910
Trade and other debtors	17	**12,988**	11,109	**16,766**	10,601
Cash and cash equivalents		**72,374**	125,506	**60,921**	107,592
		144,920	195,624	**98,005**	147,103
Less creditors: amounts falling due within one year	18	**(113,289)**	(65,579)	**(70,031)**	(50,403)
Net current assets		**31,631**	130,045	**27,974**	96,700
Total assets less current liabilities		**2,038,789**	2,040,295	**1,932,094**	1,915,250
Creditors: amounts falling due after more than one year	19	**(1,445,590)**	(1,496,455)	**(1,384,725)**	(1,431,842)
Provisions for liabilities and charges	21	**(1,403)**	(167)	**(1,200)**	-
Post employment benefits	25	**(8,719)**	(9,859)	**(8,719)**	(9,859)
Total net assets		**583,077**	533,814	**537,450**	473,549
Reserves					
Called up share capital		**-**	-	**-**	-
Retained equity		**582,647**	533,384	**537,020**	473,119
General reserve		**430**	430	**430**	430
Total reserves		**583,077**	533,814	**537,450**	473,549

The financial statements on pages 79 to 124 were authorised for issue by the Board of Directors on 9 July 2018 and signed on its behalf by

Arthur Merchant
Chair

Paul Rees
Board member

Kat 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 2018

Group	Retained equity £000s	General reserve £000s	Share of joint venture reserves £000s	Total reserves £000s
Reserves at 01 April 2016	473,737	430	59	474,226
Comprehensive income for the year				
Surplus for the year	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**
Pension adjustment to opening reserves	(1,738)	-	-	(1,738)
Reserves at 1 April 2017 adjusted	**531,646**	**430**	**-**	**532,076**
Comprehensive income for the year				
Surplus for the year	44,935	-	-	44,935
Total comprehensive income for the year	44,935	-	-	44,935
Other comprehensive income for the year				
Actuarial gain on pension schemes	6,066	-	-	6,066
Total other comprehensive income for the year	6,066	-	-	6,066
Reserves at 31 March 2018	**582,647**	**430**	**-**	**583,077**

Association	Retained equity £000s	General reserve £000s	Share of joint venture reserves £000s	Total reserves £000s
Reserves at 01 April 2016	436,742	430	-	437,172
Comprehensive income for the year				
Surplus for the year	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**
Pension adjustment to opening reserves	(1,738)	-	-	(1,738)
Reserves at 1 April 2017 adjusted	**471,381**	**430**	**-**	**471,811**
Comprehensive income for the year				
Surplus for the year	59,573	-	-	59,573
Total comprehensive income for the year	59,573	-	-	59,573
Other comprehensive income for the year				
Actuarial gain on pension schemes	6,066	-	-	6,066
Total other comprehensive income for the year	6,066	-	-	6,066
Reserves at 31 March 2018	**537,020**	**430**	**-**	**537,450**

The general reserve records funds that have been given to the Group for use on some estates. The opening reserves as at 1 April 2017 were adjusted to apply defined benefit accounting for the first time to the Social Housing Pension Scheme. See key accounting judgements and estimation uncertainty disclosures in note 1 for further details.

Consolidated statement of cash flows

For the year ended 31 March 2018

	Note	Group 2018 £000s	Group 2017 £000s
Cash flow from operating activities			
Surplus before tax		**41,299**	66,821
Gain on disposal of fixed assets		**(11,137)**	(13,605)
Share of operating surplus in joint ventures		**(62)**	(495)
Interest and financing costs		**22,068**	32,434
Operating surplus		**52,168**	85,155
Adjustments for:			
Depreciation	10	**22,193**	21,703
Revaluation surplus on investments		**(3,036)**	(19,881)
Government grants utilised in the year		**(9,678)**	(9,633)
Stock		**(463)**	(22,377)
Trade and other debtors		**(1,900)**	1,722
Trade and other creditors		**3,574**	733
Provisions		**4,424**	(808)
Corporation tax paid		**863**	-
Net cash generated from operating activities		**68,145**	56,614
Cash flow from investing activities			
Purchase of property, plant and equipment	10	**(115,791)**	(85,665)
Purchase of investment properties	11	**(12,633)**	(9,770)
Proceeds from disposal of property, plant and equipment	10	**21,245**	23,887
Distributions received from joint ventures		**466**	442
Investment loans		**(367)**	(1,436)
Interest received		**841**	1,078
Government grants received		**2,587**	1,218
Proceeds from sale of investments		**933**	442
Net cash used in financing activities		**(102,719)**	(69,804)
Cash flow from financing activities			
Interest paid		**(33,217)**	(34,562)
Loan repayments		**(15,341)**	(6,636)
New secured loans		**30,000**	35,000
Net cash used in financing activities		**(18,558)**	(6,198)
Net decrease in cash and cash equivalents		**(53,132)**	(19,388)
Cash and cash equivalents at the beginning of the year		**125,506**	144,894
Cash and cash equivalents at the end of the year		**72,374**	125,506

At 31 March 2018, restricted cash comprised balances on bank accounts held on trust for the Group's shared owners totalled £9,364,000 (2017: £8,896,000). Cash also includes a restricted balance of £323,000 (2017: £3,212,000) 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, except for applying defined benefit pension scheme accounting to the Social Housing Pension Scheme (SHPS) for the first time from 1 April 2017. 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. All other properties are held as investment properties. Shared ownership properties are not depreciated as the leaseholder is responsible for property maintenance and this is not deemed to be necessary when factoring in the residual value of the property. Assets are depreciated at a component level over their estimated useful economic lives based on experience. Costs of development are allocated on a pro-rata area basis to individual units so judgement is required to determine the appropriate allocation of costs for mixed tenure developments according to the initial appraisal. 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 the 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 using the depreciated replacement cost method. Stock and, Property, Plant and Equipment in the course of construction are assessed against the net realisable value of the asset. Consideration is also given to where constructive obligations are made to tenants or leaseholders which may result in provisions being necessary for future costs on maintenance of properties.

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

Financial Liabilities

Financial liabilities that are judged to be basic instruments are held 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.

Financial Assets

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.

1. Principal accounting policies (continued)

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's share SHPS assets and liabilities were transferred into the Southern Housing Group Pension Plan (SHGPP) as at 30 September 2017. The Group applied defined benefit accounting to SHPS for the first time as at 1 April 2017, on the basis it was practicable to reliably estimate the Group's share of SHPS at that date. This involved calculating the Group's share of SHPS by "rolling back" the transferred values from 30 September 2017 to 1 April 2017. The Group uses qualified actuaries to value its pension assets and liabilities.

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), Southern Development Services Limited (SDSL) and Spruce Homes Limited 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 intra-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 jointly controlled operation.

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.

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 de-recognised when the contractual rights to the cash flows from the financial asset either expire, 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. Debt instruments are carried at amortised cost.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Derivatives are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in the 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 of open market sales 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 England; 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 statement of comprehensive income by 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 and Spruce Homes 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. 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 which 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 as 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.

Depreciation and impairment

Freehold land is not subject to 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. A scheme is defined as all units of the same tenure within one area or estate. Impairment is assessed scheme by scheme.

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

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

Investment properties

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 3 years to perform a full valuation. 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.

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 where the share of operations are brought directly into the Group and Association financial statements. Affinity (Reading) Holdings Limited is accounted for as a jointly controlled entity. In the Association figures it is held at cost less any impairment, in the Group it is held using the equity method of accounting. Triathlon Homes LLP is also accounted for as a jointly controlled entity, however 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 three defined benefit schemes all of which are closed to new members. There are two defined contribution schemes. Employer contributions paid are charged to the statement of comprehensive income. For the purposes of the 2017 accounts the Group accounted for the Social Housing Pension Scheme (SHPS) obligations using the present value of the deficit recovery contributions as required under FRS102 where a multi-employer scheme is not able to attribute its assets and liabilities between the participating employers.

The Group agreed a bulk transfer of their liability and asset share of SHPS into the Southern Housing Group Pension Scheme which took place on 30 September 2017. The transferred assets and liabilities from SHPS are accounted for using full defined benefit accounting for the full year for 2018. The amounts recognised in the statement of comprehensive income are affected by the restatement of the share of assets and liabilities that would have transferred into the Southern Housing Group Pension Scheme as at 31 March 2017.

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

Group	2018 Turnover £000s	2018 Cost of Sales £000s	2018 Operating Costs £000s	2018 Operating Surplus £000s	2017 Turnover £000s	2017 Cost of Sales £000s	2017 Operating Costs £000s	2017 Operating Surplus £000s
Social housing lettings	155,454	-	(117,165)	**38,289**	155,170	-	(105,393)	49,777
Other social housing activities								
Charges for support services	4,408	-	(4,759)	**(351)**	4,418	-	(5,104)	(686)
Current asset property sales	27,800	(22,908)	-	**4,892**	18,934	(12,183)	-	6,751
Other	4	-	-	**4**	-	-	-	-
Non-social housing activities								
Commercial income	2,678	-	(160)	**2,518**	1,900	-	(104)	1,796
Private rental lettings	1,618	-	(550)	**1,068**	864	-	(367)	497
Open market sales	7,132	(5,023)	-	**2,109**	18,231	(12,002)	-	6,229
Other	628	-	-	**628**	659	-	(417)	242
Total of operations	**199,722**	**(27,931)**	**(122,634)**	**49,157**	200,176	(24,185)	(111,385)	64,606
Revaluation surplus on all investments	3,011	-	-	**3,011**	20,549	-	-	20,549
Total of operating activities	**202,733**	**(27,931)**	**(122,634)**	**52,168**	220,725	(24,185)	(111,385)	85,155

Association	2018 Turnover £000s	2018 Cost of Sales £000s	2018 Operating Costs £000s	2018 Operating Surplus £000s	2017 Turnover £000s	2017 Cost of Sales £000s	2017 Operating Costs £000s	2017 Operating Surplus £000s
Social housing lettings	149,945	-	(117,856)	**32,089**	149,027	-	(106,099)	42,928
Other social housing activities								
Charges for support services	4,408	-	(4,759)	**(351)**	4,418	-	(5,104)	(686)
Current asset property sales	19,455	(13,171)	-	**6,284**	18,686	(13,748)	-	4,938
Other	4	-	-	**4**	-	-	-	-
Non-social housing activities								
Intra-group property sales	36,785	(29,851)	-	**6,934**	-	-	-	-
Commercial income	2,623	-	(160)	**2,463**	1,883	-	(104)	1,779
Private rental lettings	1,511	-	(435)	**1,076**	760	-	(367)	393
Other sales	-	-	-	**-**	5,313	(5,313)	-	-
Other	1,012	-	(214)	**798**	1,186	-	(248)	938
Total of operations	**215,743**	**(43,022)**	**(123,424)**	**49,297**	181,273	(19,061)	(111,922)	50,290
Revaluation surplus on all investments	2,555	-	-	**2,555**	13,451	-	-	13,451
Total of operating activities	**218,298**	**(43,022)**	**(123,424)**	**51,852**	194,724	(19,061)	(111,922)	63,741

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	**2018 Total £000s**
Rent receivable net of identifiable service charges	89,551	13,269	8,763	8,045	11,956	**131,584**
Service charges receivable	9,156	1,357	-	450	3,231	**14,194**
Gross rental income	98,707	14,626	8,763	8,495	15,187	**145,778**
Grant amortisation	6,027	893	296	414	2,046	**9,676**
Turnover from social housing lettings	104,734	15,519	9,059	8,909	17,233	**155,454**
Management	(30,821)	(4,606)	(2,057)	(1,265)	(5,785)	**(44,534)**
Service charge costs	(11,253)	(1,668)	(744)	(562)	(2,241)	**(16,468)**
Rent losses from bad debts	(320)	(47)	(21)	(16)	(44)	**(448)**
Routine maintenance	(19,292)	(2,859)	(1,276)	(1,286)	-	**(24,713)**
Planned maintenance	(5,372)	(796)	(355)	(520)	-	**(7,043)**
Depreciation	(18,821)	(2,789)	(1,245)	(1,016)	-	**(23,871)**
Other costs	-	-	-	(3)	(85)	**(88)**
Operating costs on social housing lettings	(85,879)	(12,765)	(5,698)	(4,668)	(8,155)	**(117,165)**
Operating surplus on social housing lettings	18,855	2,754	3,361	4,241	9,078	**38,289**
Void Losses	535	80	36	260	-	**911**

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	90,844	13,607	7,585	8,237	10,904	**131,177**
Service charges receivable	8,420	1,261	-	460	4,219	**14,360**
Gross rental income	99,264	14,868	7,585	8,697	15,123	**145,537**
Grant amortisation	6,591	593	177	484	1,788	**9,633**
Turnover from social housing lettings	105,855	15,461	7,762	9,181	16,911	**155,170**
Management	(24,982)	(3,737)	(1,605)	(1,383)	(7,566)	**(39,273)**
Service charge costs	(9,587)	(1,436)	(617)	(546)	(3,641)	**(15,827)**
Rent losses from bad debts	(377)	(57)	(24)	(22)	(139)	**(619)**
Routine maintenance	(17,558)	(2,630)	(1,130)	(1,026)	-	**(22,344)**
Planned maintenance	(1,958)	(293)	(126)	199	-	**(2,178)**
Depreciation	(19,696)	(2,951)	(1,268)	(1,163)	-	**(25,078)**
Other costs	-	-	-	(3)	(71)	**(74)**
Operating costs on social housing lettings	(74,158)	(11,104)	(4,770)	(3,944)	(11,417)	**(105,393)**
Operating surplus on social housing lettings	31,697	4,357	2,992	5,237	5,494	**49,777**
Void Losses	730	109	164	225	-	**1,228**

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	**2018 Total £000s**
Rent receivable net of identifiable service charges	90,677	13,436	8,763	7,514	7,016	**127,406**
Service charges	9,156	1,357	-	450	1,626	**12,589**
Gross rental income	**99,833**	**14,793**	**8,763**	**7,964**	**8,642**	**139,995**
External management fee	-	-	-	-	1,264	**1,264**
Grant amortisation	6,027	893	296	399	1,071	**8,686**
Turnover from social housing lettings	**105,860**	**15,686**	**9,059**	**8,363**	**10,977**	**149,945**
Management	(32,081)	(4,754)	(2,123)	(1,578)	(5,698)	**(46,234)**
Service charge costs	(11,253)	(1,668)	(744)	(553)	(1,999)	**(16,217)**
Rent losses from bad debts	(320)	(47)	(21)	(16)	(57)	**(461)**
Routine maintenance	(19,292)	(2,859)	(1,276)	(949)	-	**(24,376)**
Planned maintenance	(5,372)	(796)	(355)	(264)	-	**(6,787)**
Depreciation	(18,821)	(2,789)	(1,245)	(926)	-	**(23,781)**
Operating costs on social housing lettings	**(87,139)**	**(12,913)**	**(5,764)**	**(4,286)**	**(7,754)**	**(117,856)**
Operating surplus on social housing lettings	**18,721**	**2,773**	**3,295**	**4,077**	**3,223**	**32,089**
Void Losses	**535**	**80**	**36**	**252**	**-**	**903**

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	91,548	13,713	7,623	7,756	6,374	**127,014**
Service charges	8,420	1,261	-	458	2,635	**12,774**
Gross rental income	**99,968**	**14,974**	**7,623**	**8,214**	**9,009**	**139,788**
External management fee	-	-	-	-	611	**611**
Grant amortisation	6,591	593	177	469	798	**8,628**
Turnover from social housing lettings	**106,559**	**15,567**	**7,800**	**8,683**	**10,418**	**149,027**
Management	(25,661)	(3,844)	(1,651)	(1,396)	(8,032)	**(40,584)**
Service charge costs	(9,587)	(1,436)	(617)	(522)	(3,001)	**(15,163)**
Rent losses from bad debts	(377)	(57)	(24)	(21)	(118)	**(597)**
Routine maintenance	(17,558)	(2,630)	(1,130)	(955)	-	**(22,273)**
Planned maintenance	(1,958)	(293)	(126)	(107)	-	**(2,484)**
Depreciation	(19,706)	(2,951)	(1,268)	(1,073)	-	**(24,998)**
Operating costs on social housing lettings	**(74,847)**	**(11,211)**	**(4,816)**	**(4,074)**	**(11,151)**	**(106,099)**
Operating surplus on social housing lettings	**31,712**	**4,356**	**2,984**	**4,609**	**(733)**	**42,928**
Void Losses	**730**	**109**	**164**	**217**	**-**	**1,220**

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	2018 £000s	2017 £000s
Emoluments	1,058	1,135
Compensation for loss of office	117	-
Pension contributions	54	40
Non Executive Board member emoluments	129	144
	1,358	1,319

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

	£	£
Salary	280,043	270,743
Benefits in kind	12,884	10,382
Total remuneration	292,927	281,125

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 2018 FTE**	Group 2017 FTE	**Association 2018 FTE**	Association 2017 FTE
Housing Management	**621**	593	**621**	593
Office Staff	**244**	231	**244**	229
Average number of full-time equivalent employees	**865**	824	**865**	822

Staff costs (for the above employees)	**Group 2018 £000s**	Group 2017 £000s	**Association 2018 £000s**	Association 2017 £000s
Wages and salaries	**27,903**	26,394	**27,903**	26,261
Social security costs	**2,839**	2,665	**2,839**	2,650
Other pension costs	**7,860**	1,735	**7,860**	1,718
Termination benefits	**690**	1,006	**690**	1,006
	39,292	31,800	**39,292**	31,635

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

FTE = 35 hours per week	**Group 2018 FTE**	Group 2017 FTE
£60,000 - £70,000	**41**	26
£70,000 - £80,000	**20**	26
£80,000 - £90,000	**10**	9
£90,000 - £100,000	**8**	8
£100,000 - £110,000	**4**	2
£110,000 - £120,000	**2**	5
£120,000 - £130,000	**5**	4
£130,000 - £140,000	**2**	1
£140,000 - £150,000	**-**	2
£150,000 - £160,000	**-**	2
£170,000 - £180,000	**-**	-
£180,000 - £190,000	**2**	1
£190,000 - £200,000	**1**	-
£200,000 - £210,000	**1**	-
£310,000 - £320,000	**-**	1
£330,000 - £340,000	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 2018 £000s	Other Tangible Fixed Assets 2018 £000s	**Total 2018 £000s**	Shared Ownership Staircasing 2017 £000s	Other Tangible Fixed Assets 2017 £000s	Total 2017 £000s
Sale proceeds	15,652	9,804	**25,456**	21,924	2,537	24,461
Cost of sales	(7,136)	(7,104)	**(14,240)**	(10,261)	(530)	(10,791)
Incidental sale expenses	(67)	(12)	**(79)**	(48)	(17)	(65)
	8,449	**2,688**	**11,137**	11,615	1,990	13,605

Association	Shared Ownership Staircasing 2018 £000s	Other Tangible Fixed Assets 2018 £000s	**Total 2018 £000s**	Shared Ownership Staircasing 2017 £000s	Other Tangible Fixed Assets 2017 £000s	Total 2017 £000s
Sale proceeds	10,755	5,510	**16,265**	12,320	2,087	14,407
Cost of sales	(5,513)	(4,145)	**(9,658)**	(7,235)	(385)	(7,620)
Incidental sale expenses	(60)	(7)	**(67)**	(30)	(17)	(47)
	5,182	**1,358**	**6,540**	5,055	1,685	6,740

6. Interest receivable and similar income

	Group 2018 £000s	Group 2017 £000s	**Association 2018 £000s**	Association 2017 £000s
Interest and investment income				
Interest from investments	**1,018**	964	**1,042**	1,685
Interest from bank deposits	**282**	556	**229**	421
Total	**1,300**	1,520	**1,271**	2,106

Total inter-company interest received by the Association in the year was £586,000 (2017: £1,100,000)

7. Interest payable and similar charges

Interest and finance costs charged	Group 2018 £000s	Group 2017 £000s	Association 2018 £000s	Association 2017 £000s
On loans	**(33,852)**	(34,474)	**(33,470)**	(34,160)
Other fees	**(1,080)**	(1,605)	**(1,005)**	(1,675)
Less: interest payable capitalised	**4,407**	4,166	**3,816**	3,670
	(30,525)	(31,913)	**(30,659)**	(32,165)
Deferred income written back	**136**	136	**136**	136
	(30,389)	(31,777)	**(30,523)**	(32,029)
Losses on fair value of derivative financial liabilities	**7,258**	(1,809)	**7,258**	(1,809)
Total	**(23,131)**	(33,586)	**(23,265)**	(33,838)

On loans includes the interest expense on derivatives.

Other finance costs: Pension schemes	Group 2018 £000s	Group 2017 £000s	Association 2018 £000s	Association 2017 £000s
Group pension scheme				
Expected return on pension scheme assets	**1,108**	1,196	**1,108**	1,196
Interest on pension scheme liabilities	**(1,288)**	(1,381)	**(1,288)**	(1,381)
Isle of Wight Council pension scheme				
Expected return on pension scheme assets	**136**	164	**136**	164
Interest on pension scheme liabilities	**(193)**	(239)	**(193)**	(239)
SHPS				
Interest on deficit funding agreement	**-**	(108)	**-**	(108)
Total	**(237)**	(368)	**(237)**	(368)
Total interest and similar charges	**(23,368)**	(33,954)	**(23,502)**	(34,206)

The Group's weighted average interest rate for borrowing is 4.75% per annum (2017: 5.05% per annum). Deferred income written back relates to debenture premium.

8. Surplus before tax

The operating surplus before tax is stated after charging:

	Group 2018 £000s	Group 2017 £000s	**Association 2018 £000s**	Association 2017 £000s
Depreciation:				
Property	**19,798**	19,499	**19,708**	19,419
Other tangible fixed assets	**2,395**	2,204	**2,395**	2,204
Stock cost of sales recognised as an expense	**27,931**	24,185	**43,022**	19,061
Operating lease charges				
Property	**248**	232	**248**	232
Other equipment	**349**	322	**349**	322
Auditors' remuneration:				
External audit fee (including expenses, excluding vat)	**171**	162	**136**	138

9. Taxation

UK corporation tax	**Group 2018 £000s**	Group 2017 £000s	**Association 2018 £000s**	Association 2017 £000s
Current tax at 19% (2017: 20%)	**1,226**	4,863	**581**	-
Adjustment to tax charge in respect of previous years	**(4,862)**	(2)	**-**	-
Current tax at 19% (2017: 20%)	**(3,636)**	4,861	**581**	-
Deferred tax expense				
Short term timing difference	**-**	(5)	**-**	-
	(3,636)	4,856	**581**	-

The tax assessed on the profit on ordinary activities for the year is lower (2017: lower) than the standard rate of corporation tax in the UK (19% (2017: 20%)). The differences are explained on the next page.

9. Taxation (continued)

Current tax reconciliation	Group 2018 £000s	Group 2017 £000s	Association 2018 £000s	Association 2017 £000s
Surplus on ordinary activities before tax	**41,299**	66,821	**36,161**	38,754
Less surplus from charitable activities	(33,105)	(38,754)	-	(38,754)
Taxable surplus on ordinary activities before tax	**8,194**	28,067	**36,161**	-
Current tax at 19% (2017: 20%)	**1,557**	5,613	**6,871**	-
Effects of:				
Share of taxable profits in Triathlon Homes LLP	**389**	-	-	-
Chargeable gains	**587**	-	-	-
Expenses not deductible/(income not taxable)	**420**	(782)		-
Income not taxable for tax purposes	-	(259)	**(6,290)**	-
Qualifying charitable donations paid/to be paid within 9 months of the year end	**(1,727)**			
Amounts (charged)/credited directly to equity or otherwise transferred		(75)	-	-
Adjustment to tax charge in respect of previous periods	**(4,860)**	(2)	-	-
Timing differences in relation to gift aid not recognised		468	-	-
Deferred tax not recognised	**(2)**	(107)	-	-
Total current tax charge (see previous page)	**(3,636)**	4,856	**581**	-

Factors that may affect future tax charges

The standard rate of corporation tax in the UK reduced to 19% in 2018.

Changes were announced in the 2016 Autumn Statement reducing the rate of corporation tax 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 2017	1,634,880	234,725	93,931	53,545	**2,017,081**
Transfer from/(to) investment properties	202	1,040	(25,858)	-	**(24,616)**
Reclassification	(184)	(2,238)	(15)	-	**(2,437)**
Schemes completed	20,273	14,015	(34,288)	-	**-**
Homeflex - IR to Shared ownership	-	(1,570)	-	-	**(1,570)**
Additions: New properties	-	-	104,374	-	**104,374**
Existing properties	15,012	100	23	-	**15,135**
Other fixed assets	-	-	-	6,107	**6,107**
Transfer to stock	-	(1,707)	-	-	**(1,707)**
Disposals	(2,815)	(6,551)	(701)	(7)	**(10,074)**
At 31 March 2018	1,667,368	237,814	137,466	59,645	**2,102,293**
Accumulated Depreciation					
At 1 April 2017	183,839	-	-	23,911	**207,750**
Charge for year	19,798	-	-	2,395	**22,193**
Eliminated in respect of disposals	(1,547)	-	-	(7)	**(1,554)**
At 31 March 2018	202,090	-	-	26,299	**228,389**
Net Book Value					
At 31 March 2018	1,465,278	237,814	137,466	33,346	**1,873,904**
At 31 March 2017	1,451,041	234,725	93,931	29,634	**1,809,331**

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 2017	1,631,219	150,631	79,375	53,545	**1,914,770**
Transfer from/(to) investment properties	202	1,040	(25,858)	-	**(24,616)**
Reclassification	(184)	-	-	-	**(184)**
Schemes completed	20,273	14,015	(34,288)	-	**-**
Homeflex - IR to Shared ownership	-	(1,570)	-	-	**(1,570)**
Additions: New properties	-	-	95,738	-	**95,738**
Existing properties	15,012	123	-	-	**15,135**
Other fixed assets	-	-	-	6,107	**6,107**
Transfer to stock	-	33	(13,901)	-	**(13,868)**
Disposals	(2,815)	(5,128)	(701)	(7)	**(8,651)**
At 31 March 2018	1,663,707	159,144	100,365	59,645	**1,982,861**
Accumulated Depreciation					
At 1 April 2017	182,798	-	-	23,911	**206,709**
Charge for year	19,708	-	-	2,395	**22,103**
Eliminated in respect of disposals	(1,547)	-	-	(7)	**(1,554)**
At 31 March 2018	200,959	-	-	26,299	**227,258**
Net Book Value					
At 31 March 2018	1,462,748	159,144	100,365	33,346	**1,755,603**
At 31 March 2017	1,448,421	150,631	79,375	29,634	**1,708,061**

10. Property, plant and equipment (continued)

A total funding value of £1,780 million (2017: £1,647m) is secured against 15,081 (2017: 15,519) properties.

Accommodation in management comprises:	Group 2018 Units	Group 2017 Units	Association 2018 Units	Association 2017 Units
Units owned and managed:				
General needs	**17,262**	17,237	**17,262**	17,237
Housing for older people	**2,285**	2,305	**2,285**	2,305
Supported housing	**273**	277	**273**	277
Intermediate market rent	**902**	938	**849**	885
Private rent (investment properties)	**124**	115	**110**	115
Affordable rent	**1,142**	1,109	**1,142**	1,109
Leasehold	**2,632**	2,547	**1,466**	1,532
Shared ownership	**2,942**	2,848	**1,600**	1,463
	27,562	27,376	**24,987**	24,923
Units managed on behalf of other landlords:				
General Needs	**8**	7	**8**	7
Supported housing	**60**	67	**60**	67
Intermediate market rent	**-**	-	**53**	53
Leasehold	**80**	90	**1,130**	1,105
Shared ownership	**-**	-	**1,342**	1,385
	148	164	**2,593**	2,617
Total units managed (including freeholds)	**27,710**	27,540	**27,580**	27,540
Total units owned	**27,562**	27,376	**24,987**	24,923

10. Property, plant and equipment (continued)

Other fixed assets

Group and Association	Freehold and leasehold properties £000s	Estate equipment £000s	Plant, machinery and fixtures and vehicles £000s	Computer, hardware and software £000s	**Total other fixed assets £000s**
Cost					
At 1 April 2017	22,572	21,978	2,068	6,927	**53,545**
Additions	1,385	3,439	-	1,283	**6,107**
Disposals	-	(7)	-	-	**(7)**
At 31 March 2018	23,957	25,410	2,068	8,210	**59,645**
Accumulated depreciation					
At 1 April 2017	4,899	11,408	1,888	5,716	**23,911**
Charge for year	592	1,188	9	606	**2,395**
Disposals	-	(7)	-	-	**(7)**
At 31 March 2018	5,491	12,589	1,897	6,322	**26,299**
Net Book Value					
At 31 March 2018	18,466	12,821	171	1,888	**33,346**
At 31 March 2017	17,673	10,570	180	1,211	**29,634**

11. Investment properties

At 31 March 2018 all commercial properties were market valued externally by Jones Lang Lasalle Limited, 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 use using the proportion of floor area with office carrying costs being disclosed in property, plant and equipment.

Residential properties held for investment and rented at market rents were valued by Jones Lang Lasalle Limited on an open market value basis subject to tenancies. The valuation used a discounted cashflow model, with a discount rate of 6.8% to 7.0% over a 10-year period, with the net income in the final year capitalised into perpetuity.

Investment properties under construction are stated at cost and all commitments in respect of these are included as capital commitments (see note 23).

	Group 2018 £000s	Group 2017 £000s	**Association 2018 £000s**	Association 2017 £000s
Valuation at 1 April	**78,753**	47,401	**78,608**	47,637
Reclassification	**16,659**	-	**25,858**	-
Additions	**12,702**	12,488	**12,702**	19,205
Disposals	**(411)**	-	**(411)**	-
Transfer to Fixed Assets	**(1,795)**	(1,017)	**(1,795)**	(1,017)
Transfer to Group Company	**-**	-	**(14,183)**	-
Valuation adjustment	**3,036**	19,881	**2,580**	12,783
At 31 March	**108,944**	78,753	**103,359**	78,608

12. Investment in social Homebuy

The Group 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. The Group 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 2018 £000s	Group 2017 £000s	**Association 2018 £000s**	Association 2017 £000s
Homebuy and starter home initiatives	**7,710**	8,125	**284**	300

13. Listed and unlisted investments

	Group 2018 £000s	Group 2017 £000s	**Association 2018 £000s**	Association 2017 £000s
Listed investments - Held at Fair Value	**4,434**	4,459	**4,434**	4,459
Unlisted investments - Held at Cost	**8,512**	6,357	**8,512**	6,357
	12,946	10,816	**12,946**	10,816

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 2017	4,459	6,357	10,816
Additions	-	2,162	2,162
	4,459	8,519	12,978
Change in value	(25)	-	(25)
Interest	-	(7)	(7)
At 31 March 2018	**4,434**	**8,512**	**12,946**

14. Investment in connected entities

At the year end the Association had provided Southern Space Limited with two loan facilities. The balance outstanding on the extendable loan was £26,980,230 (2017: £17,269,338) 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 £110,488 (2017: £766,038). 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. The investment in subsidiary of £1,740,000 (2017: nil) relates to Spruce Homes Limited.

	Group 2018 £000s	Group 2017 £000s	**Association 2018 £000s**	Association 2017 £000s
Cost				
Investment loan to wholly owned subsidiary	**-**	-	**27,091**	18,035
Investment in subsidiary	-	-	**1,740**	-
Investment loan to joint venture entity	**1,803**	1,436	**1,803**	1,436
	1,803	1,436	**30,634**	19,471

	Wholly owned subsidiary £000s	**Joint venture entity £000s**	**Association £000s**
At 1 April 2017	18,035	1,436	19,471
Net increase in investment	10,796	367	11,163
At 31 March 2018	28,831	1,803	30,634

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
- 100% of the ordinary share capital of Spruce Homes Limited

15. Investments in joint ventures

	Group 2018 £000s	Group 2017 £000s	**Association 2018 £000s**	Association 2017 £000s
Triathlon Homes LLP	**-**	-	**-**	-
Affinity (Reading) Holdings Limited				
Investment	**1,294**	1,294	**1,294**	1,294
Share of accumulated surplus	**557**	495	**-**	-
Net investment in joint ventures	**1,851**	1,789	**1,294**	1,294

15. Investments in joint ventures (continued)

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:

	Triathlon Homes LLP 2018 £000s	Triathlon Homes LLP 2017 £000s
Turnover	**5,057**	5,156
Profit/(loss) before taxation	**3,090**	(1,279)
Profit/(loss) after taxation	**3,090**	(1,279)
Share of assets		
Share of fixed assets	**73,378**	75,497
Share of current assets	**8,515**	7,186
	81,893	82,683
Share of liabilities		
Due within one year	**(2,337)**	(2,410)
Due after one year	**(80,222)**	(84,319)
	(82,559)	(86,729)
Investment summary		
Share of accumulated reserves	**(666)**	(4,046)
	(666)	(4,046)

16. Stock

	Group 2018 £000s	Group 2017 £000s	Association 2018 £000s	Association 2017 £000s
Properties under construction	**56,031**	42,926	**18,589**	25,954
Completed properties	**3,527**	16,083	**1,729**	2,956
	59,558	59,009	**20,318**	28,910

17. Trade and other debtors

	Group 2018 £000s	Group 2017 £000s	Association 2018 £000s	Association 2017 £000s
Due within one year:				
Rent arrears and service charges	**9,405**	8,505	**8,974**	8,170
Less: provision for bad and doubtful debts	**(3,142)**	(3,177)	**(3,053)**	(3,070)
	6,263	5,328	**5,921**	5,100
Amounts due from group undertakings	**-**	-	**5,197**	775
Other debtors	**4,162**	3,176	**3,119**	2,298
Corporation tax	**-**	21	**-**	-
Prepayments and accrued income	**2,563**	2,584	**2,529**	2,428
	12,988	11,109	**16,766**	10,601

18. Creditors: amounts falling due within one year

	Group 2018 £000s	Group 2017 £000s	Association 2018 £000s	Association 2017 £000s
Social housing grant received in advance	**139**	139	**-**	-
Recycled capital grant fund (RCGF)	**9,144**	4,805	**4,883**	2,223
Amounts due to group undertakings	**-**	-	**4,067**	3,319
Accruals and deferred income	**22,361**	19,990	**16,778**	14,803
Corporation tax	**1,226**	4,020	**581**	-
Other taxation and social security	**886**	70	**885**	69
Other creditors	**16,951**	17,342	**10,782**	11,155
Capital grant on properties for sale	**2,873**	2,563	**2,873**	2,563
Pension deficit funding contribution liability	**-**	614	**-**	614
Housing loans	**59,709**	15,371	**29,182**	14,992
Derivative financial instruments	**-**	665	**-**	665
	113,289	65,579	**70,031**	50,403

Amounts collected from shared ownership leaseholders in respect of service charges, not yet expended, of £9,410,000 (2017: £9,068,000) are reflected above in other creditors.

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

	Group 2018 £000s	Group 2017 £000s	**Association 2018 £000s**	Association 2017 £000s
19a Housing loans	**659,820**	688,630	**636,935**	665,190
19b Deferred income	**737,586**	743,651	**702,073**	708,202
19c Pension deficit contribution liability	**-**	4,614	**-**	4,614
19d Recycled capital grant fund (RCGF)	**6,205**	10,913	**3,738**	5,189
19e Disposal proceeds fund (DPF)	**26**	100	**26**	100
Derivative financial instruments (Note 29)	**41,953**	48,547	**41,953**	48,547
	1,445,590	1,496,455	**1,384,725**	**1,431,842**

19a Housing loans	**Group 2018 £000s**	Group 2017 £000s	**Association 2018 £000s**	Association 2017 £000s
Housing loans falling due after one year	**592,264**	616,621	**569,069**	593,009
Bonds	**76,000**	76,000	**76,000**	76,000
Loan set up costs	**(3,084)**	(3,073)	**(2,880)**	(3,021)
Other loan costs	**(5,360)**	(918)	**(5,254)**	(798)
Loans at amortised cost	**659,820**	688,630	**636,935**	**665,190**

Housing loans are all secured by specific charges on 15,081 (2017: 15,519) of the Group's housing units and are repayable in instalments due as follows:

	Group 2018 £000s	Group 2017 £000s	**Association 2018 £000s**	Association 2017 £000s
Housing loans falling due within one year	**54,387**	15,371	**23,970**	14,992
Interest accrued	**5,322**	-	**5,212**	-
Total housing loans falling due within one year	**59,709**	15,371	**29,182**	**14,992**
Between one and two years	**27,751**	44,261	**27,244**	43,843
Between two and five years	**27,692**	28,649	**26,573**	27,049
In five years or more	**612,821**	619,711	**591,252**	598,117
Total	**668,264**	692,621	**645,069**	669,009

Housing loans bear hedged fixed rates of interest ranging from 1.25% to 11.45% or variable rates based on a margin above the London Inter Bank Offer Rate. The final instalments fall to be repaid during the period 2019 to 2044. Stand-alone derivative transactions are supported by charged property security to cover any adverse mark-to-market valuation.

Loans are measured at historic cost and interest expense is recognised on an accrual basis.

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

19b Deferred income	Group 2018 £000s	Group 2017 £000s	Association 2018 £000s	Association 2017 £000s
Social and other housing grant b/fwd	**743,155**	749,358	**707,706**	713,455
Social housing grant received in the year	**2,492**	2,877	**2,492**	2,877
Grant repaid	**(310)**	(1,149)	**(310)**	(1,149)
Grant abated	**(41)**	(257)	**(41)**	(336)
Intra-group transfer	**-**	-	**(1,827)**	-
Transfer (to) / from RCGF	**516**	1,279	**1,489**	1,193
Transfer (to) / from DPF	**82**	(16)	**82**	(16)
Grant amortisation released to income on disposals	**552**	696	**352**	310
Amortisation of social housing grant in year	**(9,678)**	(9,633)	**(8,688)**	(8,628)
Deferred income - Social housing grant c/fwd	**736,768**	743,155	**701,255**	707,706
Premium on debentures	**304**	440	**304**	440
Share of Joint venture deferred income	**514**	56	**514**	56
	737,586	743,651	**702,073**	708,202

19c Pension deficit contribution liability	Group 2018 £000s	Group 2017 £000s	Association 2018 £000s	Association 2017 £000s
Pension deficit funding contribution liability	**-**	4,614	**-**	4,614

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

19d Recycled capital grant fund

Balance relating to the HCA	Group 2018 £000s	Group 2017 £000s	Association 2018 £000s	Association 2017 £000s
Balance at 1 April	**6,264**	6,832	**4,121**	4,509
Grant released on sales	**1,297**	1,593	**960**	1,242
Interest added to fund	**25**	28	**17**	19
Intra-group transfer	**-**	-	**-**	540
Grant recycled into new schemes	**-**	(2,189)	**-**	(2,189)
Balance as at 31 March	**7,586**	6,264	**5,098**	4,121
Comprising amounts:				
Due within one year	**4,643**	831	**2,860**	831
Due in more than one year	**2,943**	5,433	**2,238**	3,290

Balance relating to the GLA	Group 2018 £000s	Group 2017 £000s	Association 2018 £000s	Association 2017 £000s
Balance at 1 April	**9,454**	9,804	**3,291**	3,227
Grant released on sales	**1,364**	1,828	**727**	748
Interest added to fund	**35**	34	**13**	11
Intra-group transfer	**-**	-	**2,582**	-
Grant recycled into new schemes	**(3,090)**	(2,212)	**(3,090)**	(695)
Balance as at 31 March	**7,763**	9,454	**3,523**	3,291
Comprising amounts:				
Due within one year	**4,501**	3,974	**2,023**	1,392
Due in more than one year	**3,262**	5,480	**1,500**	1,899
Total due within one year	**9,144**	4,805	**4,883**	2,223
Total due in more than one year	**6,205**	10,913	**3,738**	5,189

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

19e Disposal proceeds fund

Balance relating to the HCA	Group 2018 £000s	Group 2017 £000s	Association 2018 £000s	Association 2017 £000s
Balance at 1 April	56	56	56	56
Released on sales	9	-	9	-
Recycled into new schemes	(51)	-	(51)	-
Balance as at 31 March	**14**	**56**	**14**	**56**
Comprising amounts:				
Due within one year	-	-	-	-
Due in more than one year	**14**	**56**	**14**	**56**

Balance relating to the GLA	Group 2018 £000s	Group 2017 £000s	Association 2018 £000s	Association 2017 £000s
Balance at 1 April	44	28	44	28
Released on sales	-	16	-	16
Recycled into new schemes	(32)	-	(32)	-
Balance as at 31 March	**12**	**44**	**12**	**44**
Comprising amounts:				
Due within one year	-	-	-	-
Due in more than one year	**12**	**44**	**12**	**44**
Total due within one year	-	-	-	-
Total due in more than one year	**26**	**100**	**26**	**100**

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 2018 £000s**	Group 2017 £000s	**Association 2018 £000s**	Association 2017 £000s
Government funding received	19b	**736,768**	743,155	**701,255**	707,706
Grants amortised in the year (contingent liabilities)		**9,678**	9,633	**8,688**	8,628

21. Provisions for liabilities and charges

Housing property defects and repairs	**Group 2018 £000s**	Group 2017 £000s	**Association 2018 £000s**	Association 2017 £000s
Balance at 1 April	**167**	131	**-**	25
Fire safety costs provision	**1,200**	-	**1,200**	-
Unused repairs provision	**-**	(25)	**-**	(25)
Movement on defects provision	**36**	61	**-**	-
Balance as at 31 March	**1,403**	167	**1,200**	-

Housing property repairs provision:

The closing balance reflects a provision for fire safety costs of £1,200,000 (2017: £nil) and a defects provision in respect of new sales properties in SSL of £203,000 (2017: £167,000) which we expect to be for less than one year. The movement in the year represents an increase in both provisions.

22. Called-up share capital

Shares of £1 each issued and fully paid:	**2018**	2017
Balance at 1 April	**8**	9
Shares issued during year	**-**	1
Shares surrendered during year	**(2)**	(2)
As at 31 March	**6**	8

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

23. Capital commitments

	Group 2018 £000s	Group 2017 £000s	Association 2018 £000s	Association 2017 £000s
Capital expenditure contracted but not provided for in the financial statements	**107,239**	119,686	**90,355**	90,777
Capital expenditure authorised but not contracted	**366,562**	235,733	**215,280**	174,081

Committed development expenditure for the Group and Association will be financed through £11,953,000 (2017: £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 cancelable operating leases are charged to the statement of comprehensive income on a straight line basis over the life of the lease.

	Property 2018 £000s	Equipment 2018 £000s	Total 2018 £000s	Total 2017 £000s
Future minimum lease payments				
Within one year	**129**	-	**129**	151
Between one and five years	**-**	298	**298**	303
Over five years	**-**	-	**-**	91
	129	298	**427**	545

Operating leases with tenants

The Group's rental properties other than those held for investment purposes are tenanted under cancelable 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 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 cancelable operating leases ranging from four weeks to three month notice periods and the Group's commercial properties are non-cancelable operating leases. The Group's future minimum operating lease receipts on Commercial properties were:

Operating lease income due:	2018 £000s	2017 £000s
Within one year	**2,258**	2,086
Between one and five years	**7,545**	5,875
Over five years	**5,820**	4,492
	15,623	12,453

25. Post employment benefits

As highlighted in the principal accounting policies the Group's share of the Social Housing Pension Scheme (SHPS) assets and liabilities were transferred into the Southern Group Pension Plan as at 30 September 2017. The assets and liabilities of this scheme are shown in the section of the disclosure note subtitled SHG Scheme 2017.

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 and from which assets were transferred at 30 September 2017.
- The Isle of Wight Council Pension Fund for employees who transferred from the Isle of Wight Council.
- The Islington local government Pension Scheme of which there is only 1 member, the share of scheme assets and liabilities of which are not material to the Southern Housing Group Limited financial statements.

b) Defined contribution schemes

A defined contribution scheme run by Zurich Assurance Limited based on an incentive matched scale, where the employer contribution increases the more the employee contributes.

The amounts recognised in the balance sheet are as follows:

	Group 2018 £000s	Group 2017 £000s	**Association 2018 £000s**	Association 2017 £000s
Southern Housing Group Pension scheme	**(6,504)**	(7,528)	**(6,504)**	(7,528)
Isle of Wight Pension scheme	**(2,215)**	(2,331)	**(2,215)**	(2,331)
Total net deficit	**(8,719)**	(9,859)	**(8,719)**	(9,859)

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 are based on the last full actuarial valuation of the scheme that was carried out at 31 March 2016. The accounting disclosures have been calculated based upon this valuation and updated to 31 March 2018 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.

25. Post employment benefits (continued)

Southern Housing Group Pension Scheme (continued)

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 2018 by an independent qualified actuary.

There are 3 separate sections of the Plan, the SHG Scheme 1964, the SHG Scheme 2017 and a third section set up as part of the transfer from the SHPS scheme holding assets of £4 for which, as the value is immaterial, disclosure is not provided.

SHG Scheme 1964

During the year the Group paid contributions at a rate of 24% plus an additional annual payment of £662,460 (2017: £981,765) towards an identified deficit.

The employer contribution rate to be applied from 1 April 2019 is 24%.

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

Actuarial assumptions	2018 % pa	2017 % pa
Rate of increase in salaries	**2.60**	2.90
Discount rate	**2.65**	2.55
Inflation assumption - RPI	**3.20**	3.40
Inflation assumption - CPI	**2.10**	2.40

Mortality assumptions	Male	Female
Current pensioner aged 65	**21.90**	**23.80**
Future retiree upon reaching 65	**23.20**	**25.30**

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

	2018 %	2017 %
Equities	**48.80**	48.60
Property	**4.30**	4.20
Diversified growth fund & LDI	**45.30**	46.10
Cash	**1.60**	1.10
Total	**100.00**	100.00

Net defined benefit asset (liability)	2018 £000s	2017 £000s
Fair value of scheme assets	**45,089**	43,408
Present value of defined benefit obligation	**(48,333)**	(50,936)
Defined benefit liability recognised in balance sheet	**(3,244)**	(7,528)

25. Post employment benefits (continued)

Southern Housing Group Pension Scheme (continued)

Total expense recognised in statement of comprehensive income	2018 £000s	2017 £000s
Current service cost	558	493
Administration expenses	225	217
Recognised in arriving at operating profit	783	710
Net interest on the net defined benefit liability	180	185
Total recognised in the profit and loss account	**963**	**895**

Total amounts taken to other comprehensive income	2018 £000s	2017 £000s
Actual return on scheme assets - gains and (losses)	1,586	8,633
less amounts included in net interest on the net defined benefit liablility	(1,108)	(1,196)
Remeasurement gains and (losses)		
Return on scheme assets excluding interest income	478	7,437
Actuarial gains/(losses)	3,620	(9,551)
Remeasurement gains/(losses) recognised in other comprehensive income	**4,098**	**(2,114)**

Changes in the present value of the defined benefit obligation	2018 £000s	2017 £000s
Present value of defined benefit obligation at beginning of year	50,936	40,604
Benefits paid	(903)	(1,180)
Administration expenses paid	(225)	(217)
Current service cost	558	493
Administration costs	225	217
Interest cost	1,288	1,381
Remeasurement gains and (losses)		
Actuarial (gains)/losses	(3,620)	9,551
Employee contributions	74	87
Present value of defined benefit obligation at end of year	**48,333**	**50,936**

Changes in the fair value of assets	2018 £000s	2017 £000s
Fair value of scheme assets at beginning of year	43,408	34,553
Interest income	1,108	1,196
Remeasurement gains and (losses)		
Return on scheme assets excluding interest income	478	7,437
Contributions by employer	1,149	1,532
Employee contributions	74	87
Benefits paid	(903)	(1,180)
Administration expenses	(225)	(217)
Fair value of scheme assets at end of year	**45,089**	**43,408**

25. Post employment benefits (continued)

Southern Housing Group Pension Scheme (continued)

SHG Scheme 2017

The SHG Scheme 2017 relates to the section of SHGPP that encompasses the assets and liabilities transferred from SHPS. As explained in the principal accounting policies, the transferred values were 'rolled back' to 1 April 2017. The group's calculated share of the present value of the defined benefit obligation and the fair value of SHPS assets rolled back to 1 April 2017 were £28,304,000 and £21,338,000 respectively. The following disclosures for the SHG Scheme 2017 are therefore only provided for the year ended 31 March 2018.

During the year the Group paid contributions at a rate of 24%.

The employer contribution rate to be applied from 1 April 2019 is 24%.
The results of the calculations and the assumptions adopted are shown below.

Actuarial assumptions	2018 % pa
Rate of increase in salaries	**3.20**
Discount rate	**2.65**
Inflation assumption - RPI	**3.20**
Inflation assumption - CPI	**2.10**

Mortality assumptions	Male	Female
Current pensioner aged 65	**26.80**	**28.30**
Future retiree upon reaching 65	**28.90**	**30.40**

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

	2018 %	2017 %
Equities	**48.80**	48.60
Property	**4.30**	4.20
Diversified growth fund & LDI	**45.30**	46.10
Cash	**1.60**	1.10
Total	**100.00**	100.00

Total expense recognised in statement of comprehensive income	2018 £000s
Current service cost	**182**
Administration expenses	**40**
Recognised in arriving at operating profit	**222**
Net interest on the net defined benefit liability	**150**
Total recognised in the profit and loss account	**372**

25. Post employment benefits (continued)

Southern Housing Group Pension Scheme (continued)

In addition to the amounts recognised in the above table, non-recurring costs were incurred to take greater control of our defined benefit scheme obligations. See page 12 and 39 of the Annual Report and in note 4 to the financial statements for further information.

Total amounts taken to other comprehensive income	2018 £000s
Actuarial (gains)/losses	(1,940)
Remeasurement gains/(losses) recognised in other comprehensive income	**(1,940)**

Changes in the present value of the defined benefit obligation	2018 £000s
Present value of defined benefit obligation at beginning of year	28,304
Benefits paid	(983)
Administration expenses paid	-
Current service cost	182
Administration costs	
Interest cost	709
Remeasurement gains and (losses)	
Actuarial gains/(losses)	(2,152)
Employee contributions	54
Present value of defined benefit obligation at end of year	**26,114**

Changes in the fair value of assets	2018 £000s
Fair value of scheme assets at beginning of year	21,338
Interest income	559
Remeasurement gains and (losses)	
Return on scheme assets excluding interest income	(212)
Contributions by employer	2,138
Employee contributions	54
Benefits paid	(983)
Administration expenses	(40)
Fair value of scheme assets at end of year	**22,854**

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 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 2018/19 (2017/18: 28.3% plus £170,000).

The major assumptions used in this valuation were:

Actuarial assumptions	**2018 % pa**	2017 % pa
Pension increase rate	**2.40**	2.40
Salary increase rate	**2.80**	2.80
Discount rate	**2.60**	2.50
Inflation assumption - RPI	**3.40**	3.40
Inflation assumption - CPI	**2.40**	2.40

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 scheme assets are

25. Post employment benefits (continued)

The Isle of Wight Council Pension Scheme (continued)

	2018 %	2017 %
Equities	67.00	68.00
Property	6.00	5.00
Bonds	26.00	26.00
Cash	1.00	1.00
Total	**100.00**	100.00

Net defined benefit asset (liability)	2018 £000s	2017 £000s
Fair value of scheme assets	5,479	5,477
Present value of defined benefit obligation	(7,694)	(7,808)
Defined benefit liability recognised in balance sheet	**(2,215)**	(2,331)

Total expense recognised in statement of comprehensive income	2018 £000s	2017 £000s
Current service cost	73	49
Recognised in arriving at operating profit	73	49
Net interest on the net defined benefit liability	193	239
Total recognised in the profit and loss account	**266**	288

25. Post employment benefits (continued)

The Isle of Wight Council Pension Scheme (continued)

Total amounts taken to other comprehensive income	2018 £000s	2017 £000s
Actual return on scheme assets - (losses)/gains	(74)	559
Remeasurement gains and (losses)		
Return on scheme assets excluding interest income	(74)	559
Remeasurement gains and (losses)	102	(652)
Remeasurement (loss)/gains recognised in other comprehensive income	28	(93)

Changes in the present value of the defined benefit obligation	2018 £000s	2017 £000s
Present value of defined benefit obligation at beginning of year	7,808	7,171
Benefits paid	(289)	(313)
Current service cost	73	49
Administration costs		
Interest cost	193	239
Remeasurement gains/(losses)		
Actuarial (gains)/losses	(102)	652
Employee contributions	11	10
Present value of defined benefit obligation at end of year	7,694	7,808

Changes in the fair value of assets	2018 £000s	2017 £000s
Fair value of Scheme assets at beginning of year	5,477	4,896
Interest income	136	164
Remeasurement gains and (losses)	(74)	559
Contributions by employer	218	161
Employee contributions	11	10
Benefits paid	(289)	(313)
Fair value of scheme assets at end of year	5,479	5,477

Defined Contribution Schemes

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

Zurich Assurance Limited £894,351 (2017: £773,005)
Social Housing Pension Scheme £32,913 (2017: £77,214)

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 (SHGL)
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		Provides property construction service (Dormant)	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)	Jointly controlled operation		Joint venture partnership with Windsor & District HA	50% partnership capital
Affinity (Reading) Holdings Limited	Companies Act 2006 Number 04851135		Joint venture with Radian Housing	33.3% share and 16.67% via Affinity Housing Services (Reading)
Triathlon Homes LLP	The Limited Liability Partnership Act 2000		Joint venture Entity with First Base 4 Stratford LLP and East Place Limited	33% partnership interest via SSL

28. Related parties

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

Payments Received by Southern Housing Group Limited	2018 £000s	2017 £000s
Admin support and development costs from Southern Space Limited, Southern Development Services Limited and Spruce Homes Limited	**1,848**	1,573
Loan interest from Southern Space Limited and Spruce Homes Limited	**586**	1,100
Director's services,and profit distribution from Affinity Housing Services (Reading)	**105**	205
Provision of financial services for Triathlon Homes LLP	**140**	140
Sale of Investment Properties to Spruce Homes Limited	**2,675**	-
Gift Aid from Southern Development Services Limited	**-**	373
Total	**5,354**	3,391

Payments made by Southern Housing Group Limited	2018 £000s	2017 £000s
Development costs paid to Southern Space Limited	**-**	11,102
Development costs paid to Southern Development Services Limited	**28,827**	24,803
Management costs paid to Spruce Homes Limited	**15**	-
Total	**28,842**	35,905

Payments totalling £9,136,136 were made in the normal course of business to Durkan Ltd, a construction company related to a Director of the Group.

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

Assets	2018 £000s	2017 £000s
Inter-company debtor due from Southern Space Limited and Spruce Homes Limited to Southern Housing Group Limited	**30,011**	18,036
Redeemable loan notes due from Affinity Reading (Holdings) Limited	**1,803**	1,436

Liabilities	2018 £000s	2017 £000s
Inter-company creditor due from Southern Housing Group Limited to Southern Development Services Limited and Southern Space Limited	**4,068**	3,377

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

	2018 £000s	2017 £000s
Sale of land to Southern Space Limited	**-**	7,400
Development costs paid to Southern Development Services Limited	**3,768**	907
Inter-company debtor due from Southern Space Limited	**2**	-
Inter-company creditor due to Southern Development Services Limited	**294**	716

Letters of support have been provided by the parent to each of the subsidiaries, Southern Home Ownership Limited, Southern Space Limited and Spruce Homes Limited

29. Financial assets and liabilities

Financial instruments

The Group has the following financial instruments:

	Group 2018 £000s	Group 2017 £000s	Association 2018 £000s	Association 2017 £000s
Financial assets at fair value through profit or loss				
- Investments at market value	**4,434**	4,459	**4,434**	4,459
	4,434	4,459	**4,434**	4,459
Financial assets that are measured at amortised cost				
- Cash and cash equivalents	**72,374**	125,506	**60,921**	107,592
- Investments at amortised costs	**8,512**	6,357	**8,512**	6,357
- Long term joint venture investment	**1,803**	1,436	**1,803**	1,436
- Social Homebuy investment	**7,710**	8,125	**284**	300
- Rent and service charge arrears	**6,263**	5,328	**5,921**	5,100
- Other debtors	**4,162**	3,176	**3,119**	2,298
	100,824	149,928	**80,560**	123,083
Financial liabilities measured at fair value through profit or loss				
- Derivative financial instruments	**41,953**	49,212	**41,953**	49,212
	41,953	49,212	**41,953**	49,212
Financial liabilities measured at amortised cost				
- Trade and other payables	**38,702**	37,336	**31,017**	29,281
- Bonds	**76,000**	76,000	**76,000**	76,000
- Bullet loans	**199,600**	159,936	**169,600**	159,936
- Revolver loans	**32,250**	44,591	**32,250**	44,591
- Other loans	**414,801**	427,071	**391,189**	403,201
	761,353	744,934	**700,056**	713,009

Southern Housing Group Limited has the following stand alone derivative transactions as at 31 March 2018:

	Fair Value	
	2018 £000s	2017 £000s
£20m 3 yearly cancellable swap at a fixed rate of 4.77%, next option date July 2019	**(11,239)**	(12,730)
£25m 30 year cancellable swap at a fixed rate of 4.57%, option date November 2023	**(13,611)**	(15,422)
£30m 27 year swap at a fixed rate of 4.9875% discounted by compound RPI above 3.20%	**(16,931)**	(19,475)
£25m 5 year swap at a fixed rate of 2.75%	-	(152)
£25m 5 year swap at a fixed rate of 3.055%	-	(514)
£25m 5 year swap at a fixed rate of 3.3%	**(172)**	(919)
	(41,953)	(49,212)

29. Financial assets and liabilities

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 2018. Accrued interest is included in the derivatives at fair value.

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:

	2018 £000's	2017 £000's
Property, plant & equipment	**13,694**	13,989
Investments	**1,175**	1,125
Total assets less current liabilities	**14,869**	15,114
Creditors: amounts falling due after more than one year		
Social housing and other grants	**(7,443)**	(7,443)
Total net assets	**7,426**	7,671
Net income from permanent endowed assets		
Income from lettings	**1764**	1,769
Less expenditure on letting activities	**(918)**	(880)
Surplus on letting activities	**846**	889
Income from Investments	**11**	11
	857	900

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 £13,347,000 (2017: £13,516,000) 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 2018 the value of cumulative amortised grant which 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 £126,014,000 (2017: £117,599,000).

32. Post balance sheet events

The following are non-adjusting post year end events.

On 30 April 2018 the Group purchased 496 homes from Hyde Group at a cost of £43m.

As part of the work with existing lenders on building long term capacity, on the 27 April 2018 the Group removed all of its £100m standalone derivatives and £30m of embedded fixed rate SWAPs. The standalone derivatives were traded at £3.6m lower than the balance sheet liability at 31 March 2018 and the embedded SWAPs at £5.1m. Therefore the net effect on the 2018/19 Statement of consolidated income will be a cost of £1.5m.

In addition, during April 2018 the Group completed a 5 year, £75m Revolving Credit Facility loan from a new bank lender to the Group.