

# Group Financial Accounts

2011/12

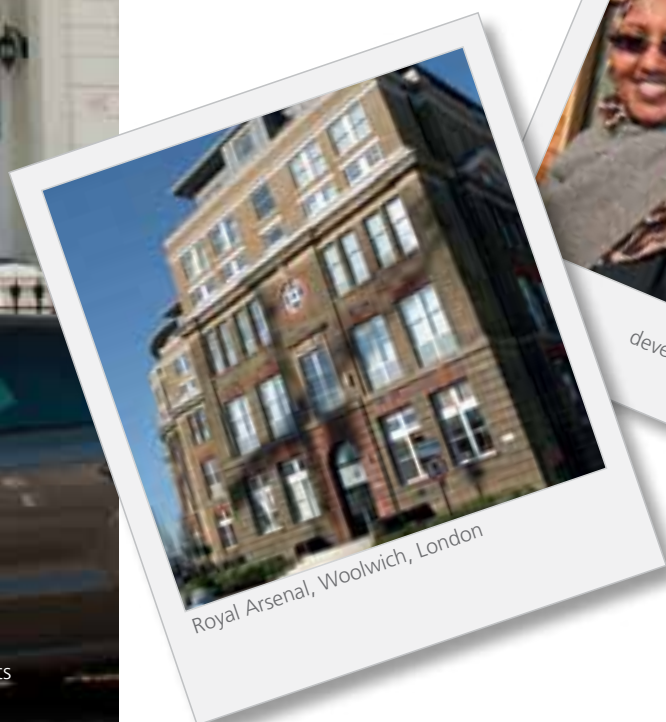
Unlocking the potential of people and places

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## The consolidated financial statements of:

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



Albany Villas in Hove is one of the Group's key redevelopment projects

# The Board

Members of the Board and Committees of Southern Housing Group Limited as at 31 March 2012:

Group/ Company		Southern Housing Group						SDSL	SHO	SSL
Committee		Board	Remuneration & Nominations	Treasury	Customer Services	Audit	Development	Board	Board	Board
Andrew McIntyre		C	M	M						
Lara Oyedele		M		M (2011)			M			
Anthony Bourne		M	C	M				C		
Tom Dacey	CE	M						M		M
Chris Hampson		M	M		C					
Jim Hitch		M	M						C	C
Jane Hives		M		M		C	M		M	M
Preth Rao		M			M	M (2011)				
Tim Richards		M (2011)					C			
Justin Chittock		M (2011)		C		M				
Malcolm Groves		M (2011)					M (2011)			
Katherine Lyons									M	M
Hugh Stebbing									M	M
Dale Meredith	E								M	M
Rosemary Farrar	E									M (2011)
Alene Wilton	E							M		

C: Chair M: Member CE: Chief Executive E: Executive

## Auditor

**KPMG LLP**  
1 Forest Gate  
Brighton Road  
Crawley  
West Sussex  
RH11 9PT

## Principal Bankers

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

## Secretary and Registered office


**Phillippa Caine**  
Fleet House  
59-61 Clerkenwell Road  
London  
EC1M 5LA





# Operating and financial review

Overview of the Business



**Southern Housing Group was established in 1901 and owns and manages more than 25,000 homes in London and the South East of England, over 40% of these in the high value central London boroughs.**

We provide housing for over 66,000 residents and employ 900 people offering a range of housing options for rent and home ownership. We offer support to our residents through our social and economic investment work involving a variety of ground breaking projects.

We have a healthy pipeline of new housing stock and have contracted with the Homes and Communities Agency (HCA) during 2011/12 to develop homes under the new 'affordable housing' tenure.

Southern Housing Group Limited (SHGL) which is the parent organisation and Southern Home Ownership Limited (SHO) are Registered Providers (RPs) of affordable housing regulated by the HCA. Southern Space Limited (SSL) develops properties for outright sale. Southern Development Services Limited (SDSL) provides project delivery services for companies in the Group. SSL has a one third share in Triathlon Homes LLP which will provide the long term affordable housing at the Olympic Village from 2013 and SHGL has a 50% share in the Reading PFI.

The consolidated financial statements are published on the Group's website [www.shgroup.org.uk](http://www.shgroup.org.uk).

## External Influences

As the country's economy has fallen back into recession the Group continues to maintain its commitment to supply affordable housing. We have a modest contract with the Homes and Communities Agency (HCA) to supply the new tenure 'Affordable Homes'. In addition to this we are continuing to find new ways to operate more efficiently in order to produce a healthy supply of subsidised low cost housing despite the current economic climate.

Our tenants and residents have begun to feel the effects of the economic downturn. High costs of housing in the parts of London and the South East where we operate make the difficulties more acute. Over the year our Social and Economic Regeneration department has worked hard on a variety of projects to provide support, education and employment opportunities funded both by Southern Housing Group and external sources including £66,000 from the 'Big Lottery'.

We have been preparing for the changes in the welfare benefit system and will be putting into place systems and procedures to manage the transition and to ensure that we continue to be financially robust in this period.

The supply of affordable mortgage finance for first time buyers continues to be very challenging as banks have retreated from the domestic mortgage market. Despite this our shared ownership housing has proved popular over the last year with sales exceeding expected price and volume.

Responsibility for the sector's regulation moved during the year from the Tenant Services Authority (TSA) to an independent Regulation Committee within the HCA. The change has led to a much greater emphasis on value for money and efficiency which the Group is embracing.

## Objectives and strategies

The Southern Housing Group is committed to providing housing of a high quality to all in housing need. We aim to provide a first class housing management service to a range of tenures from affordable to mid-market rent levels. In doing this we aim to unlock the potential of people and places.

Our first priority is to our residents and the responsibility to meet our service standards and our residents' evolving needs. In order to continue to meet the needs of tenants and to increase our new supply of housing we are developing a sophisticated asset management strategy in order to maximise the use of our property assets and our net rental income. We are building on a strong legacy and work to establish and strengthen relationships with the communities in which we operate.



Community gardening project at Beaver Court, Kent



## Value for money (VfM)

VfM is a key concept embodied within our Corporate Plan for 2012-2015. The Group's Value for Money strategy is currently being reviewed to ensure that it supports both our new strategic objectives and complies with the new regulator's expectations.

The Group has a robust budgeting process that requires all managers to operate within agreed financial parameters whilst delivering improved outcomes for residents. We concentrate on delivering and demonstrating VfM on a case by case basis rather than trying to develop a complex measurement system.

We are committed to the elimination of waste. During the past year we have re-staffed our Continuous Service Improvement (CSI) Team and worked with specialist consultants to eliminate waste from our key processes and ensure good quality outcomes for our residents.

The CSI team has supported a number of key projects to drive VfM improvements in areas such as estate services, anti social behaviour, void management, procurement

of goods and services and staff performance appraisal. These projects are effective at driving waste from our systems whilst improving outcomes for residents.

The Group has a small Procurement Team that provides support to managers who procure goods and services. This team is critical to obtaining good VfM from everything that the Group purchases. The team methodology includes a calculation to ensure that new contracts really will deliver improved VfM.

As can be seen from the financial VfM indicators below, driving efficiencies in our housing management teams has released resources to add to the investment in the maintenance of our social housing properties.

Increasingly the Group sees VfM as a wider concept covering how we make the best use of our assets. All Departments operate together to ensure that we rationalise our stock holding and make the best use of the assets that we own.

## Financial value for money indicators

	2012	2011
Cost of housing management per social housing property £	<b>127</b>	154
Average cost of maintenance of each social housing property £	<b>1,621</b>	1,339
Average service costs of social housing property £	<b>581</b>	513
Overheads as a percentage of income	<b>41%</b>	45%
Operating cost per social housing property £	<b>3,418</b>	3,294
Social housing lettings operating margin	<b>27%</b>	28%
Empty property rent loss per home £	<b>76</b>	82
Board and Executive pay per home (excl Pension) £	<b>28</b>	34
Spend per unit of housing on new housing supply £	<b>2,969</b>	
Added income from rents spent on new supply £	<b>13,316</b>	
Debt per unit of housing £	<b>28,806</b>	27,075
Cash Collection %	<b>99.3%</b>	101.2%
Bad Debt per unit of housing £	<b>12</b>	12

## Value for money in our operational performance

Our operational performance is monitored by the Board and by our residents and is a critical focus of our Corporate Plan.

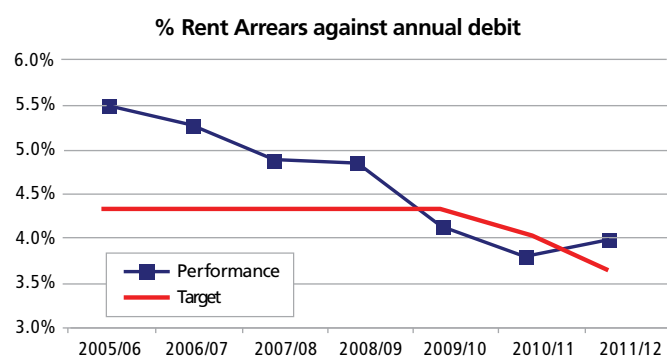
### What our residents think

In addition to completing an annual survey to assess general resident satisfaction levels we continue to monitor our performance through our 'What Matters to Residents' surveys. These surveys show that there has been a significant fall in satisfaction with our handling of anti social behaviour. We have worked hard to improve our success with this challenge by listening to what residents have communicated to us through the surveys.

Aggregated satisfaction with the service area	Aggregated Satisfaction with the Service Area 2011-12	Aggregated Satisfaction with the Service Area 2010-11	Aggregated Satisfaction with the Service Area 2009-10	Aggregated Satisfaction with the Service Area 2008-09	Change 2010-11 to 2011-12
Gas Repairs Service	81%	78%	84%	85%	3%
Gas Servicing	90%	94%	88%		-4%
New Lettings	85%	91%	87%	83%	-6%
Complaints Case handling	47%	41%	41%	39%	6%
ASB service	58%	77%	53%	56%	-19%
Aids and adaptations	87%	90%	87%	83%	-3%
Rent Payment	94%	94%	94%	95%	0%
Works to existing homes	88%	86%	95%	88%	2%
New build homes	83%	81%	84%	85%	2%
External Redecorations	83%	92%	84%	87%	-9%
Resident Services Team	91%	79%			12%
Sales & Marketing	100%	90%	94%	91%	10%
Web Services Survey		65%	67%		
<b>Overall Satisfaction</b>	<b>8.1</b>	<b>8.4</b>	<b>7.8</b>	<b>8.1</b>	

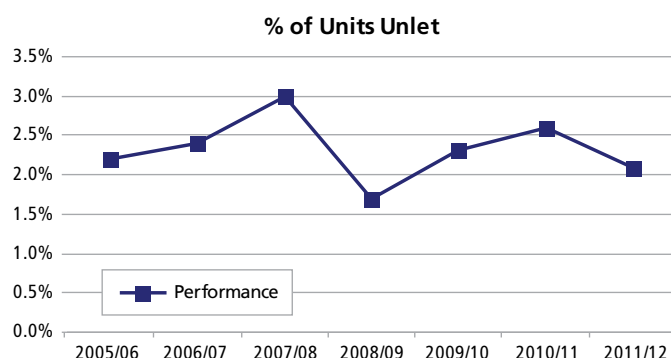
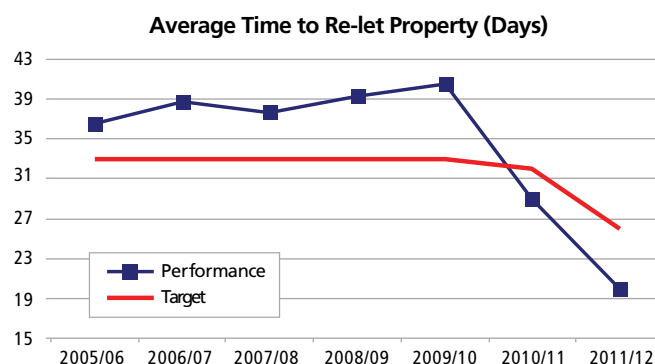
## Rent Arrears

The underlying performance for rent collection rates continued to improve for the sixth consecutive year although the year end arrears position increased marginally due to the timing of the March Housing Benefit receipt. Early intervention and embedding of our financial inclusion services help to minimise the need for evictions. A great deal of preparation is taking place in order that we can assess the impact of the fundamental welfare benefit changes which are to become effective next year and we are working to address the challenge that this will present to our residents.



## Properties to be re-let

The speed with which we turn around our properties to be re-let improved significantly in 2011/12 as the management procedure implemented in 2009/10 has now fully bedded down. The volume of properties for re-let reduced slightly at year end but remains relatively high as a result of the refurbishment programme due to start in 2012/13.



Resident Christian Nyampeta  
at Liverpool Road celebration

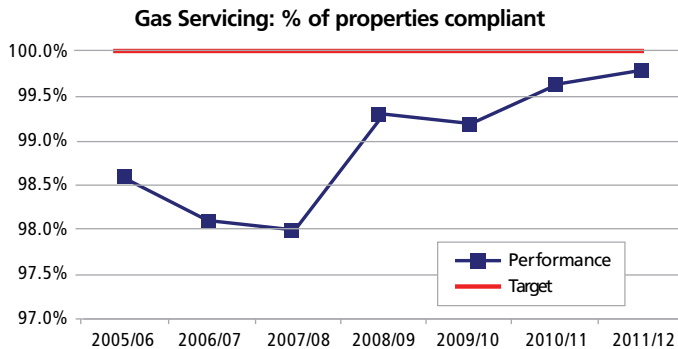


The sustainable development  
at Albany Villas, Hove



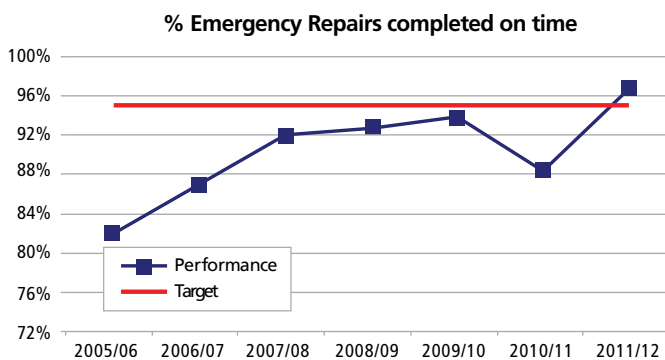
### Gas Servicing

In 2011/12 we further improved the percentage of homes with a valid gas safety certificate with 99.8% compliance being the best performance achieved to date. We will continue to strive to reach 100% compliance.



### Day to Day Repairs

Performance for emergency repairs saw 96.6% of repairs completed within 24 hours of being reported. This is the best performance level achieved in recent years and we continue to maintain a high level of resident satisfaction.



### Decent Homes

Our comprehensive reinvestment programme enabled us to reach 100% decency in our housing stock by the required date of December 2010. We continue to maintain 100% decency through our comprehensive programme of improvement works.



Community regeneration at Parkside Place, London

## Social and Economic Regeneration

We are proud to invest in the communities where we work and not just in the buildings we own. As the economy has worsened and cuts in welfare and public services have begun to make an impact, Southern Housing Group's social and economic regeneration work has focussed more than ever on offering support to our residents to become economically active. We are working to tackle barriers such as limited basic skills and confidence and knowledge of the digital world whilst aiming to improve life opportunities. This year Southern Works - our in-house employment advice and guidance service - has engaged with over 600 residents supporting them on their journey to employment. We have piloted a money management training programme for residents which was oversubscribed and which we will expand to support residents through the forthcoming welfare benefit changes. We have also secured a further £50,000 from UK online to support our residents who are digitally excluded.

## Development Performance

In 2011/12 we completed 392 new homes of which 380 were part of the HCA partnering programme. The Group's HCA spend at £17.5m was slightly below the cash planning target of £18.8m, but we were able to claim an additional £3.9m of grant from the 2011-2015 Affordable Housing Programme by taking advantage of the HCA's start-on-site tranche payment offer (to end-of-year). We started work on 288 new homes during the year of which 248 were part of the HCA programme.

As a result of the Group's decision to limit its exposure to the new 'affordable rent' tenure there were fewer starts and handovers in 2011/12. Although the proportions of social or affordable rent, intermediate market homes and outright sale in the programme during 2011/12 remained similar to the previous year (54:43:3) we are reviewing our development strategy going forward following the completion of a highly successful 'Rent to Homebuy' project at Albany Villas in Brighton.

Tenure	2010/11		2011/12	
	Handovers	Starts	Handovers	Starts
Social Rent	254	465	214	0
Affordable Rent	0	0	0	148
Intermediate Rent	145	89	73	0
Rent to Homebuy	0	0	12	0
Market Rent	0	2	0	0
Shared Ownership	69	39	81	100
Outright Sale	39	0	12	40
<b>Total</b>	<b>507</b>	<b>595</b>	<b>392</b>	<b>288</b>

## Affordable Housing Programme

### New Starts 2011-15

The National Affordable Housing Programme (NAHP) 2008-11 was replaced in April 2011 by the Affordable Housing Programme 2011-15 (AHP). The contract for delivering the new 'Affordable Rent' model through this programme was signed with the HCA in November 2011. Despite the delayed contract we were able to start-on-site on seven of the fourteen projects in the programme through careful programme management which has allowed us to access the temporary offer by the HCA of start-on-site grant payment and to achieve a confident start on delivery of the programme.

Our contract with the HCA will deliver 553 new homes by April 2015. Our bid was focussed on our key operating areas in London and the South-East and delivers priority schemes with a balance of 65% affordable rented tenure 35% intermediate rented tenure. Around 85% of the programme is on identified and deliverable projects, a high proportion of which are built on land already in our ownership.

The programme is funded by £12.7m grant with the remaining 85% to be paid for by rental income derived from reletting 390 existing social rent tenancies at the higher affordable rent levels. In addition we have allocated funds from our strategic asset disposals programme towards the cost of the new homes.

Our strategy has been to restrict the number of re-let conversions to one bedroom flats and our policy is to set the new affordable rent at 60% of market rent in London and at 80% elsewhere. In return for the higher rent that we charge we provide carpets and white goods to the tenants. We have been careful to ensure that tenants of the new affordable rent tenure can afford the higher rent. This has been welcomed by most of our partner local authorities and lenders.

## Development Highlights

During 2011/12 we have been working to provide new affordable housing on a number of high profile sites which include:

### Kidbrooke, London Borough of Greenwich

In partnership with Berkeley Homes and LB Greenwich we are demolishing 1970's flats in South East London to make way for a new high quality urban district with around 4,600 new homes, open space and communal facilities. Phase 1 of this huge regeneration scheme involving 229 homes was completed in September 2011 and handovers are currently underway for the second phase of affordable housing comprising of 114 units, including both affordable rent and shared ownership. We have also secured funding for another phase of 112 affordable homes.

### Barking Riverside, London Borough of Barking & Dagenham

The first homes are now complete on this 350 acre brownfield development site. This initial phase, still under construction, will produce 357 homes when completed including 167 at affordable rent levels.

### Highbury Gardens, Holloway Road, London Borough of Islington

Work was completed at the Highbury Gardens scheme in Islington in January 2012. Led by First Base and the Homes and Communities Agency (HCA), Highbury Gardens provides 119 one, two and three bedroom homes as well as office and retail space. The Group is the affordable housing provider for the £30 million development with 18 homes for social rent and 39 shared ownership properties.



Launch of Vacant Lot project,  
Samuel Lewis Trust, London



### **Athletes Village**

We are partners in Triathlon Homes LLP, the joint venture which will take ownership of the 1,379 affordable homes at the Athletes Village, now known as East Village, following the Olympic Games. These homes will be integrated with over 1,400 open market homes owned by the Qatari Diar Delancey partnership which is likely to offer the majority of them for market rental. The project is progressing to time and on budget and all of the homes have achieved 'Games Completion' and have been handed over to the London Organising Committee for the Olympic Games for occupation by competitors during the Games period. After the Games and following completion of a retrofit programme the homes will be handed over for residential occupation throughout 2013 and into 2014. Detailed consultation is taking place with a wide range of local agencies on plans for the letting and management of the affordable homes. East Village will be part of a new mixed tenure community and will eventually blend into the regenerated Lower Lea Valley and become the centrepiece of the Olympic legacy along with the Queen Elizabeth II Park and the stadia.

### **Market Estate, London Borough of Islington**

Work started on the third and final phase of Market Estate in Islington during 2010/11. The project was originally a tenanted stock transfer of a run down ex GLC estate. All the residents were rehoused in newly built homes in the first two phases of the project in accordance with the timetable agreed with residents in the ballot. The third phase provides a mix of 53 homes for Social Rent, 45 Homes for Shared Ownership and 89 homes for Open Market Sale. Completion is due from June 2012 through to November 2012.

### **Holborough Valley, Tonbridge & Malling**

We are taking handover of a further 85 dwellings for social rent tenure in May 2012. These include three bedroom townhouses, and a range of flatted dwelling types. Berkeley Homes are due to complete a further phase later in the year for the open market and for their private rent initiative. Further phases will follow which will include some additional affordable housing.

### **North Bersted, Arun District Council**

North Bersted is a major development on the perimeter of Bognor Regis in West Sussex. Three sites are being built by major housebuilders and we are working with Berkeley Homes. We own and manage 51 properties as part of the development that has been completed to date and a

further 61 units of the affordable housing quota are due to complete during the 2012/13 financial year.

### **West Village, Reading Borough Council**

This is the former Battle Hospital site that is being redeveloped by Barratts David Wilson. Of a total affordable housing quota of 169 units, 60 were completed in 2008, and following a delay caused by market conditions, the remaining 109 homes are being constructed and are due to complete in September 2012. There will be 43 units for social rent, 30 for intermediate market rent and 36 for shared ownership.

### **Pankhurst Avenue, Brighton**

Construction on this site commenced in early 2012 and the 95 units are programmed to complete in October 2013, 40 units for affordable rent and 55 units for shared ownership.

### **Sales and Marketing**

In September 2011 we launched a new specialist team concentrating on first tranche shared ownership sales. Marketing advice and assistance is provided to regional lettings teams who have taken on operational responsibility for all new Intermediate Rent properties.

Thirty one new Shared Ownership properties were completed during the year generating a first tranche sales income of over £3.4m. Twelve homes were let on a rent to homebuy basis. Three homes in our existing stock were also converted from intermediate rent to shared ownership, generating over £200,000 in sales proceeds. This is a strategy we will be exploring further in the coming year.

### **Design Awards Success**

The success of Highbury Gardens has been widely recognised. It recently won 'Best New Place to Live' at the London Planning Awards 2012, where Mayor of London Boris Johnson praised the development's "compelling approach to elegance and sustainability in inner city living". It was also runner up for First Time Buyer Awards' 'Best Architectural Design' and has recently been shortlisted for the British Home Award's 'Apartment Building of the Year' and for the Chartered Institute of Housing's Best Large Scheme award.

Albany Villas in Hove was also confirmed as the runner up for the First Time Buyer Award's 'Most Innovative Re-development of an Existing Property'.

## Environmental Sustainability

The Group has stated its key objectives in its Environmental Sustainability Strategy 'Towards a Greener 2011'.

### Landmark achievements during 2011/12 include:

- Continued improvement in the energy efficiency of our housing stock with the average energy efficiency rating of our housing stock improving by over 1.5 points from last year.
- Completing our first 'Code for Sustainable Homes level 4' at our Highbury Gardens development.
- Reducing the environmental impact of our offices by cutting our in-house printing by 20% through the introduction of smart printing software, achieving a 91% recycling rate and reducing energy use by 12.5%.
- Requiring our development partners to divert 85% of waste from landfill on all development sites
- Training our frontline staff in practical ways to assist residents in or at risk of fuel poverty
- Installing air-source heat pumps, solar thermal panels and voltage optimisation into 40 properties on the Isle of Wight funded by a Renewable Heat Incentive Premium Payment grant from the Department of Energy and Climate Change (DECC).

### The Group continues to innovate to reduce its environmental impact across all areas of its work including initiatives such as:

- Developing a practical approach to the Green Deal and the Renewable Heat Incentive,
- Rolling out video conferencing to two more of the Group's offices,
- Continued engagement with our suppliers and contractors around environmental sustainability including running the annual Sustainable Contractor Award,
- Assessing the risk posed to our stock through predicted changes to the climate

## Governance

### Risks and uncertainties

The Board takes a strategic overview of risk across the Group. We have a well established process for managing risk and our top risk map containing those risks that would significantly affect delivery of our strategic objectives is reviewed by the Audit Committee four times during the year and by the Board at its December meeting.

### The key (high rated) risks at March 2012 are:

- **That potential future rent increases will be suppressed by the current government's planned move from RPI to CPI for calculating rent increases and that the regulator's control of rent increases will therefore reduce the Group's revenue.**

*We have modelled into our medium term business plan suppressed rent increases in order to ensure that the Group can continue to maintain its high standards of management, to maintain its housing assets adequately and to grow and develop new housing assets with the reduction in revenue.*

- **That the changes in government policy concerning housing benefit specifically the use of the rent cap, the under occupancy ruling, the ending of the payment of housing benefit directly to the landlord and the introduction of universal credit will increase rent arrears and reduce revenue collected.**

*We are putting in place rent collection procedures to ensure that our tenants do not run up unmanageable rent arrears. Our Social and Economic Regeneration Department is working with our residents to ensure that they are able to manage the transition to the new regime.*

- **That the new grant funding contract with the Homes & Communities Agency, which introduces the affordable rent tenure poses increased risk for the Group as capital grant funding is much reduced and the funding gap will have to be filled through increased borrowing.**

*We are exploring new ways of developing additional housing with reduced grant and are modelling to use the very high value of housing assets more effectively.*

- **That the changes in our accounting treatment required by the new international financial reporting standards to be applied to our Annual Financial Statements might lead to a breach of covenant with lenders.**

We are structuring our treasury management to reduce this risk to a minimum.

- **That our lenders' attitude to debt management will lead to restrictions in the way we manage our business and to unforeseen breaches of loan covenant/s which will allow lenders to re-price the back book and consequently to increase the cost of borrowing.**

*We are reviewing our treasury strategy to look to replace traditional bank debt with loan finance from other sources.*

- **That economic conditions will reduce our leaseholders' ability to sustain their home owner status.**

*We are working with lenders to address this issue and have made sure that sales are made to leaseholders who meet the affordability criteria set out.*

## The Board

The Board is responsible for the business of Southern Housing Group which includes overseeing and directing our activities, formulating future strategies and plans, maintaining an overview and monitoring the work of its subsidiaries and committees. The Board meets four times per year for regular business and once for a seminar to discuss strategic issues. Board members serve a maximum of three continuous terms of three years. The Board members who served during the year are listed on page 3 and attendance at meetings on page 16.

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

The Board fully supports and complies with the principles set out in the National Housing Federation's Code.

Members of the SHGL Board are paid for their services to increase our ability to attract and retain high calibre members and to improve mechanisms for their performance appraisal and development. The current annual rates of payment are:

<b>Chairman:</b>	<b>£15,000</b>
<b>Member and Chairman of Committee or subsidiary Board:</b>	<b>£ 7,000</b>
<b>Member:</b>	<b>£ 5,000</b>

The level of Board member remuneration was last reviewed by the Remuneration and Nominations Committee during 2010 -11 where it was determined that payment should be retained at the existing levels until the next review.



Social Housing at Barking Riverside development, London



## Committees

### The Audit Committee

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

### The Customer Services Committee

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

### The Development Committee

The Development Committee considers matters relating to our Development Strategy including the development of new properties and stock reinvestment. It also has oversight of the work of the Parkside Place (formerly known as Market Estate) Committee and monitors performance in relation to property sales and first lettings of intermediate rent properties.

### The Remuneration and Nominations Committee

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

### The Treasury Committee

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



## Board attendance and significant other directorships

Group / Company		Southern Housing Group					Other directorships
Committee	Board	Remuneration & Nominations	Treasury	Customer Services	Audit	Development	
Andrew McIntyre	4(4)	2(4)	0(4)				Ernst & Young Trustees Ltd
Lara Oyedele	4(4)		2(2)			4(4)	Meru Close Management Committee
							BMJ Publishing Group
Anthony Bourne	4(4)	4(4)	3(4)				Bioquell PLC
							Barchester
							Grove Limited
Tom Dacey	4(4)						
Chris Hampton	3(4)	3(4)		4(4)			Look Ahead Housing & Care
Jim Hitch	4(4)	4(4)					English Language Services Ltd.
Jane Hives	4(4)	4(4)	4(4)			3(4)	
Preth Rao	4(4)			4(4)	2(2)		
Tim Richards	4(4)					4(4)	Aston Rose (West End) Ltd.
Justin Chittock	4(4)		4(4)		4(4)		Linden Business Consulting Ltd.
							Island Cottages Ltd.
							Sustainable Chale Ltd
							Chale Recreation Ground Ltd.
Malcolm Groves	3(3)					3(3)	IOW County Club Ltd.
							Independent Arts Ltd.
							Osbourne Court Management Co Ltd.
							IOW Community Business Partnership Ltd.

Group / Company	SDSL
Committee	Board
Anthony Bourne	1(1)
Tom Dacey	1(1)
Alene Wilton	1(1)

Group / Company	SHO
Committee	Board
Jim Hitch	3(3)
Jane Hives	3(3)
Katherine Lyons	2(3)
Hugh Stebbing	3(3)
Dale Meredith	3(3)

Group / Company	SSL
Committee	Board
Tom Dacey	4(4)
Jim Hitch	4(4)
Jane Hives	4(4)
Katherine Lyons	2(4)
Hugh Stebbing	3(4)
Dale Meredith	4(4)
Rosemary Farrar	3(4)

**Board/Committee Meeting Attendance:** Number of meetings attended out of (Total number possible for individual)

## Accounting Policies

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

## Financial performance

### Group Financial Results, Five Year Summary

For the year ended 31 March	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
<b>Income and Expenditure Account</b>					
Turnover	<b>135.1</b>	129.8	133.7	128.1	160.4
Operating costs	<b>(103.9)</b>	(96.2)	(106.1)	(101.0)	(117.5)
Operating surplus	<b>31.2</b>	33.6	27.6	27.1	42.9
Net interest charge	<b>(23.4)</b>	(28.3)	(24.2)	(22.2)	(19.8)
Fair value writeback	-	9.5	-	-	-
Surplus on sale of assets	<b>10.4</b>	6.3	4.6	3.7	9.3
Tax charge	<b>(0.3)</b>	-	-	-	-
Surplus for year	<b>17.9</b>	21.1	8.0	8.6	32.4
<b>Balance Sheet</b>					
Housing properties at cost less depreciation	<b>1,659.2</b>	1,631.1	1,572.6	1,503.8	1,355.0
Less: Social Housing and other grants	<b>(847.5)</b>	(839.6)	(782.4)	(737.6)	(697.4)
	<b>811.7</b>	791.5	790.2	766.2	657.6
Other tangible fixed assets	<b>39.9</b>	40.4	39.8	38.4	37.1
Investments	<b>100.1</b>	87.1	105.5	3.3	4.5
Net current assets/(liabilities)	<b>80.2</b>	41.4	7.4	25.9	12.8
	<b>1,031.9</b>	960.4	942.9	833.8	712.0
Loans due after one year	<b>741.7</b>	689.0	686.4	580.8	467.8
Other long term liabilities	<b>15.8</b>	9.7	20.2	23.5	21.0
Reserves	<b>274.4</b>	261.7	236.3	229.5	223.2
	<b>1,031.9</b>	960.4	942.9	833.8	712.0
<b>Statistics</b>					
Operating margin	<b>23%</b>	26%	21%	21%	27%
Interest cover	<b>122%</b>	86%	109%	98%	178%
Gearing	<b>66%</b>	62%	66%	59%	50%
Units of accommodation in management	<b>26,082</b>	25,847	25,480	25,089	24,484

NB: 1. The accounts for 2008-09 reflect the adoption of the Statement of Recommended Practice 2008 (SORP), which resulted in a change in the accounting policy for the first tranche sales of shared ownership properties. The table above has been restated to show the effect on the results and balances as though the policy were in force in previous years.

2. The accounts for 2010-11 reflect the adoption of the Statement of Recommended Practice (SORP) 2010 update, which resulted in a change of policy for the treatment of negative goodwill arising on acquisition. The table above has been restated to show the effect on the results and balances as though the policy were in effect in previous years.



## Turnover and Operating Surplus

Turnover has increased by £5.3m (4%) in 2011/12 whilst operating costs have increased by £7.7m (8%). This has reduced the operating margin to 23%. However the underlying performance of the core operations improved slightly on last year to 27% when the effect of expensing £4.2m prior year costs previously invested in future development projects in work in progress is taken into account.

## Surplus

The 2011/12 surplus of £17.9m shows a strong performance. There is an underlying increase of £6.6m to the bottom line compared with the year to 31 March 2011, which returned a surplus of £11.6m after adjusting for a £9.5m write back of fair value adjustment on consolidation.

Like other social housing providers which continue to develop new social housing for rent the Group develops this with a mixture of housing for outright market sale and shared ownership. Profits on housing sold are used to cross subsidise our social housing. A surplus of £10.4m is included in our results for 2011/12 for this purpose, an increase of £4.1m compared with 2010/11 surplus on housing sold of £6.3m.

## Reserves

Our surplus of £17.9m has resulted in accumulated revenue reserves growing to £272.1m at 31st March 2012. We will invest this in providing new homes, having ensured that we are able to cover the ongoing high quality of our homes and services.

## Use of reserves

	2012 £m	%	2011 £m	%
Investment in Housing stock	1,659		1,631	
Other net assets	57		51	
	1,716		1,682	
Funded by:				
Reserves	274	16%	262	16%
Grants	847	49%	840	50%
Loans (net of cash)	595	35%	580	34%
<b>Total Funding</b>	<b>1,716</b>	<b>100%</b>	<b>1,682</b>	<b>100%</b>

## Impairment

We have reviewed the values of assets included in the Balance Sheet in light of current economic conditions to ensure that these values do not exceed the future benefits from the continued use of these assets. In particular we have reviewed the current values of our land held for future development to make sure that where the expected benefits will not reach the original values we have reduced these to the level of those expected benefits. The net effect of this has been to charge £1.6m impairment (2011: £0.4m impairment write back).

## Pension costs

The Southern Housing Group scheme triennial valuation as at 31/03/10 was completed during the year 2010/11. This valuation took place when the financial markets were at a low ebb together with the impact of increased longevity predictions. The subsequent annual update to the valuation to 31/03/11 for FRS 17 reporting purposes by a professionally qualified independent actuary resulted in a decrease in the actuarial deficit. The pension trustees agreed a revised deficit recovery plan to address the shortfall including a payment during the year of £0.6m. The Group is currently planning for the effect of the new 'opt out' legislation which is expected to be introduced and which will begin to have an impact on our staffing costs within the next 18 months.

### Gift aid

In recent years our policy has been to gift aid surpluses from subsidiaries at a level to minimise their Corporation Tax liability. This year SHO has gift aided £6.6m (2011: £4.2m) and has retained a profit of £1m to be taxed in order to boost its reserves by the net £0.7m. SDSL gift aided £1.4m (2011: £0.1m) to the Group.

### Interest

Net interest payable has increased by £9.2m in the year. However after deducting a consolidation adjustment of £9.5m there has been a slight decrease in actual interest paid in 2011/12. This reflects the historically low cost of borrowing over the period.

### Tangible fixed assets

The value of housing properties has increased to £1,730m (2011: £1,691m) due to the completion of over 200 affordable new homes.

### Loans

Long term loans have increased by £53m to £748m. Cash balances held at 31 March 2012 were £38m greater than at 31 March 2011.

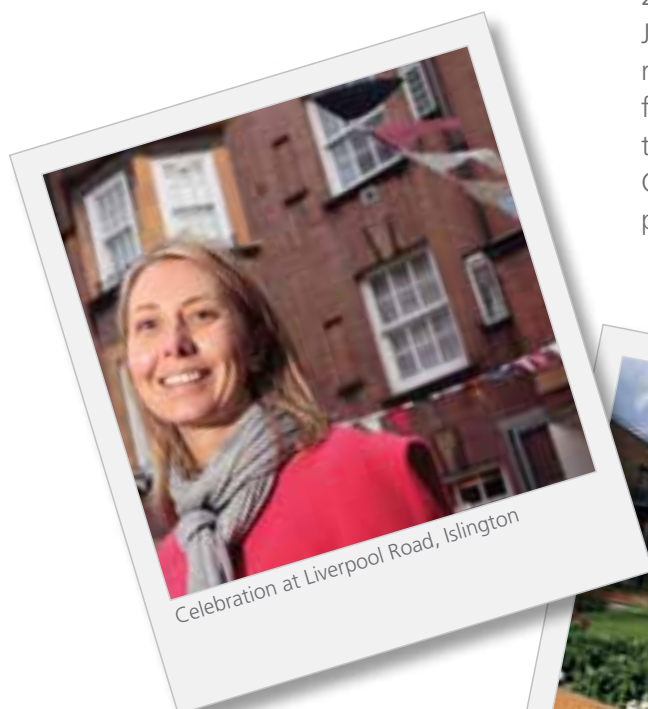
## Treasury policies and objectives

We have a formal Treasury Management Policy which is regularly reviewed and approved by the Group's Treasury Committee (GTC). The Policy's purpose is to establish the framework within which we seek to protect and control risk and exposure in respect of our borrowings and cash holdings.

### In order to achieve this, the Policy provides a strategy for:

- i) Group borrowings and subsequent debt management.
- ii) Investment of surplus funds - both short and long term.
- iii) Relationship with bankers, lenders and advisors.

All the registered providers in the Group have the ability in their rules to manage interest rate risk. A total of seven stand alone derivatives have been transacted by SHGL with a notional principal of £225m which have continued to provide a saving in interest cost during 2011/12. Three additional five year floating to fixed hedges of £25m each were completed during 2011/12. The first £25m hedge becomes effective in June 2013 with others each becoming effective at six monthly intervals thereafter. We do not use derivatives for speculative purposes or in such a way that exposes the Group further to market forces. The Treasury Committee regularly reviews the creditworthiness of the parties with whom we do business.



Celebration at Liverpool Road, Islington



Kidbrooke Village, South London.  
One of the capital's largest developments

## Capital Structure

As a consequence of revised capital adequacy requirements on lenders, most new bilateral funding arrangements will now usually have a maximum term of five years with longer term funding being accessed through either the capital markets, private placements or directly with insurance and pension companies. Reflecting the changed funding regime the GTC have approved SHGL increasing the level of its revolving credit facilities. These new facilities together with existing ones and available cash will provide operational funding capacity over the immediate short term. During this time appropriate longer term funding will be sourced to refinance both revolving facilities and maturing debt. We will continue to have in place facilities with a number of core lenders, thereby balancing the risk of further lenders withdrawing from the sector with the cost of managing a large number of relationships. Within the current funding environment, additional bilateral facilities which seek to tie in a re-pricing of existing debt as a 'quid pro quo' for provision of new funds have been and will continue to be strongly resisted.

**SHGL:** During 2011/12 a new £30m three year unsecured revolving credit facility was completed with Barclays Bank. Initial negotiations are in progress with an existing lender to secure a further £30m of revolving credit. £53m of loans were drawn during the year from two loan facilities to protect funding availability.

Except for the £53m drawings above, there was no change to SHGL's overall debt portfolio, except for scheduled capital repayments

**SHO:** With most new development continuing to take place in SHGL, SHO continues to have limited demand for new facilities. During the year there was no change to its loan portfolio.

**SSL:** Continues to have no external borrowing facilities. Borrowings are in summary:

### Borrowings are in summary:

	31 March 2012		31 March 2011	
	Available facility £m	Drawn £m	Available facility £m	Drawn £m
<b>SHGL</b>				
Capital Markets	<b>146.8</b>	146.8	147.3	147.3
Bilateral	<b>598.3</b>	563.3	570.7	509.7
Total in place	<b>745.1</b>	710.1	718.0	657.0
Under finalisation / negotiation	<b>30</b>		Nil	
<b>SHO</b>				
Total in place (all bilateral)	<b>37.8</b>	37.8	37.8	37.8
<b>SSL</b>				
Total in place	<b>Nil</b>	Nil	Nil	Nil

Our treasury policy is to have a mix of fixed/hedged, variable and index linked interest rate loans. Under normal circumstances rates will not be fixed/hedged on more than 70% of total debt.

## Committed Facilities:

All of SHGL's £35m un-drawn committed facilities are secured (where required) and available for drawing. The THFC £100m required 12 month interest service reserve fund (ISRF) has been maintained during the year. The £6.35m of nominal 2038 4.75% Gilt originally held within the ISRF was sold during 2011/12 and replaced with £6.35m of cash. It is forecast that the undrawn available facilities and the funds to be released will support SHGL's existing committed development programme for the next 36 months. As at 31 March 2012, SHGL had over 8,350 rented and over 600 shared ownership unencumbered units available as potential security to support further facilities.

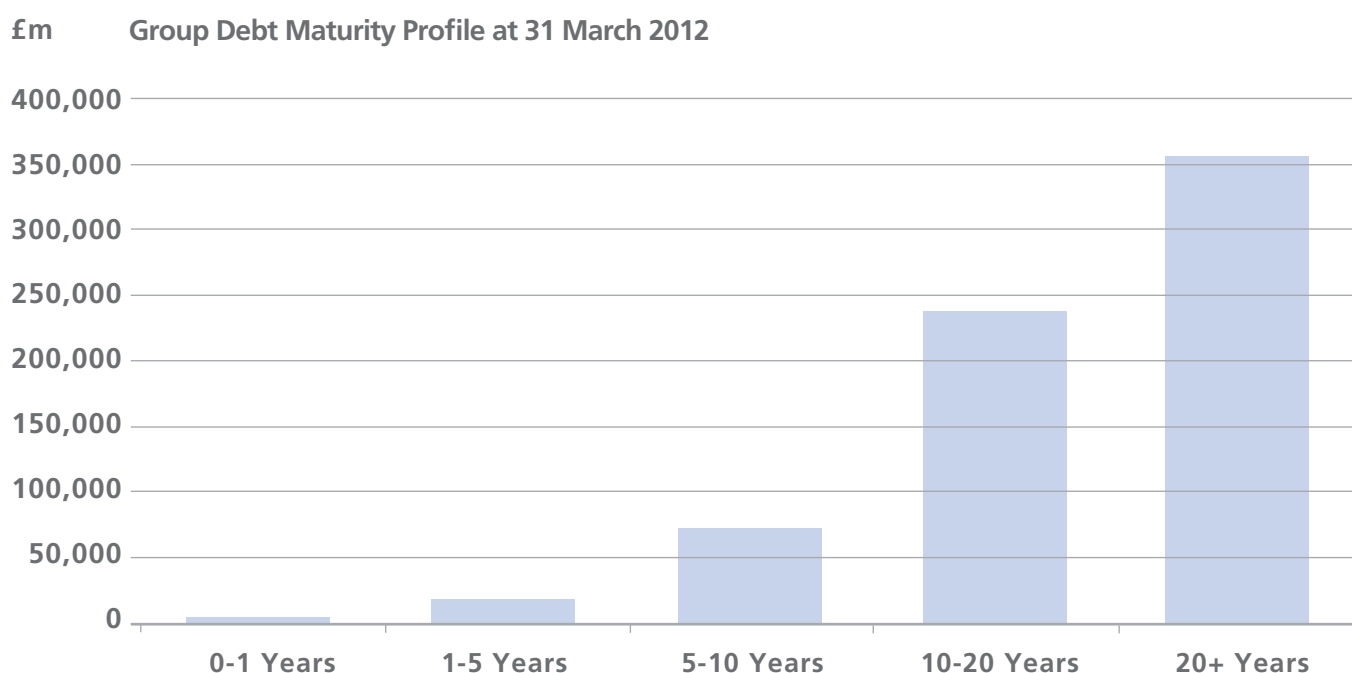
## Funding profile:

	31 March 2012			31 March 2011		
	Fixed rate £m	Variable rate £m	Index linked £m	Fixed rate £m	Variable rate £m	Index linked £m
<b>SHGL</b>	<b>363.4</b>	<b>294.1</b>	<b>52.6</b>	369.6	234.7	52.7
<b>SHO</b>	<b>nil</b>	<b>37.8</b>	<b>nil</b>	nil	37.8	nil
<b>SSL</b>	<b>nil</b>	<b>nil</b>	<b>nil</b>	nil	nil	nil

Fixed rate debt includes debt where the applicable interest rate is certain for longer than one year. Variable rate is any debt where the interest rate is fixed for less than 12 months at the balance sheet date including any where the agreement is for a longer period but where the bank has the option to cancel in this period. £20m of cancellable transactions were in place at 31 March 2012 with bank option dates exercisable within 12 months.

## Debt maturity

The profile of debt repayments as at 31 March 2012 for the Group is:





## Cash flow

During the year net cash of £26.2m was derived from operating activities and £27.1m was received from the disposal of housing properties. As a developing Group there were significant cash flows from new development with spend of £57.0m before receipt of grant of £18.6m. Loans of £2.9m were repaid in the year and a total of £56m was drawn from loan facilities.

## Liquidity

Surplus funds are invested at competitive rates overnight or for a term period as appropriate. We have drawn £53m of loans to protect availability which is being held pending investment in new developments over the coming 24-30 months.

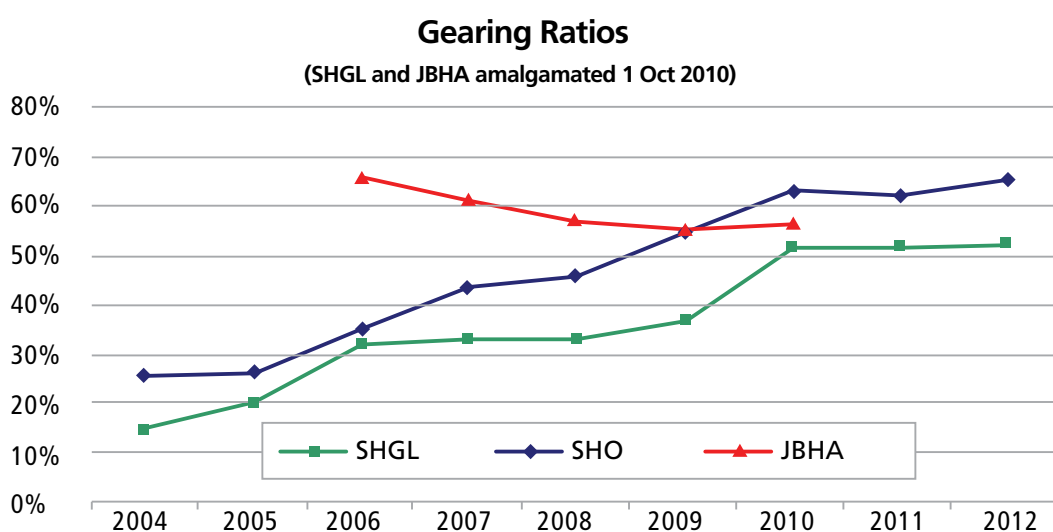
We maintain a list of investment limits for authorised organisations with whom we will place deposits based on short term credit ratings. In normal circumstances access to deposited funds will not exceed three months.

## Loan covenants

Each association within the Group has loan covenants with its lenders based on the circumstances of the association. For SHGL and SHO loan covenants are primarily based on interest cover and gearing. In the case of interest cover the calculation is after adding back housing property depreciation and in most cases includes surpluses from property disposals, where not specifically developed for open market sale.

Net income cover covenants	2012 range	2011 range
SHGL income covenants	0.95 – 2.00	0.95 – 2.00
SHGL actuals	1.92 – 4.68	1.59 – 4.49
SHO income covenants	1.00 – 1.15	1.00 – 1.15
SHO actuals	20.42 – 20.88	18.00 – 19.39

SHGL and SHO are meeting all gearing ratio covenants. The overall level of gearing is primarily influenced by the level of development activity, although the drawing of the £100m THFC loan proceeds during previous years and the £56m of loans during 2011/12 ahead of development investment has impacted on the current gearing level for SHGL. The ratios as at 31 March 2012 are shown below and all covenants in all Group entities are met.



## Statement of Compliance

In preparing this Operating and Financial Review, the Board has followed the principles set out in the 2010 SORP, Accounting for Registered Social Housing Providers.

Southern Housing Group is a partner in Triathlon Homes, social housing provider for the Athletes Village

# Report of the Board

For the year ended 31 March 2012



**Statement of Board's responsibilities in respect of the Board's Report and the Financial Statements**



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

Industrial and Provident Society law requires the Board to prepare financial statements for each financial year. Under those regulations the Board has elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the Group and Association 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 UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Association will continue in business.

The Board is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and the Association and enable them to ensure that its financial statements comply with the Industrial & Provident Societies Acts 1965 to 2003, the Industrial & Provident Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Requirements for Registered Social Landlords General Determination 2006. It has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the association and to prevent and detect fraud and other irregularities. The Board is responsible for the maintenance and integrity of the corporate and financial information included on our website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Corporate governance

The Board confirms that the Group has adopted and complied with the principal recommendations of the National Housing Federation's Code of Governance.

## 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 and reduce, rather than to eliminate, the risk of failure to achieve business objectives. It can provide only reasonable, and not absolute, assurance against material misstatement or loss.

We operate ongoing processes for identifying, evaluating and managing the significant risks faced by the Group. They have been in place for the year to 31 March 2012 and up to the date of the approval of the Annual Report and the Financial Statements. The processes are reviewed at least annually by the Board and twice annually by the Audit Committee.

## Risk assessment

Our objectives are contained within the Corporate Plan. There is a process for cascading these objectives throughout the organisation to each operational team and to individual employee's objectives. Assessment of resultant risk is mapped for each entity within the group. Our risk management strategy includes requirements for formal risk assessments to be presented to the Board for discussion and approval.

## Control environment

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

- standing orders and delegated authorities
- policies and procedures manuals in all key areas
- codes of conduct for members of Boards and committees, and for staff
- staff job descriptions and supervisory procedures

## Information

There is a timely system for reporting on progress against our plans. The Boards and their committees receive regular and extensive reports on all key areas of performance.

## Monitoring

We have a comprehensive internal audit programme which is undertaken by Grant Thornton UK LLP, Chartered Accountants. The internal audit programme is designed to review key areas of risk. The internal auditors report to the Head of Compliance. Each audit assignment is sponsored by a senior director who approves the scope of work and takes responsibility for ensuring that recommendations are acted upon. Progress on completing work on recommendations is monitored by the Head of Compliance. Grant Thornton meets quarterly with the Chief Executive and report to each meeting of the Audit Committee on their recent and prospective activity. They also meet informally with the Chair of 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, thereby improving the control environment.



## Review of effectiveness

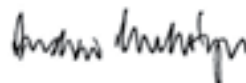
The Board has reviewed the effectiveness of the internal controls through the work of the Audit Committee, which reports regularly to the Board. In addition the Chief Executive has submitted to the Board a detailed report on the operation of internal controls during the year under review and up to the date of approval of this report.

## Disclosure of information to auditors

The Board members who held office at the date of approval of this Board members' report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditors are unaware; and each Board member has taken all the steps that he/she ought to have taken as a Board member to make himself/ herself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

## Auditors

Following a comprehensive competitive tendering process undertaken in accordance with the procurement procedures of the Group, resolution is to be proposed at the annual general meeting for the appointment of PricewaterhouseCoopers LLP as the Group's auditor.



**Andrew McIntyre**

Chairman

On behalf of the Board

9th July 2012



## Report of the independent auditors to the members of Southern Housing Group Limited

We have audited the financial statements of Southern Housing Group Limited for the year ended 31 March 2012 which comprise the Group and Association Income and Expenditure Accounts, the Group Statement of Total Recognised Surpluses and Deficits, the Group and Association Balance Sheets, the Group Cash flow and the related notes. The financial reporting framework that has been applied in their preparation is applicable in law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the association's members, as a body, in accordance with section 128 of the Housing and Regeneration Act 2008 and section 9 of the Friendly and Industrial and Provident Societies Act 1968. Our audit work has been undertaken so that we might state to the association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the association and the association's members, as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of the Board and auditor

As more fully explained in the Statement of Board's Responsibilities set out on page 24, the association's Board is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

## Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the Group and Association as at 31 March 2012 and of the Group and Association surplus for the year then ended; and
- have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2003 and the Industrial and Provident Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Requirements for Registered Social Landlords General Determination 2006.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Industrial and Provident Societies Acts 1965 to 2003 and the Industrial and Provident Societies (Group Accounts) Regulations 1969 require us to report to you if, in our opinion:

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

### Chris Wilson (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor



Chartered Accountants  
1 Forest Gate  
Brighton Road  
Crawley  
West Sussex  
RH11 9PT

## Income and Expenditure Accounts

For the year ended 31 March 2012

	Note	<b>Group 2012</b>	Group 2011 Restated	<b>Association 2012</b>	Association 2011
		<b>£'000s</b>	£'000s	<b>£'000s</b>	£'000s
<b>Total Turnover</b>		<b>140,170</b>	130,420	<b>132,392</b>	126,224
Less: share of joint ventures' turnover		<b>(5,032)</b>	(667)	-	-
<b>Group and Association turnover</b>	2	<b>135,138</b>	129,753	<b>132,392</b>	126,224
Operating costs	2	<b>(103,937)</b>	(96,196)	<b>(98,566)</b>	(92,068)
<b>Operating surplus</b>		<b>31,201</b>	33,557	<b>33,826</b>	34,156
Share of operating surplus in joint venture	13	<b>4,024</b>	3	-	-
<b>Total operating surplus</b>					
<b>Including share in joint venture</b>		<b>35,225</b>	33,560	<b>33,826</b>	34,156
Surplus on sale of fixed assets	5	<b>10,422</b>	6,288	<b>6,560</b>	4,402
Interest receivable and other income	6	<b>4,409</b>	1,462	<b>4,270</b>	1,559
Interest payable and similar charges					
Group	7	<b>(28,880)</b>	(19,725)	<b>(28,609)</b>	(19,550)
Joint ventures	7	<b>(2,940)</b>	-	-	-
Other finance costs	8	<b>(58)</b>	(469)	<b>(58)</b>	(469)
<b>Surplus on ordinary activities</b>					
<b>for the year</b>	9	<b>18,178</b>	21,116	<b>15,989</b>	20,098
Tax on surplus on ordinary activities	10	<b>(260)</b>	-	-	-
<b>Surplus for the year</b>		<b>17,918</b>	21,116	<b>15,989</b>	20,098

All turnover and operating costs for the current and prior years are attributable to continuing operations. The notes on pages 31 to 66 form part of these financial statements.

## Statement of Total Recognised Surpluses and Deficits

	Note	<b>Group 2012</b>	Group 2011	<b>Association 2012</b>	Association 2011
		<b>£'000s</b>	£'000s	<b>£'000s</b>	£'000s
Surplus for the year		<b>17,918</b>	21,116	<b>15,989</b>	20,098
Unrealised (deficit)/surplus on investments	24	<b>(462)</b>	632	<b>(462)</b>	632
Actuarial (deficit)/gain relating to pension	27	<b>(4,717)</b>	3,565	<b>(4,717)</b>	3,565
Total recognised surplus relating to the year		<b>12,739</b>	25,313	<b>10,810</b>	24,295

Historical cost surpluses and deficits were identical to those shown in the income and expenditure account.

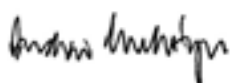
## Balance Sheets

### As at 31 March 2012

	Note	Group 2012 £'000s	Group 2011 £'000s	Association 2012 £'000s	Association 2011 £'000s
<b>Tangible fixed assets</b>					
Housing properties at cost less depreciation	11	1,659,158	1,631,056	1,565,738	1,535,016
Less: Social Housing Grant and other grants	11	(847,434)	(839,539)	(796,141)	(786,802)
Net housing properties		811,724	791,517	769,597	748,214
Other tangible fixed assets	12	39,947	40,356	39,563	39,965
Total tangible fixed assets		851,671	831,873	809,160	788,179
<b>Investments</b>					
Investments at market value	13	12,305	12,855	12,330	12,880
Investment in subsidiaries	13	-	-	9,980	12,530
Investment in joint ventures - share of gross assets	13	86,345	73,677	-	-
Investment in joint ventures - share of gross liabilities	13	(84,827)	(73,191)	-	-
Investment properties	13	926	-	926	-
Homebuy and starter home initiatives	13	9,500	9,718	300	312
Less: Social Housing Grant	13	(8,998)	(9,196)	(300)	(312)
		866,922	845,736	832,396	813,589
<b>Current assets</b>					
Properties for sale	14	49,988	17,704	28,177	2,916
Debtors	15	22,237	23,849	21,116	28,458
Cash at bank and in hand		149,726	112,022	140,467	94,766
		221,951	153,575	189,760	126,140
<b>Creditors: Amounts falling due within one year</b>	16	(56,954)	(38,955)	(46,440)	(32,161)
<b>Net current assets</b>		164,997	114,620	143,320	93,979
<b>Total assets less current liabilities</b>		1,031,919	960,356	975,716	907,568
<b>Creditors: Amounts falling due after more than one year</b>					
Housing loans	17	741,706	689,032	703,881	651,207
Recycled capital grant fund	18	2,707	720	893	373
Disposal proceeds fund	19	292	229	292	229
Deferred income	20	1,373	1,518	1,373	1,518
<b>Provisions for liabilities and charges</b>	21	91	72	25	25
<b>Net pension liability</b>	27	11,360	7,134	11,360	7,134
<b>Capital and reserves</b>					
Share capital	22	-	-	-	-
Revenue reserves	23	272,133	258,932	255,635	244,363
Revaluation reserves	24	1,826	2,288	1,826	2,288
Designated and restricted reserves	25	431	431	431	431
		1,031,919	960,356	975,716	907,568

The notes on pages 31 to 66 form part of these financial statements. These financial statements were approved by the Board on 9 July 2012.

Signed on behalf of the Board



**Andrew McIntyre**  
Chairman



**Jane Hives**  
Board Member



**Phillippa Caine**  
Secretary

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

## Consolidated Cash Flow Statement

For the year ended 31 March 2012

	Note	2012 £'000s	2011 £'000s
<b>Net cash inflow from operating activities</b>	(a)	<b>26,152</b>	<b>25,213</b>
Interest received Group		3,976	1,462
Interest received from Joint Venture		433	-
Interest paid		(29,971)	(29,082)
Other finance costs		(58)	(469)
<b>Returns on investments and servicing of finance</b>		<b>(25,620)</b>	<b>(28,089)</b>
Housing properties purchased		(57,018)	(80,375)
Capital grants received		18,600	46,897
Other fixed assets purchased		(2,437)	(2,590)
Housing and other fixed asset sale receipts		27,129	15,690
<b>Capital expenditure</b>		<b>(13,726)</b>	<b>(20,378)</b>
Investment (purchase)/sale		(1,919)	92,274
<b>Financial investment</b>		<b>(1,919)</b>	<b>92,274</b>
<b>Net cash (outflow)/inflow before management of liquid resources and financing</b>	(b)	<b>(15,113)</b>	<b>69,020</b>
<b>Financing and management of liquid resources</b>			
Debt due within one year	(c)	340	762
Debt due after one year	(c)	52,477	11,758
		<b>52,817</b>	<b>12,520</b>
<b>Increase in cash in the year</b>	(c)	<b>37,704</b>	<b>81,540</b>



## Notes to the Consolidated Cash Flow Statement

For the year ended 31 March 2012

	2012 £'000s	2011 £'000s
<b>a) Reconciliation of operating surplus to net cash inflow from operating activities</b>		
Operating surplus	35,225	33,560
Depreciation charges	15,820	14,976
Share of Joint Venture surplus	(4,024)	-
Impairment/(charge release)	1,626	(412)
Increase in stock of homes for re-sale	(33,255)	(3,467)
Decrease/(increase) in debtors	1,612	(13,020)
Increase/(decrease) in creditors	9,129	(6,436)
Increase in provisions for liabilities and charges	19	12
<b>Net cash inflow from operating activities</b>	<b>26,152</b>	<b>25,213</b>
<b>b) Reconciliation of net cash flow to movement in net debt</b>		
Increase in cash in the year	37,704	81,540
Cash inflow/(outflow) from:		
New loans	(55,730)	(14,809)
Loan repayments	2,913	2,289
Change in net debt resulting from cashflows	(15,113)	69,020
Change in net debt resulting from non cashflows	(197)	9,109
Movement in net debt in the year	(15,310)	78,129
Net debt at the start of the year	(580,170)	(658,299)
<b>Net debt at the end of the year</b>	<b>(595,480)</b>	<b>(580,170)</b>

### c) Analysis of net debt

	At 1 April 2011 £'000s	Non Cash flow £'000s	Cash flow £'000s	At 31 March 2012 £'000s
Cash at bank and in hand	112,022	-	37,704	149,726
Debt due within one year:				
Housing loans	(3,160)	-	(340)	(3,500)
Debt due after more than one year:				
Housing loans	(689,032)	(197)	(52,477)	(741,706)
<b>Total</b>	<b>(580,170)</b>	<b>(197)</b>	<b>(15,113)</b>	<b>(595,480)</b>

# Notes to the Financial Statements

For the year ended 31 March 2012

## 1. Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards, the Statement of Recommended Practice "Accounting by Registered Social Landlords" updated in 2010, the Accounting Requirements for Registered Social Landlords General Determination 2006, and on the historical cost basis (as modified by the revaluation of certain investments). The accounting policies have been consistently applied.

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

### Basis of consolidation

The consolidated accounts incorporate the financial statements of Southern Housing Group Limited (SHGL) (Parent Body), Southern Home Ownership Limited (SHO), Southern Space Limited (SSL) and Southern Development Services Limited (SDSL).

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

### Going Concern

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

## 2. Particulars of turnover, cost of sales, operating costs and operating surpluses

### Policies:

#### Turnover

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



Highbury Gardens, Islington and its landscaped gardens



## 2. Particulars of turnover, cost of sales, operating costs and operating surpluses/(deficits) (continued)

Group	Turnover £'000s	Operating Costs £'000s	2012 Operating surplus £'000s	Turnover £'000s	Operating Costs £'000s	2011 Operating surplus £'000s
<b>Social housing lettings</b>	120,824	(92,943)	<b>27,881</b>	116,669	(80,680)	35,989
<b>Other social housing activities</b>						
Supporting People	2,095	(2,102)	<b>(7)</b>	656	(670)	(14)
1st Tranche Sales	3,373	(2,335)	<b>1,038</b>	7,964	(7,125)	839
Other	296	(182)	<b>114</b>	390	(4,495)	(4,105)
<b>Non-social housing activities</b>						
Commercial income	1,370	(2)	<b>1,368</b>	1,285	(659)	626
Market renting lettings	81	(24)	<b>57</b>	132	(17)	115
Open Market Sales	7,099	(5,670)	<b>1,429</b>	1,953	(1,850)	103
Impairment of Open Market housing properties	-	(141)	<b>(141)</b>	-	65	65
Other	-	(538)	<b>(538)</b>	704	(765)	(61)
<b>Total 2012</b>	<b>135,138</b>	<b>(103,937)</b>	<b>31,201</b>	<b>129,753</b>	<b>(96,196)</b>	<b>33,557</b>

Note:

Non-Social Housing 'Other' turnover and cost for the year 2010/11 has been re-stated from £7,674,000 to £704,000 and from £7,735,000 to £765,000, a reduction of £6,970,000, due to a consolidation adjustment which has no impact on the net surplus.

### Particulars of income and expenditure from Social Housing Lettings

Group	General Needs £'000s	Supported and Older People's Housing £'000s	Intermediate Rent £'000s	Shared ownership £'000s	2012 Total £'000s	2011 Total £'000s
Rent receivable net of identifiable service charges	79,318	10,926	6,555	9,671	<b>106,470</b>	100,877
Service charges	8,855	1,153	415	2,683	<b>13,106</b>	12,973
Charges for support services	-	-	-	-	-	2,175
<b>Gross rental income</b>	<b>88,173</b>	<b>12,079</b>	<b>6,970</b>	<b>12,354</b>	<b>119,576</b>	116,025
ADD: Income from properties managed for third parties	1,248	-	-	-	<b>1,248</b>	644
<b>Turnover from social housing lettings</b>	<b>89,421</b>	<b>12,079</b>	<b>6,970</b>	<b>12,354</b>	<b>120,824</b>	116,669
Management	(23,575)	(3,020)	(1,117)	(3,740)	<b>(31,452)</b>	(21,587)
Services	(11,247)	(1,438)	(516)	(2,469)	<b>(15,670)</b>	(16,978)
Support	-	-	-	-	-	(2,713)
Routine maintenance	(16,502)	(2,109)	(1,066)	-	<b>(19,677)</b>	(15,079)
Planned and Cyclical maintenance	(6,910)	(883)	(310)	-	<b>(8,103)</b>	(12,511)
Bad debts	(950)	(121)	(46)	(113)	<b>(1,230)</b>	(96)
Depreciation	(14,260)	(1,824)	(727)	-	<b>(16,811)</b>	(11,442)
Other Costs	-	-	-	-	-	(274)
<b>Operating costs on social housing lettings</b>	<b>(73,444)</b>	<b>(9,395)</b>	<b>(3,782)</b>	<b>(6,322)</b>	<b>(92,943)</b>	(80,680)
<b>Operating surplus on social housing lettings</b>	<b>15,977</b>	<b>2,684</b>	<b>3,188</b>	<b>6,032</b>	<b>27,881</b>	35,989
<b>Void Losses</b>	<b>1,673</b>	<b>214</b>	<b>85</b>	<b>3</b>	<b>1,975</b>	2,103



## 2. Particulars of turnover, cost of sales, operating costs and operating surpluses/(deficits) (continued)

### Association

	Turnover £'000s	Operating Costs £'000s	2012 Operating surplus £'000s	Turnover £'000s	Operating Costs £'000s	2011 Operating surplus £'000s
<b>Social housing lettings</b>	116,590	(94,127)	<b>22,463</b>	109,865	(77,562)	32,303
<b>Other social housing activities</b>						
Supporting People	2,095	(2,102)	<b>(7)</b>	656	(670)	(14)
1st Tranche Sales	3,373	(2,335)	<b>1,038</b>	7,584	(6,863)	721
Other	8,984	-	<b>8,984</b>	5,692	(5,592)	100
<b>Non-social housing activities</b>						
Commercial income	1,350	(2)	<b>1,348</b>	1,268	(658)	610
Other	-	-	<b>-</b>	1,159	(723)	436
<b>Total 2012</b>	<b>132,392</b>	<b>(98,566)</b>	<b>33,826</b>	<b>126,224</b>	<b>(92,068)</b>	<b>34,156</b>

### Particulars of income and expenditure from Social Housing Lettings

### Association

	General Needs £'000s	Supported and Older People's Housing £'000s	Intermediate Rent £'000s	Shared ownership £'000s	2012 Total £'000s	2011 Total £'000s
Rent receivable net of identifiable service charges	81,540	11,229	6,159	4,564	<b>103,492</b>	95,135
Service charges	8,855	1,153	397	1,445	<b>11,850</b>	11,911
Charges for support services	-	-	-	-	<b>-</b>	2,175
<b>Gross rental income</b>	<b>90,395</b>	<b>12,382</b>	<b>6,556</b>	<b>6,009</b>	<b>115,342</b>	109,221
ADD: Income from properties managed for third parties	1,248	-	-	-	<b>1,248</b>	644
<b>Turnover from social housing lettings</b>	<b>91,643</b>	<b>12,382</b>	<b>6,556</b>	<b>6,009</b>	<b>116,590</b>	109,865
Management	(25,313)	(3,235)	(1,134)	(4,132)	<b>(33,814)</b>	(20,205)
Services	(11,247)	(1,438)	(504)	(1,836)	<b>(15,025)</b>	(15,301)
Support	-	-	-	-	<b>-</b>	(2,713)
Routine maintenance	(16,502)	(2,109)	(739)	-	<b>(19,350)</b>	(15,023)
Planned and Cyclical maintenance	(6,910)	(883)	(309)	-	<b>(8,102)</b>	(12,506)
Bad debts	(950)	(121)	(43)	-	<b>(1,114)</b>	(202)
Depreciation	(14,260)	(1,824)	(638)	-	<b>(16,722)</b>	(11,363)
Other Costs	-	-	-	-	<b>-</b>	(249)
<b>Operating costs on social housing lettings</b>	<b>(75,182)</b>	<b>(9,610)</b>	<b>(3,367)</b>	<b>(5,968)</b>	<b>(94,127)</b>	(77,562)
<b>Operating surplus on social housing lettings</b>	<b>16,461</b>	<b>2,772</b>	<b>3,189</b>	<b>41</b>	<b>22,463</b>	32,303
<b>Void Losses</b>	<b>1,673</b>	<b>214</b>	<b>75</b>	<b>-</b>	<b>1,962</b>	1,977

### 3. Board and senior executive emoluments

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

Group	2012 £'000s	2011 £'000s
Emoluments	735	865
Pension contributions	97	104
	832	969
Emoluments paid to directors in bands (excluding pensions but including benefits in kind and non-consolidated bonus)	No.	No.
£0 - £10,000	10	11
£10,000 - £20,000	-	1
£40,000 - £50,000	-	1
£80,000 - £90,000	-	1
£90,000 - £100,000	-	1
£100,000 - £110,000	2	1
£110,000 - £120,000	-	-
£120,000 - £130,000	-	1
£130,000 - £140,000	2	-
£150,000 - £160,000	-	1
£160,000 - £170,000	-	-
£180,000 - £190,000	-	1
£190,000 - £200,000	1	-
The emoluments (excluding pension contributions but including non-consolidated bonus) payable to the Group Chief Executive, who is also the highest paid director, were:	£	£
Remuneration	184,340	174,730
Benefits in kind	6,974	8,960
Total emoluments	191,314	183,690

The Group Chief Executive is an ordinary member of the Group pension scheme, and no enhanced or special terms apply.

Board members (non-executive directors) received emoluments of £54,000 during the year (2011: £49,000). One Board member waived entitlement to remuneration.

#### Gross Salaries of the Group Executive Team were:

	2012 £'000s	2011 £'000s
Tom Dacey	184	174
Rosemary Farrar	130	-
Dale Meredith	125	122
Paul Smith	101	94
Alene Wilton	100	95

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

Chief Executive and Chairman's remuneration on a £ per unit basis	2012 £/Unit	2011 £/Unit
Chief Executive	7.07	6.76
Chairman (waived remuneration)	0	0

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. During the year executive salaries increased by 3.14% for the Executive Team and by 2.95% for the rest of staff in line with prevailing conditions in the wider market.

The pension schemes available to the Executive Directors are offered on the same terms as to other staff. Executive Directors participate in a non-consolidated bonus scheme whereas staff below Executive Director receive an annual performance related pay award. The awards in both cases are determined by personal performance against objectives and targets.



## 4. Employee information

For the year ended 31 March 2012

	<b>Group 2012 No.</b>	Group 2011 No.	<b>Association 2012 No.</b>	Association 2011 No.
Average number of full-time equivalent employees	<b>766</b>	795	<b>763</b>	792
Staff costs (for the above employees)	<b>Group 2012 £'000s</b>	Group 2011 £'000s	<b>Association 2012 £'000s</b>	Association 2011 £'000s
Wages and salaries	<b>21,785</b>	21,784	<b>21,450</b>	21,343
Social security costs	<b>2,057</b>	1,998	<b>2,026</b>	1,958
Other pension costs	<b>1,541</b>	1,011	<b>1,513</b>	979
	<b>25,383</b>	24,793	<b>24,989</b>	24,280

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

	<b>Group 2012 £'000s</b>	Group 2011 £'000s
£60,000 - £70,000	<b>15</b>	13
£70,000 - £80,000	<b>4</b>	4
£80,000 - £90,000	<b>2</b>	-
£90,000 - £100,000	<b>-</b>	2
£100,000 - £110,000	<b>2</b>	-
£120,000 - £130,000	<b>2</b>	1
£170,000 - £180,000	<b>-</b>	1
£180,000 - £190,000	<b>1</b>	-

The ratio of pay from the highest to the lowest earner was 16.7 (2011: 17.1)



## 5. Surplus on sale of fixed assets

	Group 2012 £'000s	Group 2011 £'000s	Association 2012 £'000s	Association 2011 £'000s
Sale proceeds	27,129	15,716	19,395	11,178
Cost of sales	(16,485)	(9,402)	(12,657)	(6,750)
Incidental sale expenses	(222)	(26)	(178)	(26)
	10,422	6,288	6,560	4,402

## 6. Interest receivable and other income

	Group 2012 £'000s	Group 2011 £'000s	Association 2012 £'000s	Association 2011 £'000s
Income from investments	2,449	66	2,456	66
Income from bank deposits	1,960	1,396	1,814	1,493
	4,409	1,462	4,270	1,559

## 7. Interest payable and similar charges

	Group 2012 £'000s	Group 2011 £'000s	Association 2012 £'000s	Association 2011 £'000s
On bank loans, overdraft and other loans:				
Repayable wholly or partly in more than 5 years	31,024	30,524	30,607	30,121
Less: interest payable capitalised	(2,141)	(1,283)	(1,995)	(1,128)
Bank charges payable	-	(73)	-	-
Joint venture interest payable	2,940	-	-	-
	31,823	29,168	28,612	28,993
Deferred Interest and Indexation:				
Index linked loan	133	132	133	132
Deferred income written back	(136)	(83)	(136)	(83)
	31,820	29,217	28,609	29,042
Exceptional item: Write off Fair value adjustment to loan break costs	-	(9,492)	-	(9,492)
	31,820	19,725	28,609	19,550

Interest is capitalised on properties under construction using the weighted average interest rate for borrowing.

When James Butcher Housing Association, South Wight Housing Association and the Isle of Wight Housing Association were acquired, a provision was made for added costs relating to loan finance. As a result of amalgamation in 2010/11, this risk was totally removed. The balance of the fair value adjustment, £9,492k at 31 March 2010, was written off to Income and Expenditure Account in 2010/11.

## 8. Other finance costs

	Group 2012 £'000s	Group 2011 £'000s
Group Pension scheme:		
Expected return on pension scheme assets	1,449	1,155
Interest on pension scheme liabilities	(1,434)	(1,509)
Isle of Wight Council Pension scheme:		
Expected return on pension scheme assets	261	252
Interest on pension scheme liabilities	(334)	(367)
	(58)	(469)

## 9. Surplus on ordinary activities for the year before tax

	Group 2012 £'000s	Group 2011 £'000s	Association 2012 £'000s	Association 2011 £'000s
Surplus on ordinary activities before tax for the year stated after charging/(crediting):				
Depreciation:				
Housing land & buildings	10,724	9,584	10,648	9,505
Other tangible fixed assets	2,333	1,868	2,326	1,863
Component write off	2,269	2,205	2,263	2,205
Impairment/(charge release)	1,626	(412)	1,485	(482)
Operating leases:				
Housing land & buildings	240	255	240	255
Other equipment	63	7	63	7
Auditor's remuneration (including VAT and expenses):			133	132
Audit services	146	148	125	129
Tax services	52	23	48	23
Other services	29	10	29	10

## 10. Taxation

### Policies:

#### Taxation

No taxation is payable on the charitable surpluses of the Parent Body. Taxation is chargeable on the surpluses of SHO, SSL and SDSL. Surpluses either in whole or in part are transferred by Gift Aid. The Group is registered for Value Added Tax. A large proportion of the VAT incurred by the Group cannot be recovered as the bulk of its turnover arises from exempt activities.

#### Deferred taxation

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

#### Note:

	<b>Group 2012 £'000s</b>	Group 2011 £'000s	<b>Association 2012 £'000s</b>	Association 2011 £'000s
UK Corporation tax				
Current tax at 26% (2011 : 28%)	<b>260</b>	-	-	-

The current tax charge for the year is the same (2011: the same) as the standard rate of corporation tax in the UK (26% (2011 : 28%)). The differences are explained below.

Current tax reconciliation				
Surplus on ordinary activities before tax	<b>18,178</b>	21,116	<b>15,989</b>	20,098
Share of joint venture taxable surplus	<b>4,968</b>	-	-	-
Less: surplus from charitable activities	<b>(15,989)</b>	(20,089)	<b>(15,989)</b>	(20,098)
Taxable surplus on ordinary activities	<b>7,157</b>	1,027	-	-
Current tax at 26% (2011 : 28%)	<b>1,861</b>	288	-	-
Effects of:				
Tax relief on Gift Aid paid by subsidiaries	<b>(309)</b>	(288)	-	-
Utilisation of tax losses	<b>(1,292)</b>	-	-	-
Total current tax charge (see above)	<b>260</b>	-	-	-

#### Factors that may affect future tax charges

From 1 April 2012 the rate of UK corporation tax that was enacted at the balance sheet date was 24%. It is expected that the corporation tax rate will change to 22% over the following two years. There are no other factors that may significantly affect future tax charges.

## 11. Tangible fixed assets: housing properties

### Policies:

#### Housing properties

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

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

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

Backlog works relating to stock acquired from Local Authority transfers are also capitalised. All other repair and replacement expenditure is charged to the income and expenditure account.

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. Donated land is treated in accordance with the provisions of the 2010 Housing SORP. It is Group policy to ensure resident shared owners meet their obligations of maintaining the property in a continuous state of sound repair and the Group considers that any depreciation calculation based on the property's current value would be insignificant, due to the large residual values and long economic lives.

#### Depreciation and impairment

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

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

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

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

#### Social housing grant

Where developments have been financed wholly or partly by Social Housing Grant the cost of those developments have been reduced by the grant receivable. Social Housing Grant released on sale of a property may be repayable, but is normally available to be recycled and is credited to a Recycled Capital Grant Fund or Disposal Proceeds Fund and included in the balance sheet in creditors. Social Housing Grant received in advance in respect of housing properties in the course of construction is shown as a current liability.

#### Other grants

These include grants from local authorities and other organisations. The capital costs of housing properties are stated net of grants receivable on these properties. Grants in respect of revenue expenditure are credited to the income and expenditure account in the same period as the expenditure to which they relate.



## 11. Tangible fixed assets: housing properties (continued)

### Note:

#### Group

	Housing Properties Held for Letting	Housing Properties for Letting under construction	Shared Ownership housing properties	Shared Ownership housing properties under construction	Total
	£'000s	£'000s	£'000s	£'000s	£'000s
<b>Cost</b>					
At 1 April 2011	1,204,253	139,285	307,394	40,571	<b>1,691,503</b>
Reclassification	135,077	2,523	(93,901)	(43,699)	-
Schemes completed	76,487	(76,487)	592	(592)	-
Additions: New properties	1,061	57,201	2,717	14,999	<b>75,978</b>
Existing properties	11,200	-	-	-	<b>11,200</b>
Components written off	(2,769)	-	-	-	<b>(2,769)</b>
Impairment	-	(1,157)	(159)	(169)	<b>(1,485)</b>
Transfer to stock	-	(18,394)	(3,299)	(3,935)	<b>(25,628)</b>
Disposals	(6,214)	(3,718)	(8,342)	(870)	<b>(19,144)</b>
At 31 March 2012	1,419,095	99,253	205,002	6,305	<b>1,729,655</b>
<b>Social Housing Grant</b>					
At 1 April 2011	594,299	71,845	122,594	11,648	<b>800,386</b>
Reclassification	(37,783)	(10,612)	38,777	9,618	-
Transfer to current liabilities	-	(6,693)	-	-	<b>(6,693)</b>
Schemes completed	40,690	(40,690)	-	-	-
Additions	364	19,037	618	422	<b>20,441</b>
Transfer (to)/from recycled capital grant/disposal proceeds fund	-	640	(2,255)	60	<b>(1,555)</b>
Disposals	(3,459)	(1,761)	(20)	-	<b>(5,240)</b>
At 31 March 2012	594,111	31,766	159,714	21,748	<b>807,339</b>
<b>Other Grants</b>					
At 1 April 2011	35,689	1,393	2,071	-	<b>39,153</b>
Schemes completed	406	(406)	-	-	-
Additions	-	609	-	333	<b>942</b>
At 31 March 2012	36,095	1,596	2,071	333	<b>40,095</b>
<b>Depreciation</b>					
At 1 April 2011	60,447	-	-	-	<b>60,447</b>
Charge for year	10,724	-	-	-	<b>10,724</b>
Eliminated in respect of disposals	(674)	-	-	-	<b>(674)</b>
At 31 March 2012	70,497	-	-	-	<b>70,497</b>
<b>Net Book Value</b>					
<b>At 31 March 2012</b>	<b>718,392</b>	<b>65,891</b>	<b>43,217</b>	<b>(15,776)</b>	<b>811,724</b>
At 31 March 2011	513,818	66,047	182,729	28,923	<b>791,517</b>

## 11. Tangible fixed assets: housing properties (continued)

Association	Housing Properties Held for Letting	Housing Properties for Letting under construction	Shared Ownership housing properties	Shared Ownership housing properties under construction	Total
	£'000s	£'000s	£'000s	£'000s	£'000s
<b>Cost</b>					
At 1 April 2011	1,199,772	128,678	214,981	51,577	<b>1,595,008</b>
Reclassification	135,085	2,523	(93,909)	(43,699)	-
Schemes completed	76,487	(76,487)	592	(592)	-
Additions: New properties	1,084	57,202	2,729	13,528	<b>74,543</b>
Existing properties	11,200	-	-	-	<b>11,200</b>
Components written off	(2,763)	-	-	-	<b>(2,763)</b>
Impairment	-	(1,157)	(159)	(169)	<b>(1,485)</b>
Transfer to stock	-	(18,394)	(3,299)	(3,567)	<b>(25,260)</b>
Disposals	(6,214)	(3,718)	(4,737)	(870)	<b>(15,539)</b>
At 31 March 2012	1,414,651	88,647	116,198	16,208	<b>1,635,704</b>
<b>Social Housing Grant</b>					
At 1 April 2011	592,553	67,268	73,670	15,443	<b>748,934</b>
Reclassification	(37,783)	(10,612)	38,777	9,618	-
Transfer to current liabilities	-	(6,693)	-	-	<b>(6,693)</b>
Schemes completed	40,690	(40,690)	-	-	-
Additions	364	19,037	618	422	<b>20,441</b>
Transfer from recycled capital grant/disposal proceeds fund	-	640	(831)	60	<b>(131)</b>
Disposals	(3,459)	(1,761)	-	-	<b>(5,220)</b>
At 31 March 2012	592,365	27,189	112,234	25,543	<b>757,331</b>
<b>Other Grants</b>					
At 1 April 2011	35,689	1,393	786	-	<b>37,868</b>
Schemes completed	406	(406)	-	-	-
Additions	-	609	-	333	<b>942</b>
At 31 March 2012	36,095	1,596	786	333	<b>38,810</b>
<b>Depreciation</b>					
At 1 April 2011	59,992	-	-	-	<b>59,992</b>
Charge for year	10,648	-	-	-	<b>10,648</b>
Eliminated in respect of disposals	(674)	-	-	-	<b>(674)</b>
At 31 March 2012	69,966	-	-	-	<b>69,966</b>
<b>Net Book Value</b>					
At 31 March 2012	<b>716,225</b>	<b>59,862</b>	<b>3,178</b>	<b>(9,668)</b>	<b>769,597</b>
At 31 March 2011	511,538	60,017	140,525	36,134	<b>748,214</b>

## 11. Tangible fixed assets: housing properties (continued)

Housing properties comprise:	Group 2012	Group 2011	Association 2012	Association 2011
	£'000s	£'000s	£'000s	£'000s
Freehold	1,672,536	1,634,384	1,610,037	1,569,341
Long leasehold	57,119	57,119	25,667	25,667
	1,729,655	1,691,503	1,635,704	1,595,008
<b>Total Social Housing Grant received or receivable to date is as follows:</b>	<b>Group 2012</b>	<b>Group 2011</b>	<b>Association 2012</b>	<b>Association 2011</b>
	£'000s	£'000s	£'000s	£'000s
<b>SHG and other capital grants deducted from:</b>				
Housing properties at cost	847,434	839,539	796,141	710,690
Homebuy and starter home initiative	8,998	9,196	300	312
Add: cumulative amount credited to Income and Expenditure Account	21,432	21,498	21,432	21,498
	877,864	870,233	817,873	732,500

Additions to housing properties during the year included net capitalised interest paid of £2,141,000 (2011: £1,283,000).

Accommodation in management comprises:	Group 2012	Group 2011	Association 2012	Association 2011
	Units	Units	Units	Units
<b>Units owned and managed:</b>				
General needs	17,681	17,670	17,681	17,670
Housing for Older People	2,593	2,603	2,593	2,603
Supported Housing	211	213	211	213
Shared ownership	3,076	3,029	1,381	1,315
Intermediate rent	906	788	906	788
Other	53	27	53	27
	24,520	24,330	22,825	22,616
<b>Units managed on behalf of other landlords:</b>				
General needs	8	8	8	8
Supported Housing	59	59	59	59
Shared ownership	-	-	1,695	1,714
	67	67	1,762	1,781
<b>Managed freeholds:</b>				
RTB Leasehold	1,449	1,383	1,449	1,383
100% staircased	46	67	46	67
	1,495	1,450	1,495	1,450
<b>Total units managed (including Freeholds)</b>	<b>26,082</b>	<b>25,847</b>	<b>26,082</b>	<b>25,847</b>
<b>Total units owned</b>	<b>24,600</b>	<b>24,287</b>	<b>22,905</b>	<b>22,696</b>

## 12. Other tangible fixed assets

### Policies:

#### Depreciation and impairment

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

Commercial shops	30 years
Freehold offices	between 30 and 60 years
Plant, machinery, fixtures and vehicles	between 3 and 5 years
Computer equipment	5 years

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

Group	Freehold & leasehold properties	Estate equipment	Plant, machinery, fixtures & vehicles	Computer, hardware & software	Total
	£'000s	£'000s	£'000s	£'000s	£'000s
<b>Cost</b>					
At 1 April 2011	35,103	15,029	2,159	2,869	55,160
Additions	-	1,677	247	513	2,437
Disposals	(550)	(77)	(151)	-	(778)
At 31 March 2012	34,553	16,629	2,255	3,382	56,819
<b>Depreciation</b>					
At 1 April 2011	5,072	5,520	1,940	2,272	14,804
Charge for year	617	1,128	175	413	2,333
Disposals	(60)	(64)	(141)	-	(265)
At 31 March 2012	5,629	6,584	1,974	2,685	16,872
<b>Net Book Value</b>					
<b>At 31 March 2012</b>	<b>28,924</b>	<b>10,045</b>	<b>281</b>	<b>697</b>	<b>39,947</b>
At 31 March 2011	30,031	9,509	219	597	40,356



## 12. Other tangible fixed assets (continued)

Note:

Association	Freehold & leasehold properties	Estate equipment	Plant, machinery, fixtures & vehicles	Computer, hardware & software	Total
	£'000s	£'000s	£'000s	£'000s	£'000s
<b>Cost</b>					
At 1 April 2011	34,697	15,029	2,159	2,866	<b>54,751</b>
Additions	-	1,677	247	513	<b>2,437</b>
Disposals	(550)	(77)	(151)	-	<b>(778)</b>
At 31 March 2012	34,147	16,629	2,255	3,379	<b>56,410</b>
<b>Depreciation</b>					
At 1 April 2011	5,054	5,520	1,940	2,272	<b>14,786</b>
Charge for year	610	1,128	175	413	<b>2,326</b>
Eliminated in respect of disposals	(60)	(64)	(141)	-	<b>(265)</b>
At 31 March 2012	5,604	6,584	1,974	2,685	<b>16,847</b>
<b>Net Book Value</b>					
<b>At 31 March 2012</b>	<b>28,543</b>	<b>10,045</b>	<b>281</b>	<b>694</b>	<b>39,563</b>
At 31 March 2011	29,643	9,509	219	594	<b>39,965</b>

### Freehold and leasehold properties comprise:

	Group 2012	Group 2011	Association 2012	Association 2011
	£'000s	£'000s	£'000s	£'000s
Freehold	<b>34,504</b>	35,054	<b>34,098</b>	34,648
Long leasehold	<b>49</b>	49	<b>49</b>	49
	<b>34,553</b>	35,103	<b>34,147</b>	34,697

## 13. Investments

### Policy:

#### Investments

SHGL retains a 25% stake in homes purchased through the Homebuy scheme and variable percentage stakes in homes purchased through the Starter Home Initiative. Investments in Homebuy and Starter Home Initiatives are funded through Social Housing Grant and held in the balance sheet at historic cost. Investments in subsidiaries and joint ventures are stated at cost. Listed and unlisted investments are stated at market value.

Properties held for their investment potential are accounted for in accordance with SSAP19 'Accounting for Investment Properties'. These properties are stated at market value.

	<b>Group 2012</b>	Group 2011	<b>Association 2012</b>	Association 2011
	<b>£'000s</b>	£'000s	<b>£'000s</b>	£'000s
<b>Cost</b>				
Unlisted investments	<b>10,608</b>	10,637	<b>10,633</b>	10,662
Investment loan to wholly owned subsidiary	-	-	<b>9,980</b>	12,530
Investment in joint venture	<b>1,518</b>	486	-	-
Total investments at cost	<b>12,126</b>	11,123	<b>20,613</b>	23,192
<b>Market Value</b>				
Unlisted investments	<b>12,305</b>	12,855	<b>12,330</b>	12,880
Investment loan to wholly owned subsidiary	-	-	<b>9,980</b>	12,530
Investment in joint venture	<b>1,518</b>	486	-	-
Total investments at market value	<b>13,823</b>	13,341	<b>22,310</b>	25,410
	<b>Group 2012</b>	Group 2011	<b>Association 2012</b>	Association 2011
	<b>£'000s</b>	£'000s	<b>£'000s</b>	£'000s
<b>Investment properties</b>				
Cost/Valuation at 1 April 2011	-	-	-	-
Additions	<b>926</b>	-	<b>926</b>	-
Valuation adjustment	-	-	-	-
At 31 March 2012	<b>926</b>	-	<b>926</b>	-
<b>Homebuy and starter home initiatives</b>				
Homebuy and starter home initiatives	<b>9,500</b>	9,718	<b>300</b>	312
Less: Social Housing Grant	<b>(8,998)</b>	(9,196)	<b>(300)</b>	(312)
	<b>502</b>	522	<b>-</b>	-

## 13. Investments (continued)

### Note:

Unlisted investments represent holdings in managed funds.

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.
- 16.67% indirect holding and 33.33% direct holding in Affinity (Reading) Holdings Limited, a joint venture holding 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 stock.

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 joint venture will take ownership of the affordable homes at East Village following the Olympic Games.

Investment loan to wholly owned subsidiary	Group £'000s	Association £'000s
At 1 April		12,530
Net advances		(2,550)
At 31 March		9,980

Unlisted investments at market value	Group £'000s	Association £'000s
At 1 April	12,855	12,880
Investment repayment	(29)	(29)
	12,826	12,851
Change in value	(462)	(462)
Write downs	(59)	(59)
At 31 March	12,305	12,330

The amounts included in respect of joint ventures comprise the following:	Triathlon LLP 2012 £'000s	Triathlon LLP 2011 £'000s
Share of turnover of joint venture	5,032	667
Share of assets		
Share of fixed assets	76,617	72,576
Share of current assets	9,728	1,101
	86,345	73,677
Share of liabilities		
Due within one year	(163)	(655)
Due after one year	(84,664)	(72,536)
	(84,827)	(73,191)
Investment summary		
Investment at cost	500	500
Interest payable due to the Group	222	-
Share of accumulated surplus/(deficit)	796	(14)
	1,518	486

## 13. Investments (continued)

Included above are the following individually significant joint ventures.

	Triathlon LLP 2012 £'000s	Triathlon LLP 2011 £'000s
Turnover	5,032	667
Profit before taxation	4,024	3
Interest payable	(3,214)	-
Taxation	-	-
Profit after taxation	810	3

## 14. Properties for sale

### Policies:

#### Shared ownership first tranche sales

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

#### Stock and work in progress

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

Note:	Group 2012 £'000s	Group 2011 £'000s	Association 2012 £'000s	Association 2011 £'000s
Properties under construction	28,259	11,139	6,448	2,881
Completed properties	3,334	6,565	3,334	35
Land	18,395	-	18,395	-
	49,988	17,704	28,177	2,916



## 15. Debtors

	Group 2012 £'000s	Group 2011 £'000s	Association 2012 £'000s	Association 2011 £'000s
<b>Due within one year:</b>				
Arrears of rent and service charges	<b>6,406</b>	5,854	<b>6,125</b>	5,545
Less: provision for bad and doubtful debts	<b>(4,768)</b>	(3,872)	<b>(4,582)</b>	(3,801)
	<b>1,638</b>	1,982	<b>1,543</b>	1,744
Social Housing Grant receivable	<b>2,079</b>	11,114	<b>2,079</b>	11,114
Amounts due from connected entities	-	-	<b>7,061</b>	9,488
Other debtors	<b>16,172</b>	9,540	<b>8,264</b>	5,133
Prepayments and accrued income	<b>2,348</b>	1,213	<b>2,169</b>	979
	<b>22,237</b>	23,849	<b>21,116</b>	28,458

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

	Group 2012 £'000s	Group 2011 £'000s	Association 2012 £'000s	Association 2011 £'000s
Social Housing Grant received in advance	<b>139</b>	139	-	-
Recycled capital grant fund	-	214	-	214
Disposal proceeds fund	<b>829</b>	732	<b>829</b>	732
Amounts due to connected entities	-	-	-	3
Accruals and deferred income	<b>32,029</b>	24,591	<b>28,250</b>	22,416
Corporation tax	<b>260</b>	-	-	-
Other taxation and social security	<b>561</b>	114	<b>561</b>	114
Other creditors	<b>12,943</b>	10,005	<b>6,607</b>	5,522
Capital grant on properties for sale	<b>6,693</b>	-	<b>6,693</b>	-
Housing loans	<b>3,500</b>	3,160	<b>3,500</b>	3,160
	<b>56,954</b>	38,955	<b>46,440</b>	32,161



## 17. Housing loans

### Policy:

#### Premium on debentures

Premiums on issue are treated as deferred income and written back to the income and expenditure account over the period of the loan.

#### Note:

	<b>Group 2012 £'000s</b>	Group 2011 £'000s	<b>Association 2012 £'000s</b>	Association 2011 £'000s
Housing loans falling due after one year	<b>744,427</b>	691,680	<b>706,602</b>	653,855
Loan set up cost	<b>(2,721)</b>	(2,648)	<b>(2,721)</b>	(2,648)
	<b>741,706</b>	689,032	<b>703,881</b>	651,207
Housing loans are secured by specific charges on certain of the Group's housing properties and are repayable in instalments due as follows:	<b>Group 2012 £'000s</b>	Group 2011 £'000s	<b>Association 2012 £'000s</b>	Association 2011 £'000s
In one year or less	<b>3,500</b>	3,160	<b>3,500</b>	3,160
Between one and two years	<b>3,874</b>	3,433	<b>3,849</b>	3,433
Between two and five years	<b>19,834</b>	15,438	<b>19,089</b>	15,088
In five years or more	<b>720,719</b>	672,809	<b>683,664</b>	635,334
	<b>747,927</b>	694,840	<b>710,102</b>	657,015

Housing loans bear hedged rates of interest ranging from 3.3% to 13.1% or variable rates based on a margin above the London Inter Bank Offer Rate. The final instalments fall to be repaid in the period 2017 to 2045. Southern Housing Group Limited has the following stand alone derivative transactions as at 31 March 2012:

	<b>Market Value (£million)</b>	
	<b>2012</b>	2011
£20m 3 yearly cancellable swap at a fixed rate of 4.77%, first option date July 2010	<b>(7.35)</b>	(3.74)
£25m 30 year cancellable swap at a fixed rate of 4.57%, option date November 2023	<b>(8.00)</b>	(3.19)
£30m 27 year swap at a fixed rate of 4.9875% discounted by compound RPI above 3.20%	<b>(10.57)</b>	(5.24)
£75m 3 year fixed (6.35%) to floating (3.125% + 6-month LIBOR (in arrears) swap	<b>1.52</b>	1.73
£25m 5 year swap at a fixed rate of 2.75% - commencing 25 June 2012	<b>(1.54)</b>	-
£25m 5 year swap at a fixed rate of 3.055% - commencing 24 December 2012	<b>(1.70)</b>	-
£25m 5 year swap at a fixed rate of 3.3% - commencing 24 June 2013	<b>(1.79)</b>	-

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

## 18. Recycled capital grant fund

	<b>Group 2012</b>	Group 2011	<b>Association 2012</b>	Association 2011
	<b>£'000s</b>	£'000s	<b>£'000s</b>	£'000s
Balance at 1 April	<b>934</b>	9,139	<b>587</b>	2,504
Grant released on sales	<b>2,464</b>	1,960	<b>844</b>	701
Interest added to fund	<b>9</b>	48	<b>4</b>	12
Inter-group transfer	<b>-</b>	-	<b>158</b>	7,018
Grant recycled into new schemes	<b>(700)</b>	(10,213)	<b>(700)</b>	(9,648)
Balance as at 31 March	<b>2,707</b>	934	<b>893</b>	587
Due within one year	<b>-</b>	(214)	<b>-</b>	(214)
Due in more than one year	<b>2,707</b>	720	<b>893</b>	373

## 19. Disposal proceeds fund

	<b>Group 2012</b>	Group 2011	<b>Association 2012</b>	Association 2011
	<b>£'000s</b>	£'000s	<b>£'000s</b>	£'000s
Balance at 1 April	<b>961</b>	3,064	<b>961</b>	3,064
Released on sales	<b>155</b>	117	<b>155</b>	117
Interest added to Fund	<b>5</b>	15	<b>5</b>	15
Recycled into new schemes	<b>-</b>	(2,235)	<b>-</b>	(2,235)
Balance as at 31 March	<b>1,121</b>	961	<b>1,121</b>	961
Due within one year	<b>(829)</b>	(732)	<b>(829)</b>	(732)
Due in more than one year	<b>292</b>	229	<b>292</b>	229

## 20. Deferred income

	<b>Group 2012</b>	Group 2011	<b>Association 2012</b>	Association 2011
	<b>£'000s</b>	£'000s	<b>£'000s</b>	£'000s
Balance at 1 April	<b>1,518</b>	1,938	<b>1,518</b>	1,938
Transferred to Income and Expenditure Account	<b>(145)</b>	(420)	<b>(145)</b>	(420)
Balance as at 31 March	<b>1,373</b>	1,518	<b>1,373</b>	1,518
Deferred income comprises:				
Premium on debentures	<b>1,122</b>	1,205	<b>1,122</b>	1,205
Property leasing income	<b>251</b>	313	<b>251</b>	313
	<b>1,373</b>	1,518	<b>1,373</b>	1,518

## 21. Provisions for liabilities and charges

	<b>Group 2012</b>	Group 2011	<b>Association 2012</b>	Association 2011
	<b>£'000s</b>	£'000s	<b>£'000s</b>	£'000s
Balance at 1 April	<b>72</b>	60	<b>25</b>	25
Transferred to income and expenditure account	<b>19</b>	12	<b>-</b>	-
Balance as at 31 March	<b>91</b>	72	<b>25</b>	25

## 22. Called-up share capital

	<b>Association 2012</b>	Association 2011
	<b>£</b>	£
Shares of £1 each issued and fully paid:		
Balance at 1 April	<b>7</b>	9
Shares issued during year	<b>1</b>	3
Shares surrendered during year	<b>-</b>	(5)
As at 31 March	<b>8</b>	7

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

## 23. Revenue reserve

	<b>Group 2012</b>	Association 2012
	<b>£'000s</b>	£'000s
Balance at 1 April 2011	<b>258,932</b>	244,363
Surplus for year	<b>17,918</b>	15,989
Actuarial loss relating to pension scheme	<b>(4,717)</b>	(4,717)
As at 31 March 2012	<b>272,133</b>	255,635

	<b>Group 2012</b>	Association 2012
	<b>£'000s</b>	£'000s
Revenue reserve excluding pension liability	<b>283,493</b>	266,995
Pension liability	<b>(11,360)</b>	(11,360)
Revenue reserve including pension liability	<b>272,133</b>	255,635



## 24. Revaluation reserve

Group and Association	2012 £'000s	2011 £'000s
Balance at 1 April	2,288	1,656
Surplus on revaluation of investments	(462)	632
As at 31 March	1,826	2,288

The reserve relates to the SHGL investment portfolio shown at market value. The difference between cost and market value has been (debited)/credited to the reserve.

## 25. Designated and restricted reserves

### Policies.

#### Designated reserves

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

#### Restricted reserves

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

#### Note:

Group and Association	Designated reserves £'000s	Restricted reserves £'000s	Total 2012 £'000s	Total 2011 £'000s
Balance at 1 April	430	1	431	431
As at 31 March	430	1	431	431

#### Designated reserves comprise:

	Group 2012 £'000s	Group 2011 £'000s	Association 2012 £'000s	Association 2011 £'000s
Legacy grants	133	133	133	133
Tenant amenities	50	50	50	50
IOW health authority housing improvements	38	38	38	38
Sheltered housing improvements	209	209	209	209
	430	430	430	430

## 26. Capital commitments

	<b>Group 2012</b>	Group 2011	<b>Association 2012</b>	Association 2011
	<b>£'000s</b>	£'000s	<b>£'000s</b>	£'000s
Capital expenditure contracted but not provided for in the financial statements	<b>98,124</b>	148,813	<b>93,612</b>	136,295
Capital expenditure authorised but not contracted	<b>14,252</b>	8,683	<b>14,252</b>	6,744

## 27. Pension Schemes

### Policy:

#### Retirement benefits

The Group operates a number of pension schemes:

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

#### Defined Benefit Schemes

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

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

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

#### The Social Housing Pensions Scheme (SHPS)

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

#### Money Purchase Scheme

The Group also participates in a defined contribution scheme where the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

## 27. Pension Schemes (continued)

### Note:

#### Members of the Group participate in a number of pension schemes:

a) Defined benefit schemes

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

SHGL also contributes to:

The Social Housing Pension Scheme which was closed to new members from 1 January 2007.

The Isle of Wight Council Pension Fund for employees who transferred from the Isle of Wight Council or other local authorities.

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:

	<b>Group 2012</b>	Group 2011	<b>Association 2012</b>	Association 2011
	<b>£'000s</b>	£'000s	<b>£'000s</b>	£'000s
Southern Housing Group Pension scheme	<b>8,557</b>	4,832	<b>8,557</b>	4,832
Isle of Wight Pension scheme	<b>2,803</b>	2,302	<b>2,803</b>	2,302
Total net liabilities	<b>11,360</b>	7,134	<b>11,360</b>	7,134

## Southern Housing Group Pension Scheme

The defined benefit plan provides benefits based on final pensionable salary. The latest full actuarial valuation was carried out at 31 March 2010 and was updated for FRS 17 purposes to 31 March 2011 by a professionally qualified independent actuary, the rates of contribution being determined by the actuary.

During the accounting period the Group paid contributions as follows:

1 April 2011 to 31 August 2011	20.7%
1 September 2011 to 31 March 2012	23.6%

plus an additional annual payment of £597,990 (2010/11: £564,840).

It has been agreed that the employer contribution rate to be applied from 1 April 2012 is 23.6%.

## 27. Pensions (continued)

The major assumptions used in this valuation were:

Actuarial assumptions	2012 %pa	2011 %pa	2010 %pa
Rate of increase in salaries	4.30	4.50	4.70
Rate of increase in pensions in payments and deferred pensions	3.10	3.25	3.30
Discount Rate	4.60	5.40	5.50
Inflation assumption - RPI	3.30	3.50	3.70
Inflation assumption - CPI	2.50	3.00	N/A

### Mortality assumptions

	Male	Female
Current pensioner aged 65	21.68 yrs	24.13 yrs
Future retiree upon reaching 65	24.65 yrs	27.05 yrs

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

### Scheme assets

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

Scheme values	2012 £'000s	2011 £'000s	2010 £'000s
Equities	11,537	10,896	10,650
Bonds	5,997	5,221	7,414
Property	1,026	949	690
Absolute return fund	4,310	4,121	-
Cash	183	388	506
Total market value of assets	23,053	21,575	19,260
Present value of scheme liabilities	(31,610)	(26,407)	(26,842)
Net pension liability	(8,557)	(4,832)	(7,582)

### Long term rate of return

	2012 %	2011 %	2010 %
Equities	5.90	7.30	6.50
Bonds	5.00	5.30	6.50
Absolute return fund	5.00	6.80	N/A
Property	5.10	6.80	6.00
Cash	1.50	3.50	4.00

## 27. Pensions (continued.)

Movements in present value of defined benefit obligation	2012 £'000s	2011 £'000s
At 1 April 2011	26,407	26,842
Current service cost	736	742
Interest on obligation	1,434	1,509
Contribution by members	125	129
Actuarial losses/(gains)	3,506	(2,348)
Administration expenses	(115)	(97)
Benefits paid	(483)	(370)
At 31 March 2012	31,610	26,407

Movement in fair value of fund assets	2012 £'000s	2011 £'000s
At 1 April 2011	21,575	19,260
Expected returns on fund assets	1,449	1,155
Contribution by members	125	129
Actuarial (losses)/gains	(656)	498
Contributions by employer	1,158	1,000
Administration expenses	(115)	(97)
Benefits paid	(483)	(370)
At 31 March 2012	23,053	21,575

Movement in deficit during year	2012 £'000s	2011 £'000s	2010 £'000s
Deficit in scheme at beginning of year	(4,832)	(7,582)	(6,841)
Current service cost	(736)	(742)	(535)
Contributions paid	1,158	1,000	788
Other finance expense	15	(354)	(345)
Actuarial (loss)/gain	(4,162)	2,846	(649)
Deficit in scheme at end of year	(8,557)	(4,832)	(7,582)

Analysis of other pension costs charged in arriving at operating surplus	2012 £'000s	2011 £'000s	2010 £'000s
Current service cost	(736)	(742)	(535)

Analysis of amounts included in other finance income/expense	2012 £'000s	2011 £'000s	2010 £'000s
Expected return on pension scheme assets	1,449	1,155	920
Interest on plan liabilities	(1,434)	(1,509)	(1,265)
	15	(354)	(345)



## 27. Pensions (continued)

### Analysis of amount recognised in statement of total recognised surpluses and deficits

	2012 £'000s	2011 £'000s	2010 £'000s
Actual return less expected return on assets	(656)	498	3,887
Experience gains arising on scheme liabilities	416	1,628	1,025
Changes in assumptions underlying the present value of scheme liabilities	(3,922)	720	(5,561)
Actuarial (loss)/gain recognised in statement of total recognised surpluses and deficits	(4,162)	2,846	(649)

### History of scheme

The history of the scheme for the current and prior periods is as follows:

	2012 £'000s	2011 £'000s	2010 £'000s	2009 £'000s	2008 £'000s
Present value of scheme liabilities	31,610	26,407	26,842	21,113	23,014
Fair value of scheme assets	(23,053)	(21,575)	(19,260)	(14,272)	(16,595)
Deficit	8,557	4,832	7,582	6,841	6,419
History of experience gains and losses	2012	2011	2010	2009	2008
Experience adjustments on scheme liabilities as a percentage of scheme liabilities	1.32%	6.17%	3.82%	0.03%	(0.37%)
Experience adjustments on scheme assets as a percentage of scheme assets	(2.85%)	2.31%	20.18%	(31.41%)	(13.59%)

## The Social Housing Pension Scheme

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

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

The Trustee commissions an actuarial valuation of the Scheme every three years. The main purpose of the valuation is to determine the financial position of the Scheme in order to determine the level of future contributions required, in respect of each benefit structure, so that the Scheme can meet its pension obligations as they fall due. From April 2007 the split of the total contribution

rate between member and employer is set at individual employer level, subject to the employer paying no less than 50% of the total contribution rate. From 1 April 2010 the requirement for employers to pay at least 50% of the total contribution rate no longer applies.

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

During the accounting period the Group paid contributions at the rate of 17.1%. Member contributions varied between 10.7% to 11.7%.

At the balance sheet date, there were 46 active members employed in the group. The annual pensionable payroll in respect of these members was £1,003,749.

## 27. Pensions (continued)

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

The last formal valuation of the Scheme was performed as at 30 September 2008 by a professionally qualified actuary using the Projected Unit Method. The market value of the Scheme's assets at the valuation date was £1,527 million. The valuation revealed a shortfall of assets compared with the value of liabilities of £663 million, equivalent to a past service funding level of 69.7%.

**The financial assumptions underlying the valuation as at 30 September 2008 were as follows:**

### Valuation Discount Rates

Pre retirement	7.8% pa
Non Pensioner Post retirement	6.2% pa
Pensioner Post retirement	5.6% pa
Pensionable earnings growth	4.7% pa
Price inflation	3.2% pa

### Pension Increases

Pre 88 GMP	0.0% pa
Post 88 GMP	2.8% pa
Excess over GMP	3.0% pa

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

**The valuation was carried out using the following demographic assumptions:**

- Mortality pre retirement – PA92 Year of Birth, long cohort projection, minimum improvement 1%pa
- Mortality post retirement – 90% S1PA Year of Birth, long cohort projection, minimum improvement 1%pa

**The long-term joint contribution rates required from April 2010 from employers and members to meet the cost of future benefit accrual were assessed at:**

Benefit structure	Long-term joint contribution rate (% of pensionable salaries)
Final salary with a 1/60th accrual rate	17.8
Final salary with a 1/70th accrual rate	15.4
Career average revalued earnings with a 1/60th accrual rate	14.9
Final salary with a 1/80th accrual rate	13.5
Career average revalued earnings with a 1/80th accrual rate	11.9

## 27. Pensions (continued)

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

Following consideration of the results of the actuarial valuation it was agreed that the shortfall of £663 million would be dealt with by the payment of deficit contributions of 7.5% of pensionable salaries, increasing each year in line with salary growth assumptions, from 1 April 2010 to 30 September 2020, dropping to 3.1% from 1 October 2020 to 30 September 2023. Pensionable earnings at 30 September 2008 are used as the reference point for calculating these deficit contributions. These deficit contributions are in addition to the long-term joint contribution rates set out in the table above.

The Scheme's 30 September 2011 valuation is currently in progress and will be finalised by 31 December 2012. The results of the 2011 valuation will be included in next year's disclosure note.

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

Employers that have closed the Scheme to new entrants are required to pay an additional employer contribution loading of 3.0% to reflect the higher costs of a closed arrangement.

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

Employers joining the Scheme after 1 October 2002 that do not transfer any past service liabilities to the Scheme pay contributions at the ongoing future service contribution rate. This rate is reviewed at each valuation and applies until the second valuation after the date of joining the Scheme, at which point the standard employer contribution rate is payable. Contribution rates are changed on the 1 April that falls 18 months after the valuation date.

A copy of the recovery plan, setting out the level of deficit contributions payable and the period for which they will be payable, must be sent to the Pensions Regulator. The Regulator has the power under Part 3 of

the Pensions Act 2004 to issue scheme funding directions where it believes that the actuarial valuation assumptions and / or recovery plan are inappropriate. For example the Regulator could require that the Trustee strengthens the actuarial assumptions (which would increase the scheme liabilities and hence impact on the recovery plan) or impose a schedule of contributions on the Scheme (which would effectively amend the terms of the recovery plan). The Regulator provided a response in respect of the September 2008 actuarial valuation in August 2011, stating that it does not propose to take any scheme funding action under Part 3 of the Pensions Act 2004.

The Scheme Actuary has prepared an Actuarial Report that provides an approximate update on the funding position of the Scheme as at 30 September 2010. Such a report is required by legislation for years in which a full actuarial valuation is not carried out. The funding update revealed an increase in the assets of the Scheme to £1,985 million and indicated a reduction in the shortfall of assets compared to liabilities to approximately £497 million, equivalent to a past service funding level of 80.0%.

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

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

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

## 27. Pensions (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 latest full actuarial valuation was carried out at 31 March 2012 by a qualified independent actuary.

It has been agreed that an employer contribution rate of 20.8% of pensionable pay will apply for 2012/13 (2011/12: 20.8%).

The major assumptions used in this valuation were:

Actuarial assumptions	2012 %pa	2011 %pa	2010 %pa
Rate of increase in salaries	4.80	5.10	5.30
Rate of increase in pensions in payments and deferred pensions	2.50	2.80	3.80
Discount Rate	4.80	5.50	5.50
Inflation assumption - RPI	3.10	3.60	3.80
Inflation assumption - CPI	2.30	3.10	N/A

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

- Current pensioner aged 65: 22.9 years (male), 25.7 years (female).
- Future retiree upon reaching 65: 24.9 years (male), 27.7 years (female).

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

### Scheme assets

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

	2012 £'000s	2011 £'000s	2010 £'000s
Equities	2,725	2,791	2,586
Bonds	896	814	790
Property	234	194	180
Other	39	78	36
Total market value of assets	3,894	3,877	3,592
Present value of scheme liabilities	(6,697)	(6,179)	(7,303)
Deficit in the scheme	(2,803)	(2,302)	(3,711)
Net pension liability	(2,803)	(2,302)	(3,711)

## 27. Pensions (continued)

Long term rate of return	2012 %	2011 %	2010 %
Equities	<b>6.30</b>	7.50	7.80
Bonds	<b>4.60</b>	4.90	5.00
Property	<b>4.40</b>	5.50	5.80
Cash	<b>3.50</b>	4.60	4.80

The market value of the scheme's assets (whole Fund) at 31 March 2012 was £334.8 million.

Recognition of defined benefit obligation	2012 £'000s	2011 £'000s
Opening defined benefit obligation	<b>6,179</b>	7,303
Current service cost	<b>40</b>	49
Interest cost	<b>334</b>	367
Contribution by Members	<b>11</b>	13
Actuarial losses/(gains)	<b>382</b>	(599)
Past service costs		(706)
Losses on curtailments	-	-
Estimated benefits paid	<b>(249)</b>	(248)
Deficit in scheme at end of year	<b>6,697</b>	6,179

Reconciliation of fair value of employer assets	2012 £'000s	2011 £'000s
Opening fair value of employer assets	<b>3,877</b>	3,592
Expected return on assets	<b>261</b>	252
Contributions by members	<b>11</b>	13
Contributions by employer	<b>167</b>	148
Actuarial (losses)/gains	<b>(173)</b>	120
Benefits paid	<b>(249)</b>	(248)
Total charged to operating cost	<b>3,894</b>	3,877

Expense recognised in Income and Expenditure Account	2012 £'000s	2011 £'000s
Current service cost	<b>40</b>	49
Interest cost	<b>334</b>	367
Expected return on employer assets	<b>(261)</b>	(252)
Past service costs	-	(706)
Losses on curtailments and settlements	-	-
Total	<b>113</b>	(542)



## 27. Pensions (continued)

The expense is recognised in the following line items in the Income and Expenditure Account:

	2012 £'000s	2011 £'000s
Operating costs	40	(657)
Other finance costs	73	115

The total amount recognised in the Statement of total recognised gains and losses in respect of actuarial gains and losses is £555,000 loss (2011: £719,000 gain).

Cumulative actuarial losses reported in the Statement of total recognised gains and losses for accounting periods ending on or after 22 June 2002 and subsequently included by prior year adjustment under paragraph 96 of FRS 17, are £711,000 (2011: £156,000 loss).

### Change from Retail Prices Index to Consumer Prices Index

In the UK budget statement on 22 June 2010 the Chancellor announced that with effect from 1 April 2011 public service pensions would be up-rated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI).

This has the effect of reducing the Group's liabilities in the Isle of Wight Council Pension scheme by £706,000 and has been recognised as a past service gain in accordance with guidance set down in UITF Abstract 48, since the change is considered to be a change in benefit entitlement.

### History of scheme

The history of the scheme for the current and prior periods is as follows:

	2012 £'000s	2011 £'000s	2010 £'000s	2009 £'000s	2008 £'000s
Fair value of scheme assets	3,894	3,877	3,592	2,664	3,366
Present value of funded liabilities	(6,697)	(6,179)	(7,303)	(4,879)	(5,076)
Deficit	(2,803)	(2,302)	(3,711)	(2,215)	(1,710)
<b>Experience adjustments</b>	<b>2012 %</b>	<b>2011 %</b>	<b>2010 %</b>	<b>2009 %</b>	<b>2008 %</b>
Experience adjustments on scheme liabilities as a percentage of scheme liabilities	(1.82)	2.09	-	-	7.50
Experience adjustments on scheme assets as a percentage of scheme assets	(4.44)	3.10	23.33	(32.88)	(23.71)

The Association expects to contribute approximately £165,000 to its defined benefit scheme in the next financial year.

### The Zurich Assurance Limited Pension Scheme

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

## 28. Operating Leases

### Policy:

#### Leased assets

Rentals payable under operating leases are charged to the income and expenditure account on a straight line basis over the life of the lease.

#### Note:

Leasing rentals in respect of property amounting to £240,000 (2011: £255,000) and equipment £63,000 (2011: £7,000) were charged during the year. At 31 March 2012 the Association was committed to making the following payments in respect of operating leases:

Operating leases which expire:	Property 2012 £'000s	Equipment 2012 £'000s	Total 2012 £'000s	Total 2011 £'000s
Within one year		2	2	-
Within two to five years	112	94	206	130
Within five to ten years	128	-	128	128
	240	96	336	258

## 29. Legislative provisions

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

## 30. Group organisations

The Southern Housing Group organisations included in these financial statements are:

<b>Southern Housing Group Limited</b>	Parent body
<b>Southern Home Ownership Limited</b>	
<b>Southern Space Limited</b>	
<b>Southern Development Services Limited</b>	
<b>Affinity Housing Services (Reading)</b>	Joint venture partnership with Windsor & District HA
<b>Triathlon Homes LLP</b>	Joint venture partnership with First Base 4 Stratford LLP and East Place Limited

## 31. Related parties

All transactions in respect of tenant board members have been carried out at arm's length and under normal commercial terms.

## 32. Samuel Lewis Foundation

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

	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

	2012 £'000s	2011 £'000s
Tangible fixed assets at cost	6,148	6,100
Less Social Housing and other grants	(5,609)	(5,609)
	539	491
Investments at valuation	702	687
	1,241	1,178

### Net income from permanent endowed assets

	2012 £'000s	2011 £'000s
Income from lettings	1,474	2,035
Less expenditure on letting activities	(1,058)	(1,239)
Surplus on letting activities	416	796
Income from Investments	10	10
	426	806

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



One of the Group's young residents at a regional 'you say, we do' roadshow

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