



Unlocking the potential of people and places



Front cover image
Artist's impression
of Triathlon Homes
Olympic Athletes Village

Below left image
Resident focus group

Below right image
Artist's impression of the Armouries,
Royal Arsenal, Woolwich

The consolidated financial statements of:

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



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The Board, Senior Executives and Advisers

The Board Members of the Board of Southern Housing Group Limited as at 31 March 2011:

Andrew McIntyre	Chairman
Lara Oyedele	
Tony Bourne	
Tom Dacey	Chief Executive
Chris Hampson	
Jim Hitch	
Jane Hives	
Preth Rao	

The following Directors resigned during the year:

Peter Goodacre	Resigned 5 June 2010
David Kelly	Resigned 12 July 2010
John Castelberg	Resigned 12 July 2010
Malcolm Groves	Resigned 1 October 2010
Clifford Payton	Appointed 6 June 2010 and resigned 1 October 2010

Group Strategy Team

Tom Dacey	Chief Executive	Dale Meredith	Development Director
Alene Wilton	Corporate Services Director	Paul Smith	Operations Director
Barry Nethercott	Finance Director (Resigned 17 September 2010)	Caroline Tiller	Executive Director, James Butcher Housing Association (Resigned 7 May 2010)
John Crowther	Interim Finance Director (Appointed 27 September 2010 and resigned 4 April 2011)	Margaret Wright	Executive Director, South Wight Housing Association (Resigned 30 September 2010)
Rosemary Farrar	Finance Director (Appointed 4 April 2011)		

Secretary and Registered office

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

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

Principal Solicitors

Trowers & Hamlins
Sceptre Court
40 Tower Hill
London
EC3N 4DX

Winckworth Sherwood
Minerva House
5 Montague Close
London
SE1 9BB

Overview of the Business

Southern Housing Group is one of the largest affordable housing providers in Southern England. We house some 66,000 residents, own and manage more than 25,500 homes and employ around 800 people. We continue to have a presence in over 70 local authority areas; however in 2010/11 we embarked on a programme of rationalisation, with the intention of disposing of housing where the number of homes we own is modest and where there are no ambitions for further growth. This will help us to operate more efficiently.

There are four different strands to our business: the development of affordable housing for which we are a Homes and Communities Agency (HCA) preferred partner, housing and neighbourhood management, a range of housing options for rent and home ownership and social and economic investment.

On 1 October 2010 Southern Housing Group Limited (31055R) was formed as a result of a statutory amalgamation under section 50 of the Industrial and Provident Societies Act 1965 of the following three societies:

Southern Housing Group Limited (27412R)

South Wight Housing Association Limited (26341R)

James Butcher Housing Association Limited (16602R)

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 Tenant Services Authority (TSA). Southern Space Limited (SSL) develops properties for outright sale. SSL also has a one third share in Triathlon Homes LLP which has been established to provide long term affordable housing at the Olympic Village from 2013. Southern Development Services Limited (SDSL) provides project delivery services for companies in the Group.

The consolidated financial statements are published on the Association's website www.shgroup.org.uk.

External Influences

The Government's Comprehensive Spending Review (CSR) of October 2010 ushered in the most radical change programme to impact upon the social housing sector since the introduction of private finance in 1988.

Every spending department in Government was subjected to rigorous review but none fared as badly as the Department for Communities and Local Government which experienced a reduction of 67.6% in its departmental expenditure.



Running in parallel with deficit reduction measures is the introduction of the 'Affordable Rent' regime which will require Registered Providers to charge up to 80% of local market rents on re-lets and new lettings and the Welfare Reform agenda with the explicit intention to reduce the Housing Benefit bill and incentivise entry into employment. Particularly relevant for our sector is the proposed introduction of a maximum benefits cap of £26,000 a year which will lead to a significant reduction in the provision of large family homes.

The Group wishes to maintain its commitment to a supply of affordable housing but not at the expense of the viability of our business. Our bid from the HCA is therefore well considered but modest compared with our output under the previous arrangements.

For the second year we have to record a continuing unsatisfactory position in respect of the supply of affordable mortgage finance for first time buyers. The government introduced the 'Firstbuy' initiative in their budget of March 2011, with a pot of £250m to enable 10,000 households to progress to home ownership by providing a 20% equity loan funded jointly by Government and housebuilders. This is clearly a step in the right direction but more needs to be done to encourage the lending community to assist with the supply of affordable finance for first time buyers and prospective shared owners. As we know from experience the cross subsidy available from income generated by property sales would further assist the smooth operation of the new Affordable Rent regime whilst helping the broader economy in a number of beneficial ways.

On the regulatory front, the next twelve months will bring a series of important changes to the Tenant Services Authority (TSA), not least the transfer of regulatory functions to an independent Regulation Committee based within the HCA.

Legislation currently on its way through Parliament, such as the Localism Bill will have significant impact upon a range of previously agreed standards promulgated by the TSA. All of this will have to be accomplished within a reduced budget for the regulatory function.

Some of this shortfall may be addressed by the proposal to charge fees to registered providers, upon which subject consultation will take place in 2011/12.

There has been much change therefore in our external environment. However our mission remains to concentrate on core business and to ensure that the organisation remains healthy, viable and active.

Objectives and Strategies

The values we hold as an organisation are to be progressive, responsible, inclusive and reliable and these reflect and underpin our mission which is “unlocking the potential of people and places”.

Our Corporate Plan sets out six strategic objectives to achieve our goal and these are to:

- Understand residents’ needs and ensure that our residents shape the continuous improvement of our products and services in meeting those needs
- Secure the long-term growth and future of Southern Housing Group
- Enhance the reputation of Southern Housing Group through building effective relationships with residents and all other interested parties
- Instil a culture of value for money throughout the organisation in order to ensure that we effectively meet the needs of our residents

- Recognise, value and promote the diversity of our staff, board members and the communities in which we work in all aspects of our activities
- Enable staff and board members to work across all areas, to develop their skills and maximise their potential contribution to the Group for the benefit of residents

Each of our objectives is defined by three priorities and by the outcome that we are working to achieve. To assess our progress we have identified measurable three-year performance targets, and progress against these targets is reviewed by the Board in December and July each year and reported to residents annually. A new Corporate Plan is currently being prepared.

Development Performance

In 2010/11 we completed 507 new homes of which 464 were part of the HCA partnering programme. The Group’s HCA spend at £51.6m was 40% ahead of the cash planning target of £36.9m. We started work on 595 new homes during the year of which 591 were part of the HCA programme.

Our cautious response to the impact of the “credit crunch” during 2008 fed through to fewer starts and handovers in 2010/11. There was a relatively high number of intermediate rent completions in 2010/11 compared with modest shared ownership and open market sale handovers as a result of the HCA’s Targeted Programme the year before. Social rent accounted for over half of our completions in 2010/11. Social rent starts were significantly up although overall starts were down on the previous year as programme commitments reduced.

Handovers & starts by tenure	2010/11		2009/10	
	Handovers	Starts	Handovers	Starts
Social Rent	254	465	394	386
Intermediate Rent	145	89	288	121
Market Rent	-	2	-	-
Shared Ownership	69	39	71	89
Outright Sale	39	-	36	128
TOTAL	507	595	789	724



National Affordable Housing Programme New Starts

The National Affordable Housing Programme (NAHP) 2008-11 was replaced in April 2011 by the Affordable Housing Programme 2011/12-2014/15 (AHP), based on the new 'Affordable Rent' funding model. In the run up to the end of the financial year we worked to secure additional grant funding for schemes in the NAHP that would struggle under the new system. This involved obtaining planning permission and tendering contracts so that we were ready to start on site immediately thus enabling the HCA to achieve its year end targets. The strategy was successful and as a result seven schemes totalling over 250 homes attracted extra funding and started on site by the end of March, bringing the annual starts to just under 600 homes. These included major new projects in London, Kent, Sussex and the Isle of Wight as well as most of the Group's landbanked schemes.

AHP Bid 2011/12-2014/15

We have submitted a modest bid to the HCA for the 'Affordable Homes Programme'. This new funding regime is based on higher rents (up to 80% of market level), lower capital grants, and cross subsidy from the rental conversion or sale of older stock.

Our bid is focussed on our key operating areas and priority schemes with a balance of 65% Affordable Rent and 35% Intermediate Rent. Around 85% of the programme is on identified and deliverable projects, a high proportion of which are already in our ownership. The bid is split between London and the South East. Negotiations with the HCA on the bid started in late May 2011 and are expected to conclude in the summer.

Development Highlights

We continue to provide new affordable housing on a number of high profile sites. These include:

Kidbrooke, London Borough of Greenwich

We are working with partners Berkeley Homes and LB Greenwich on the Kidbrooke regeneration scheme in South East London where 1970s' flats are being demolished to make way for a new high quality urban district with around 4,600 new homes, open space and communal facilities. The first 80 new homes were handed over in 2010/11. A further 149 homes are due to be occupied by the end of 2011/12. Contracts were also entered on the next phase of the project which will deliver a further 115 units in the following year.

Barking Riverside, London Borough of Barking & Dagenham

Work has begun on the first 4 plots of this 350 acre brownfield development site which will produce 357 homes, including 167 affordable. These are the first phases of a development which will see more than 10,000 homes built over the next 15 to 20 years. Handover of the first 62 family homes is expected early in 2012.

Athletes Village

We have a one-third interest in Triathlon Homes LLP, a joint venture which will take ownership of 1,379 affordable homes at the Athletes Village following the Olympic Games. These will be integrated with over 1,400 open market homes which are currently subject to negotiation. The project is progressing to time and on budget. The homes will start to be handed over in 2013, after the Games have taken place and on completion of a retrofit programme. Detailed consultation is taking place with a wide range of local agencies on plans for the letting and management of the affordable homes. The Village will be part of a new mixed tenure community helping to regenerate Stratford following the Games.

Holborough Valley, Snodland, Kent

We are working closely with Berkeley Homes on the multi-award winning Holborough Valley development in Snodland, Kent. This is a very large phased scheme on the site of a former quarry which will eventually incorporate a crèche, school, shop, gym and aquatic sports centre. This year we took handover of 42 affordable units as part of phase 4 of the project and a further 85 affordable units started on site for the next phase.

Parkside Place (formerly Market Estate), Islington

The Group moved on to the third and final phase of Parkside Place in Islington during 2010/11. The site was originally a run down ex-Greater London Council estate which came to the Group as a tenanted stock transfer. 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 will provide 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.

Sales and Marketing

There were 132 completions on new shared ownership properties during the year and 221 Intermediate Rent (IR) lettings on new homes. In addition there were 131 IR re-lets on existing stock. At the end of March the unsold and unlet void period on new homes had reduced to zero.

Design Awards Success

'Watercolour' in Redhill and Baden Powell Close in Dagenham achieved a silver standard from Building for Life, the national standard for well designed homes and neighbourhoods. Watercolour went on to receive a further prestigious 'Building for Life' Award in November 2010.

Southern Housing Group Wins 'Affordable Housing Provider of the Year'

Southern Housing Group won the main award as 'Affordable Housing Provider of the Year 2011' at The First Time Buyer Readers' Awards held at the Landmark Hotel on 8 April 2011.

Southern Housing Group also walked away with the winner for 'Best Large Development' and Highly Commended for 'Greatest Contribution to Diversity Outreach' at the Armouries at Royal Arsenal, Greenwich and received the runner up award for 'Best Website' for Church Elm Court in Barking and Dagenham.

Value for Money (VfM)

VfM is one of our six strategic objectives. To support this objective we have a clear strategy which has been communicated to all staff.

We are committed to the elimination of waste and concentrate on good quality outcomes for our residents. We have a small Continuous Service Improvement (CSI) team that works across the whole organisation using a systems thinking approach to improve business processes and thereby to deliver better VfM.

During the past year our CSI team has supported a number of key projects to drive VfM improvements in areas such as void management, utilities management and defects management. These projects are effective at driving waste from our systems whilst improving outcomes for residents.

A key improvement during the year has been the gradual move towards our residents reporting repairs directly to our contractors. This change eliminates double handling from a large number of transactions and will reduce our Customer Service Centre costs and improve the effectiveness of our repairs services to residents.

Professional procurement is a critical tool for delivering VfM. We have a clear procurement strategy and have developed a procurement function that serves the whole Group, providing staff with clear procedures, guidance and practical help to ensure that we comply with the law and accepted good practice and deliver good VfM from every procurement opportunity.

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.

Risks and Uncertainties

The Board takes a strategic overview of risk across the Group. We have a well established process for managing risk. The Risk Manager co-ordinates risk awareness across the Group and manages the associated areas of insurance and business continuity. He works with directors to produce detailed risk maps for all departments and operating subsidiaries. These risk maps are regularly monitored and where appropriate actions are taken to mitigate risks.

The top risk map contains those risks that would significantly affect delivery of our strategic objectives. This map is reviewed by the Audit Committee quarterly and by the Board at its December meeting.

The Group's key (high rated) risks are:

1. The Government's Comprehensive Spending Review (CSR) has resulted in a reduction in the amount of grant available which has constrained the Group's ability to undertake future housing development.

We have set up a CSR project team to examine the way we manage the added risks brought about by the new grant funding regime. Our development programme going forward has been shaped to address the new grant levels in our business plan and we are looking to increase other opportunities including partnership working and joint ventures.

2. Bank attitude to debt management leads to inflexibility and inability to manage business and unforeseen breach of loan covenant/s allowing bank to re-price the back book and consequently increase the cost of borrowing.

We have used careful financial modelling to ensure that we operate within the limits of our covenants with lenders and have tightened up our formal covenant compliance procedures. We are also exploring alternative sources of finance and of risk sharing within the Group and with external partners.

3. New accounting rules for Annual Financial Statements introduced due to International Accounting Reporting requirements may cause breach of covenant with lenders and seriously hamper our ability to carry out our core business.

We have taken an active part in drawing to the attention of the Accounting Standards Board the issues that will

arise from the planned changes to our financial accounting format. We are preparing to manage the concerns of lenders by reviewing the structure of our loan book and financial instruments in the medium term to limit the extent of the risk.

4. The new Affordable Rent regime reduces capital grant available and exhausts the Group's borrowing headroom. Additionally the new tenure increases the risk of non collection of rent and increases cost of rent collection.

We have introduced more rigorous control over the spend of our capital development projects and have continued to model alternative means of part financing our new developments including mixed tenure sites, outright sales, risk sharing through joint ventures and other off balance sheet solutions. In the coming year we will continue to look to reduce the Group's overall costs where possible and to explore more imaginative solutions for raising capital.

5. The changes required by government policy in housing benefit will increase arrears and ultimately reduce revenue.

We have modelled the likely impact of this risk and have improved our lettings and allocations procedures as well as our arrears recovery process. We have increased our investment in financial inclusion work. We will continue to ensure that all new lettings are made at rents that can be afforded by the tenant's income and that tenants at risk of having their benefit income capped through under occupation are aware of this through advice from our staff and resident communications.

6. Available subsidy does not meet the Group's arrangement for the provision of Care and Support on the Isle of Wight.

We have concentrated our expertise in care and support on the Isle of Wight and have developed a close working relationship with the local authority there. We are working to ensure that personal budget allowances granted to some residents previously in receipt of floating support mitigates some of the lost income.

Our procedures are designed to minimise the risk of fraud. We have in place a comprehensive fraud policy and response plan. We keep a fraud register. No material frauds were identified during the year.

Social and Economic Regeneration

As an organisation we aim to give support to our residents beyond their housing needs creating opportunities to improve the quality of life. This year our social and economic regeneration work has focussed on two key areas – maximising access to employment and training opportunities and tackling digital exclusion. We have built on our employment and training outreach model and extended this work into new local authority areas with plans to extend this further to recognise our residents' needs and the external pressures they face. We have received £75,000 from 'UK online' and have transformed six community spaces into IT hubs, assisting more than 1,000 people with little or no IT experience to access the internet and the opportunities this brings. We have also supported residents in five of the Group's sheltered housing schemes to access the internet and we are building on this programme for the future. During the year £87,623 was received from the Big Lottery for the Activate London programme which is a four-year health and wellbeing programme.

Environmental Sustainability

We continue to work towards achieving the objectives in our Environmental Sustainability Strategy 'Towards a Greener 2011'. Our key achievements over the past year include:

- Achieving a Sustainable Homes Index for Tomorrow (SHIFT) Bronze award – one of only 37 Housing Associations to be publicly assessed on its sustainability credentials. The report highlighted the excellent green transport options for staff and the efforts taken by Southern Housing Group to divert waste from landfill.
- Holding the first Sustainable Maintenance Contractor of the Year Award, won by Mountjoy Ltd, the Group's maintenance contractor for the Isle of Wight.
- Training and employing 5 residents in London as 'Green Doctors' to provide free energy saving advice to 500 Southern Housing households helping to reduce fuel bills.
- Reducing the environmental impact of our offices and operations by reducing energy use in our head office by 16% over the last 2 years, switching to a low carbon taxi and courier provider, introducing video conferencing and increasing the office recycling rate.
- Improving the energy efficiency of our stock through programmes of loft and cavity wall insulation, boiler and window replacement funded through CERT, SHESP and Decent Homes improvements. As a result of this work the average SAP of our stock has improved by over 1 point from last year to 70.5.
- Completion of stage one of our Low Carbon Community Challenge project in partnership with the Ellen MacArthur Foundation. The project has retrofitted 72 properties in Chale Green, an isolated community on the Isle of Wight with air source heat pumps, solar PV panels and new windows. Residents have also received energy efficiency advice and stage two of the project is now under way with initiatives including water conservation, food growing, tree planting and community composting. The project was recognised externally with Southern Housing Group staff member, Vince Wedlock Ward collecting a Gold Green Apple award in the charitable organisation/ social housing category at a ceremony in the House of Commons for his contribution towards the project.

During 2011 the Group is continuing to take the initiative to reduce its environmental impact across all areas of its work including:

- Fuel poverty, energy efficiency and environmental sustainability training for staff.
- Reviewing and strengthening environmental considerations in our Employer's Requirements.
- Review of printing requirements in our offices.
- Continued engagement with our suppliers and contractors around environmental sustainability.



Operational Performance

Our performance in key operational areas for 2010/11 is set out below and compared to the performance achieved in previous years. This information reflects priorities from the annual performance targets in our Corporate Plan and is routinely monitored by the Board.

Resident satisfaction

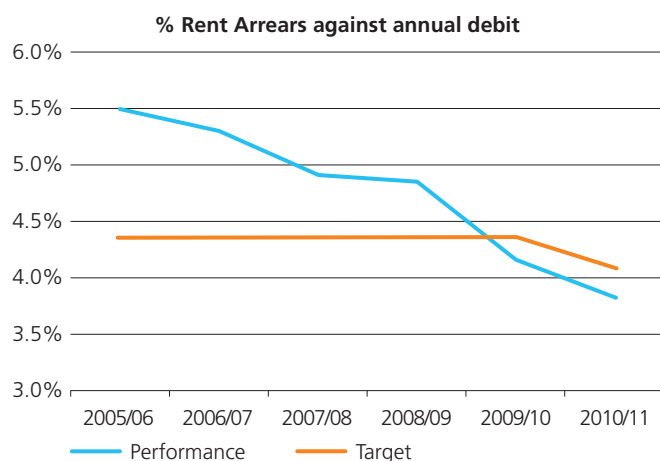
Resident satisfaction is an important factor in the assessment of performance. We are no longer required to conduct the tri-annual STATUS survey but have continued to monitor the transactional contact with residents through our 'What Matters to Residents' surveys. These surveys show a general picture of improved satisfaction demonstrated by an increase in the overall satisfaction measure. We continue to work on the key areas identified for improvement in the surveys to raise satisfaction levels further.

What Matters to Residents results 2010-11

	2010-11 Aggregated satisfaction with the service area	2009-10 Aggregated satisfaction with the service area	2008-09 Aggregated satisfaction with the service area	Change on 2010-11 data
Repairs service	86%	84%	85%	2%
Gas servicing	93%	88%	-	5%
New lettings	95%	87%	83%	8%
Complaints case handling	41%	41%	39%	0%
ASB service	75%	53%	56%	22%
Aids and adaptations	92%	87%	83%	5%
Rent payment	94%	94%	95%	0%
Works to existing homes	90%	95%	88%	-5%
New builds homes	81%	84%	85%	-3%
External redecorations	92%	84%	87%	8%
Resident Services team	79%	-	-	-
Sales & Marketing	91%	94%	91%	-3%
Web Services Survey	65%	67%	-	-2%
Overall satisfaction	8.4	7.8	8.1	0.6

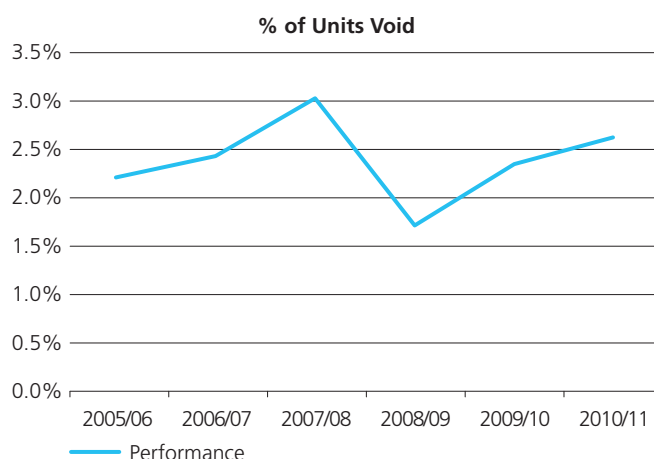
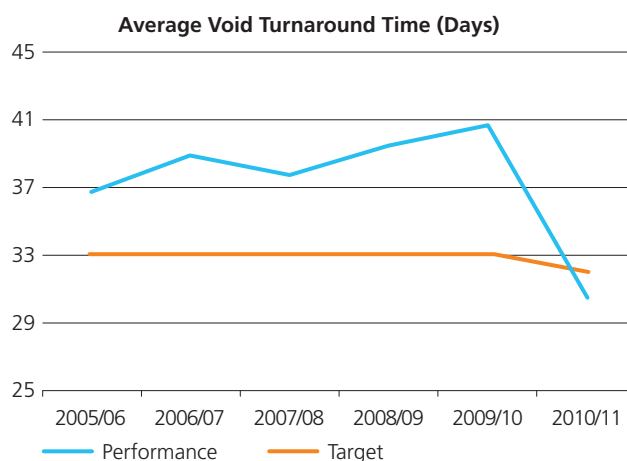
Rent Arrears

Rent arrears have reduced for the fifth consecutive year falling by 0.4%. This performance is a real achievement considering the challenging economic climate. The improvement is due to the continued focus provided by our income management strategy. Work on early intervention and embedding of our financial inclusion services has helped reduce arrears and this is combined with an ongoing emphasis on establishing arrangements for payment by direct debit. We continue to maintain an approach which minimises the need to resort to eviction.



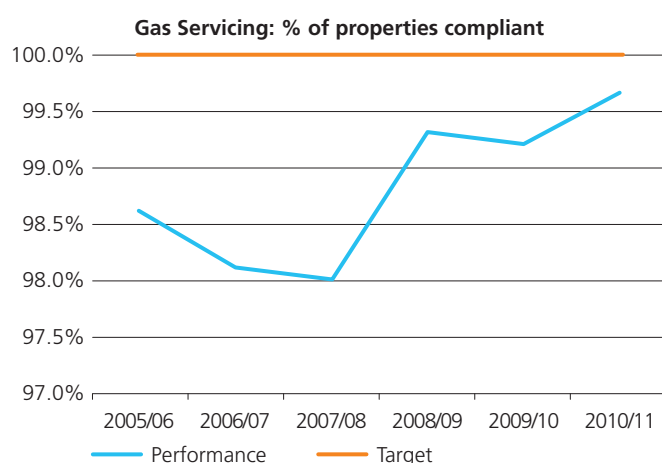
Voids

Performance on void turnaround in 2010/11 has improved significantly as a reflection of the priority that has been given to this service area during the year. The new voids process implemented in 2009/10 has now bedded down and is supported by comprehensive management information. This has allowed staff to take appropriate action at an early stage and to understand and identify the key drivers of performance. The volume of void homes has increased slightly during the year as a result of a significant refurbishment programme.



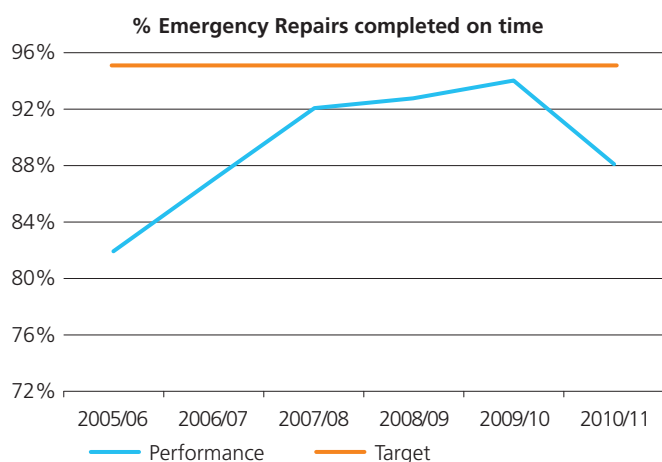
Gas Servicing

As a result of the poor weather experienced in 2009/10 we better equipped ourselves for similar conditions and in 2010/11 we have managed to improve the percentage of homes with a valid gas safety certificate. The 99.6% compliance was the best performance achieved to date.



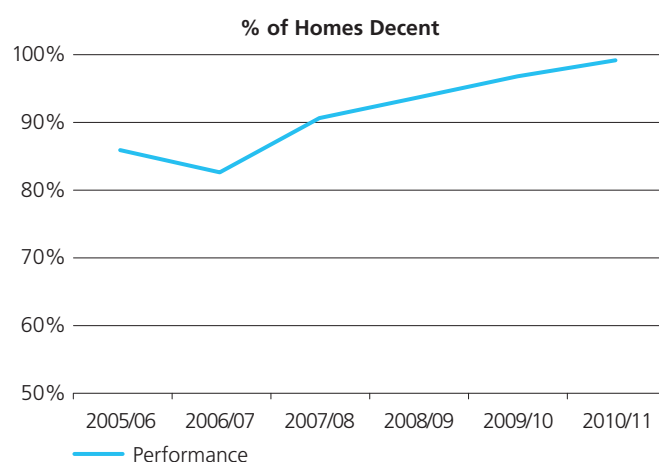
Day to Day Repairs

The reported performance for Emergency Repairs due to be completed within 24 hours of being reported in 2010/11 was significantly lower than the previous year following on from four years of performance improvement. This dip in performance has coincided with a change in handling repair calls to involve our contractors in direct call handling. There is continuing high levels of resident satisfaction in relation to the service as a whole but we are investigating the reason for the drop in performance in relation to emergency repairs.



Decent Homes

Our comprehensive reinvestment programme has enabled us to reach 100% decency in our housing stock by the required date of December 2010. Programmes of work to ensure continuing levels of decency are in place. We are currently working on a new Asset Management Strategy which will shape the future direction and priorities for future investment.



Governance

The Board

The Board is responsible for the business of Southern Housing Group (SHGL) which includes overseeing and directing our activities, formulating future strategies and plans, maintaining an overview and monitoring the work of the 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 14.

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

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

The current annual rates of payment are:

Chairman:	£15,000
Member and Chairman of Committee or subsidiary Board:	£7,000
Member:	£5,000

The level of Board member remuneration was 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.

Committees

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

Considers 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. As a consequence of the amalgamation of James Butcher Housing Association (JBHA) and South Wight Housing Association (SWHA) with SHGL, a Resident Service Panel (RSP) was created during the year in each of the five new regions and will only consist of residents. Each panel will meet on a quarterly basis to discuss the performance of the Group in its region. The Chairman of each panel will be 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

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

Considers matters relating to Board remuneration, recruitment of new members, succession planning, skills training, staff salary structure and pension arrangements, senior staff remuneration and the assessment of the performance of the Board and its members. From time to time the Committee reviews the skills required in Board members to achieve continual business performance improvement. 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 the correct mix of skills exist on each Committee and Board.

The Treasury Committee

Considers in detail all aspects of treasury management including long term funding requirements and ensures loan covenants are maintained.

Board members' attendance at Board meetings and Committees on which they serve are given below for the period from 1 April 2010 to 31 March 2011.

Figures in brackets are the number of meetings a member was eligible to attend.

	Board	Audit	Customer Services	Development	Remuneration & Nominations	Treasury	SHO	SWHA	JBHA	SSL	SDSL
Andrew McIntyre Chairman	5 (6)				6 (6)	0 (2)					
Lara Oyedele	6 (6)			4 (4)							
Tony Bourne	5 (6)				6 (6)	2 (2)					1 (1)
Tom Dacey	6 (6)							3 (3)		3 (4)	1 (1)
Chris Hampson	5 (6)		4 (4)		6 (6)						
Jim Hitch	6 (6)		2 (2)		4 (6)		3 (3)			4 (4)	
Jane Hives	6 (6)	4 (4)		4 (4)		2 (2)	3 (3)			4 (4)	
Preth Rao	5 (6)		3 (4)								
David Kelly	2 (2)		1 (1)								
John Castelberg	1 (2)						1 (1)			1 (1)	
Malcolm Groves	2 (2)	2 (2)						3 (3)			
Clifford Payton	1 (2)	2 (2)							3 (3)		
Peter Goodacre					0 (2)						

Financial performance

Group Financial Results, Five Year Summary

For the year ended 31 March	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Income and Expenditure Account					
Turnover	136.7	133.7	128.1	160.4	168.9
Operating costs	(103.1)	(106.1)	(101.0)	(117.5)	(121.5)
Operating surplus	33.6	27.6	27.1	42.9	47.4
Net interest charge	(18.8)	(24.2)	(22.2)	(19.8)	(19.1)
Surplus on sale of assets	6.3	4.6	3.7	9.3	8.5
Surplus for year	21.1	8.0	8.6	32.4	36.8
Balance Sheet					
Housing properties at cost less depreciation	1,631.1	1572.6	1,503.8	1,355.0	1,257.9
Less: Social housing and other grants	(839.6)	(782.4)	(737.6)	(697.4)	(658.9)
	791.5	790.2	766.2	657.6	599.0
Other tangible fixed assets	40.4	39.8	38.4	37.1	34.0
Investments	13.9	105.5	3.3	4.5	3.5
Net current assets/(liabilities)	114.6	7.4	25.9	12.8	4.0
	960.4	942.9	833.8	712.0	640.5
Loans due after one year	689.0	686.4	580.8	467.8	428.7
Other long term liabilities	9.7	20.2	23.5	21.0	20.3
Reserves	261.7	236.3	229.5	223.2	191.5
	960.4	942.9	833.8	712.0	640.5

Statistics

Operating margin	25%	21%	21%	27%	28%
Interest cover	114%	109%	98%	178%	193%
Gearing	63%	66%	59%	50%	49%
Units of accommodation in management	25,847	25,480	25,089	24,484	23,825

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 balance 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.

Surplus

These financial statements demonstrate continued strong financial performance, with a surplus for the year to 31 March 2011 of £21.1m (2010: £8.0m). After adding back the loan fair value adjustment writeback, impairment and related charges, underlying profit is £12.0m (2010: £14.3m).

Turnover has increased by £3.0m (2.2%), whilst operating costs have been reduced by £3.0m (2.8%) as a result of our continued focus on driving efficiency and VfM improvements throughout the Group.

Reserves

Our surplus of £21.1m has resulted in our accumulated revenue reserves growing to £258.9m at 31 March 2011. We will invest this in the ongoing high quality of our homes and services and in providing new homes.

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.

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 £4.2m (2010: £8.4m) and SDSL £0.07m (2010: £nil).

Interest

Net interest payable has increased by £3.2m in the year. This is after deducting a consolidation adjustment of £10m. The true increase in the year reflects the additional costs resulting from borrowing to fund investment in new homes and includes the cost of holding £100m proceeds from a bond issued during 2010.

Use of reserves	2011		2010	
	£m	%	£m	%
Investment in housing stock	1,631		1,573	
Other net assets	40		36	
	1,671		1,609	
Funded by:				
Reserves	262	16%	236	15%
Grants	840	50%	782	48%
Loans (net of cash)	570	34%	591	37%
Total funding	1,671	100%	1,609	100%

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 bank 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 work has been to write back impairment to the Balance Sheet by £0.412m (2010: £6.278m impairment charge).

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

Tangible fixed assets

The value of housing properties has increased to £1,631.1m (2010: £1572.6m) due to the completion of over 500 affordable new homes.

Loans

Long-term loans have increased by £2.5m to £689m.

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:

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

Both Group RPs have adopted the new 'wider' rules for treasury management which increases the options and flexibility available to manage interest rate risk. Four stand-alone derivatives have been transacted by SHGL with a notional principal of £150m hedged. £45m of the floating to fixed hedging has fully impacted on the 2010/11 results, together with a further £30m which became effective in July 2010. In addition, the £75m fixed to floating hedge, which was transacted specifically to offset the holding cost impact of the £100m fixed rate loan has provided a saving benefit during 2010/11. Derivatives are not used for speculative purposes or in such a way that an additional exposure to market forces is created. Credit risk is kept under review and where a counterparty's credit rating falls below the agreed criteria, specific approval to use and/or retain that counterparty will be sought from the Group Treasury Committee.

Borrowings are in summary:

	31 March 2011		31 March 2010	
	Available facility £m	Drawn £m	Available facility £m	Drawn £m
SHGL				
Capital Markets	147.3	147.3	147.8	147.8
Bilateral	570.7	509.7	623.4	496.4
Total in place	718.0	657.0	771.2	644.2
Under finalisation / negotiation	Nil		Nil	
SHO				
Total in place (all bilateral)	37.8	37.8	37.8	37.8
SSL				
Total in place	Nil	Nil	Nil	Nil

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

Capital Structure

Over the past year our policy has continued to be to raise new funds through bilateral arrangements with major lenders to the sector and take the appropriate opportunities to access the capital and insurance markets as these arise. As a consequence of revised capital adequacy requirements for lenders most bilateral funding arrangements now have a maximum term of ten years with longer-term funding being accessed through the capital/insurance markets. Our aim is to have in place facilities with a number of core lenders thereby balancing the risk of a lender withdrawing from the sector with the cost of managing a large number of relationships. Within this funding context 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 2010/11 no new facilities were completed and the THFC £15m loan (funded via the European Investment Bank) was fully drawn. £50m of undrawn available facilities expired during the year. No negotiations are currently in progress for any new borrowings.

Except for the £15m drawing, 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.

Committed Facilities:

All of SHGL's £61m undrawn committed facilities are secured and available for drawing. The funds in respect of the THFC £100m bond have all been released from the charged bank accounts and the required 12 month interest service reserve fund (ISRF) established. The ISRF comprises of 2038 4.75% gilts at £6.35 nominal value.

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 24 months. As at 31 March 2011 SHGL had over 7,250 rented and over 900 shared ownership unencumbered units available as potential security to support further facilities.

Funding profile:

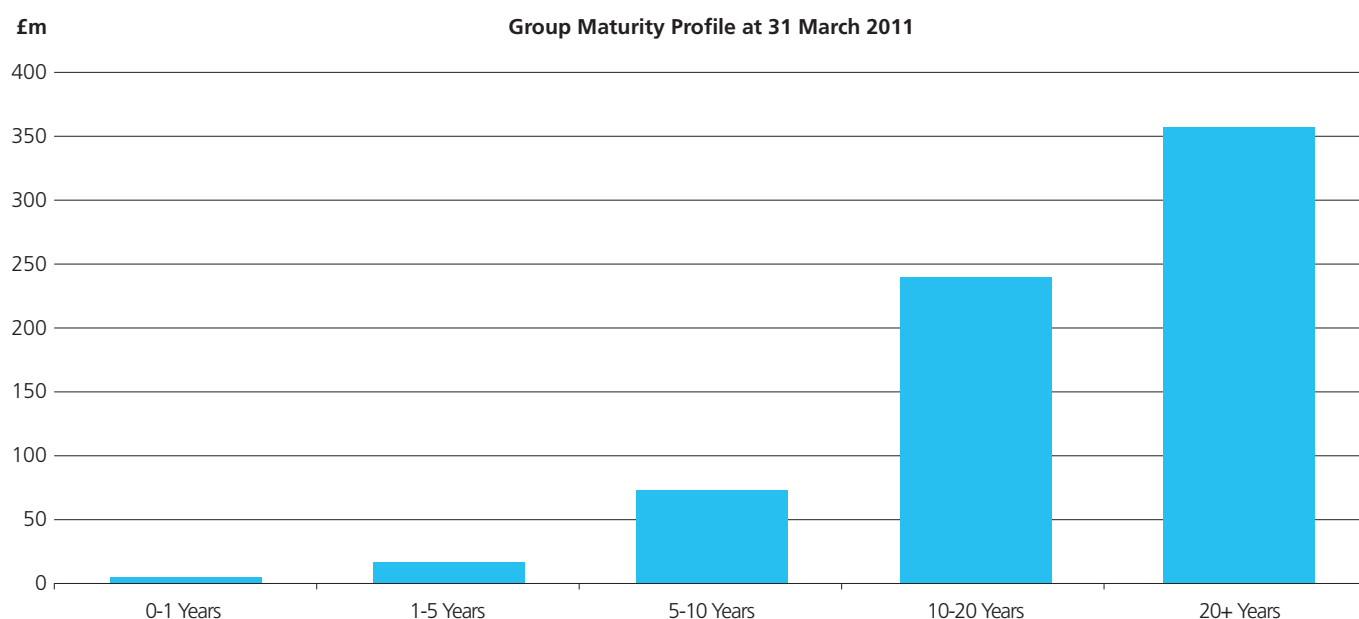
	31 March 2011			31 March 2010		
	Fixed rate £m	Variable rate £m	Index linked £m	Fixed rate £m	Variable rate £m	Index linked £m
SHGL	369.6	234.7	52.7	417.3	204.1	22.8
SHO	nil	37.8	nil	nil	37.8	nil
SSL	nil	nil	nil	nil	nil	nil

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 2011 with bank option dates exercisable within 12 months.

Debt maturity

The profile of debt repayments as at 31 March 2011 for the Group is:



Cash flow

During the year net cash of £25.2m was derived from operating activities and £15.7m was received from the disposal of housing properties. As a developing Group there were significant cash flows from new development with expenditure of £80.4m before receipt of grant of £46.9m. Loans of £2.3m were repaid in the year and a total of £14.8m was drawn from loan.

Liquidity

Historically our policy is not to hold significant cash balances but to have loan facilities in place to fund future requirements. Any short-term balances are invested at competitive rates overnight or for a term period as appropriate. However, as a consequence of having released all the net proceeds of the £100m THFC loan from charged

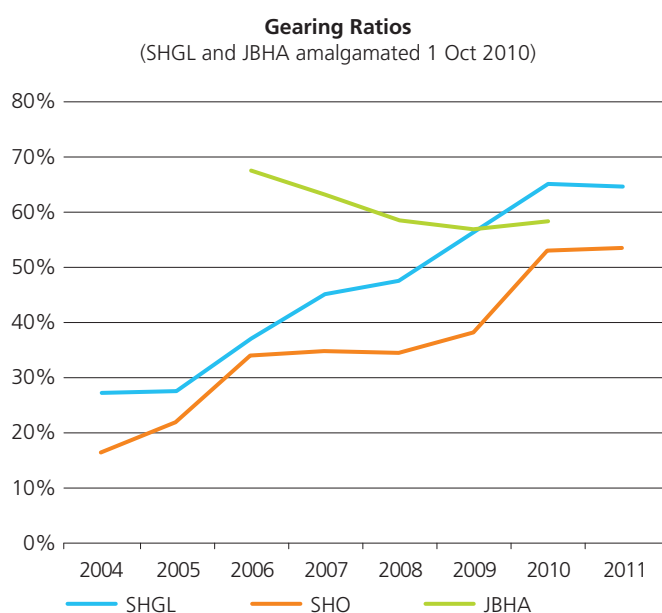
accounts, this cash is being held for investment in new developments over the coming 15 to 18 months. In certain circumstances we will draw down funds ahead of requirement to protect liquidity.

We maintain a list of investment limits for authorised organisations with whom we will place deposits based on short-term credit ratings.

Loan covenants

Each association within the Group sets 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 sale of property.

Net income cover covenants	2011 range	2010 range
SHGL income covenants	0.95 – 2.00	0.80 – 2.00
SHGL actuals	1.59 – 4.49	1.55 – 5.10
SHO income covenants	1.00 – 1.15	1.00 – 1.15
SHO actuals	18.00 – 19.39	8.01 – 8.13



SHGL gearing ratio covenants are set from 70% to a maximum of 75%. SHO gearing ratio covenants are set from 60% to a maximum of 65%. The overall level of gearing is primarily influenced by the level of development activity although the drawing of the £100m THFC loan proceeds ahead of development investment has impacted on the current gearing level for SHGL. The ratios as at 31 March 2011 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.

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 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 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 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 2011 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

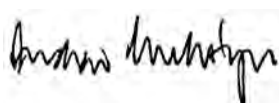
The Board has reviewed the effectiveness of the internal controls through the work of the Audit Committee, which reports regularly to the Board. In addition the Chief Executive has submitted to the Board a detailed report on the operation of internal controls during the year under review and up to the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

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



Andrew McIntyre
Chairman
On behalf of the Board
11 July 2011

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 2011 which comprise the Group and Association Income and Expenditure Account, the Group Statement of total recognised surpluses and deficits, the Group and Association Balance Sheet, 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 20, 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

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 2011 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 & Expenditure Account

For the year ended 31 March 2011

	Note	Group 2011 £000s	Group 2010 Restated £000s	Association 2011 £000s	Association 2010 Restated £000s
Turnover	2	136,723	133,731	126,224	126,760
Operating costs	2	(103,166)	(106,107)	(92,068)	(97,099)
Operating surplus		33,557	27,624	34,156	29,661
Share of operating surplus/(deficit) in joint venture	13	3	(17)	-	-
Total operating surplus including share in joint venture		33,560	27,607	34,156	29,661
Surplus on sale of fixed assets	5	6,288	4,560	4,402	914
Interest receivable and other income	6	1,462	2,212	1,559	2,342
Interest payable and similar charges	7	(19,725)	(25,830)	(19,550)	(25,099)
Other finance costs	8	(469)	(502)	(469)	(502)
Surplus on ordinary activities for the year	9	21,116	8,047	20,098	7,316
Tax on surplus on ordinary activities	10	-	-	-	-
Surplus for the year		21,116	8,047	20,098	7,316

All turnover and operating costs for the current and prior years are attributable to continuing operations. The notes on pages 27 to 63 form part of these financial statements.

Statement of total recognised surpluses and deficits

	Note	Group 2011 £000s	Group 2010 Restated £000s	Association 2011 £000s	Association 2010 Restated £000s
Surplus for the year as restated		21,116	8,047	20,098	7,316
Unrealised surplus on investments	25	632	891	632	891
Actuarial gain/(deficit) relating to pension schemes	4	3,565	(2,104)	3,565	(2,104)
Total recognised surplus relating to the year		25,313	6,834	24,295	6,103
Prior year adjustment (note 27)		(199)	-	(199)	-
Total gains and losses recognised since last financial statements		25,114	6,834	24,096	6,103

Historical cost surpluses and deficits were identical to those shown in the Income & Expenditure Account.

A prior year adjustment (note 27) relating to negative goodwill gave rise to a transfer to reserves of £15.714m for the Group and the Association.

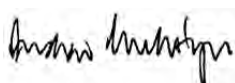
Balance Sheet

As at 31 March 2011

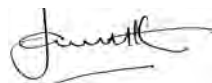
	Note	Group 2011 £000s	Group 2010 Restated £000s	Association 2011 £000s	Association 2010 Restated £000s
Tangible fixed assets					
Housing properties at cost less depreciation	11	1,631,056	1,572,570	1,535,016	1,461,782
Less: social housing grant and other grants	11	(839,539)	(782,334)	(786,802)	(727,788)
Net housing properties		791,517	790,236	748,214	733,994
Other tangible fixed assets	12	40,356	39,783	39,965	39,387
Total tangible fixed assets		831,873	830,019	788,179	773,381
Investments					
Investments at market value	13	12,855	104,472	12,880	104,497
Investment in subsidiaries	13	-	-	12,530	11,826
Investment in joint ventures	13	486	483	-	-
Homebuy and starter home initiatives	13	9,718	9,946	312	351
Less: social housing grant	13	(9,196)	(9,396)	(312)	(351)
		845,736	935,524	813,589	889,704
Current assets					
Properties for sale	14	17,704	13,994	2,916	2,146
Debtors	15	23,849	10,829	28,458	15,052
Cash at bank and in hand	16	112,022	30,482	94,766	20,056
		153,575	55,305	126,140	37,254
Creditors: amounts falling due within one year	17	(38,955)	(47,887)	(32,161)	(38,842)
Net current assets/(liabilities)		114,620	7,418	93,979	(1,588)
Total assets less current liabilities		960,356	942,942	907,568	888,116
Creditors: amounts falling due after more than one year					
Housing loans	18	689,032	686,383	651,207	648,557
Recycled capital grant fund	19	720	5,474	373	2,060
Disposal proceeds fund	20	229	1,456	229	1,456
Deferred income	21	1,518	1,938	1,518	1,938
Provisions for liabilities and charges	22	72	60	25	25
Net pension liability	4	7,134	11,293	7,134	11,293
Capital and reserves					
Share capital	23	-	-	-	-
Revenue reserves	24	258,932	234,251	244,363	220,700
Revaluation reserves	25	2,288	1,656	2,288	1,656
Designated and restricted reserves	26	431	431	431	431
		960,356	942,942	907,568	888,116

The notes on pages 27 to 63 form part of these financial statements. These financial statements were approved by the Board on 11 July 2011.


Signed on behalf of the Board



Andrew McIntyre
Chairman



Jane Hives
Board Member



Phillippa Caine
Secretary

Consolidated Cash Flow Statement

For the year ended 31 March 2011

	Note	2011 £000s	2010 Restated £000s
Net cash inflow from operating activities	(a)	25,213	66,743
Interest received		1,462	2,212
Interest paid		(29,082)	(30,070)
Other finance costs		(469)	(502)
Returns on investments and servicing of finance		(28,089)	(28,360)
Housing properties purchased		(80,375)	(95,281)
Capital grants received		46,897	43,248
Other fixed assets purchased		(2,590)	(3,345)
Housing and other fixed asset sale receipts		15,690	15,315
Capital expenditure		(20,378)	(40,063)
Investment sale/(purchase)		92,274	(101,295)
Financial investment		92,274	(101,295)
Net cash inflow/(outflow) before management of liquid resources and financing	(b)	69,020	(102,975)
Financing and management of liquid resources			
Increase/(decrease) of debt due within one year	(c)	762	(989)
Increase of debt due after one year	(c)	11,758	106,492
		12,520	105,503
Increase in cash in the year	(c)	81,540	2,528

Notes to the Consolidated Cash Flow Statement

For the year ended 31 March 2011

	2011 £000s	2010 Restated £000s
a) Reconciliation of operating surplus to net cash inflow from operating activities		
Operating surplus	33,560	27,607
Depreciation charges	14,976	13,728
Impairment	(412)	6,278
(Increase)/decrease in stock of homes for re-sale	(3,467)	1,819
(Increase)/decrease in debtors	(13,020)	12,069
(Decrease)/increase in creditors	(6,436)	5,550
Increase/(decrease) in provisions for liabilities and charges	12	(308)
Net cash inflow from operating activities	25,213	66,743
b) Reconciliation of net cash flow to movement in net debt		
Increase in cash in the year	81,540	2,528
Cash inflow from decrease in:		
New loans	(14,809)	(108,948)
Overdraft	-	987
Loan repayments	2,289	2,572
Change in net debt resulting from cash flows	69,020	(102,861)
Change in net debt resulting from non cash flows	9,109	779
Movement in net debt in the year	78,129	(102,082)
Net debt at the start of the year	(658,299)	(556,217)
Net debt at the end of the year	(580,170)	(658,299)

c) Analysis of net debt

	At 1 April 2010 £000s	Non Cash flow £000s	Cash flow £000s	At 31 March 2011 £000s
Cash at bank and in hand	30,482	-	81,540	112,022
Debt due within one year:				
Housing loans	(2,398)	-	(762)	(3,160)
Debt due after more than one year:				
Housing loans	(686,383)	9,109	(11,758)	(689,032)
Total	(658,299)	9,109	69,020	(580,170)

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. A summary of the more important accounting policies is below.

As fully explained in the Operating and Financial Review, on 1 October 2010 Southern Housing Group Limited, James Butcher Housing Association Limited and South Wight Housing Association Limited amalgamated into one charitable Industrial and Provident Society called Southern Housing Group Limited (the Association). The Association accounts comprise the amalgamated entities for the year ended 31 March 2011 using merger accounting. The comparative figures represent the three pre-amalgamated entities (note 34).

In addition, SORP 2010 is applied for the first time resulting in a prior year adjustment on the treatment of the negative goodwill.

Basis of consolidation

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

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.

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 public bodies which 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.

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.

Backlog works relating to stock acquired from Local Authority transfers are also capitalised. All other repair and replacement expenditure is charged to the Income & 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 as both a cost of land and grant received. 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	15 to 60 years

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

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.

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 & Expenditure Account in the same period as the expenditure to which they relate.

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.

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.

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.

Premium on debentures

Premiums on issue are treated as deferred income and written back to the Income & Expenditure Account over the period of the loan.

Leased assets

Rentals payable under operating leases are charged to the Income & Expenditure Account on a straight line basis over the life of the lease.

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 are transferred by Gift Aid to reduce the tax payable by the Group. 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.

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.

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 & 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 & Expenditure Account represents the contributions payable to the scheme in respect of the accounting period.

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.

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

Group	2011 Turnover £000s	2011 Operating Costs £000s	2011 Operating Surplus £000s	2010 Restated Turnover £000s	2010 Restated Operating Costs £000s	2010 Restated Operating Surplus £000s
Social housing lettings	116,669	(80,680)	35,989	110,520	(86,557)	23,963
Other social housing activities						
Supporting People	656	(670)	(14)	2,482	(2,354)	128
1st Tranche Sales	7,964	(7,125)	839	10,432	(7,444)	2,988
Other	390	(4,495)	(4,105)	314	(2,529)	(2,215)
Non-social housing activities						
Commercial income	1,285	(659)	626	1,291	(827)	464
Market renting lettings	132	(17)	115	99	(31)	68
Open Market Sales	1,953	(1,850)	103	6,745	(5,159)	1,586
Impairment of Open Market housing properties	-	65	65	-	(453)	(453)
Other	7,674	(7,735)	(61)	1,848	(753)	1,095
Total 2011	136,723	(103,166)	33,557	133,731	(106,107)	27,624

Particulars of income & expenditure from Social Housing Lettings

Group	General Needs £000s	Housing For Older People £000s	Supported Housing £000s	Registered Care Homes* £000s	Intermediate Rent £000s	Shared Ownership £000s	2011 Total £000s	2010 Restated Total £000s
Rent receivable net of identifiable service charges	76,366	8,935	775	(48)	5,093	9,756	100,877	95,731
Charges for Support Services	8	754	1,398	15	-	-	2,175	1,571
Service charges receivable	5,929	3,590	393	562	96	2,403	12,973	11,832
Gross rental income	82,303	13,279	2,566	529	5,189	12,159	116,025	109,134
ADD: Income from properties managed for third parties	452	-	-	-	-	192	644	1,385
Revenue grants received for major repairs	-	-	-	-	-	-	-	1
Turnover from social housing lettings	82,755	13,279	2,566	529	5,189	12,351	116,669	110,520
Management	(15,613)	(2,298)	(172)	(27)	(677)	(2,800)	(21,587)	(26,124)
Services	(7,698)	(3,400)	(388)	(624)	(984)	(3,884)	(16,978)	(14,073)
Support	-	(1,043)	(1,606)	(64)	-	-	(2,713)	(1,723)
Rent losses from bad debts	(236)	48	(12)	(5)	(1)	110	(96)	(341)
Routine maintenance	(12,411)	(1,835)	(348)	(13)	(360)	(112)	(15,079)	(16,422)
Planned maintenance	(8,802)	(865)	(57)	(145)	(13)	(13)	(9,895)	(7,482)
Major repairs expenditure	(10,815)	(4,173)	(85)	(53)	-	-	(15,126)	(15,433)
Repairs capitalised	9,462	2,910	85	53	-	-	12,510	13,089
Depreciation of housing properties	(10,537)	(1,052)	(52)	-	(148)	-	(11,789)	(12,112)
Impairment of housing properties	347	-	-	-	-	-	347	(5,825)
Other costs	(24)	3	(211)	1	(10)	(33)	(274)	(111)
Operating costs on social housing lettings	(56,327)	(11,705)	(2,846)	(877)	(2,193)	(6,732)	(80,680)	(86,557)
Operating surplus/(deficit) on social housing lettings	26,428	1,574	(280)	(348)	2,996	5,619	35,989	23,963
Void losses	1,199	568	76	48	82	9	1,982	2,103

*£(48)k refers to void losses

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

Association	2011 Turnover £000s	2011 Operating Costs £000s	2011 Operating Surplus £000s	2010 Restated Turnover £000s	2010 Restated Operating Costs £000s	2010 Restated Operating Surplus £000s
Social housing lettings	109,865	(77,562)	32,303	104,032	(84,525)	19,507
Other social housing activities						
Supporting People	656	(670)	(14)	2,482	(2,354)	128
1st Tranche Sales	7,584	(6,863)	721	7,057	(4,991)	2,066
Other	5,692	(5,592)	100	9,899	(3,766)	6,133
Non-social housing activities						
Commercial income	1,268	(658)	610	1,291	(827)	464
Impairment of Open Market housing properties	-	135	135	-	-	-
Other	1,159	(858)	301	1,999	(636)	1,363
Total 2011	126,224	(92,068)	34,156	126,760	(97,099)	29,661

Particulars of income & expenditure from Social Housing Lettings

Association	General Needs £000s	Housing For Older People £000s	Supported Housing £000s	Registered Care Homes* £000s	Intermediate Rent £000s	Shared Ownership £000s	2011 Total £000s	2010 Restated Total £000s
Rent receivable net of identifiable service charges	76,366	8,935	775	(48)	4,734	4,373	95,135	89,936
Service charges	5,929	3,590	393	562	68	1,369	11,911	11,139
Charges for support services	8	754	1,398	15	-	-	2,175	1,571
Gross rental income	82,303	13,279	2,566	529	4,802	5,742	109,221	102,646
ADD: Income from properties managed for third parties	452	-	-	-	-	192	644	1,386
Turnover from social housing lettings	82,755	13,279	2,566	529	4,802	5,934	109,865	104,032
Management	(15,613)	(2,298)	(172)	(27)	(616)	(1,479)	(20,205)	(24,875)
Services	(7,698)	(3,400)	(388)	(624)	(862)	(2,329)	(15,301)	(13,393)
Support	-	(1,043)	(1,606)	(64)	-	-	(2,713)	(1,723)
Rent losses from bad debts	(236)	48	(12)	(5)	(1)	4	(202)	(371)
Routine maintenance	(12,411)	(1,835)	(348)	(13)	(304)	(112)	(15,023)	(16,382)
Planned maintenance	(8,802)	(865)	(57)	(145)	(12)	(9)	(9,890)	(7,474)
Major repairs expenditure	(10,815)	(4,173)	(85)	(53)	-	-	(15,126)	(15,433)
Repairs capitalised	9,462	2,910	85	53	-	-	12,510	13,089
Depreciation of housing properties	(10,537)	(1,052)	(52)	-	(69)	-	(11,710)	(12,033)
Impairment of housing properties	347	-	-	-	-	-	347	(5,825)
Other costs	(24)	3	(211)	1	(10)	(8)	(249)	(105)
Operating costs on social housing lettings	(56,327)	(11,705)	(2,846)	(877)	(1,874)	(3,933)	(77,562)	(84,525)
Operating surplus/(deficit) on social housing lettings	26,428	1,574	(280)	(348)	2,928	2,001	32,303	19,507
Void losses	1,199	568	76	48	77	9	1,977	2,098

*£(48)k refers to void losses

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	2011 £000s	2010 £000s
Emoluments	865	913
Pension contributions	104	127
	969	1,040
Emoluments paid (excluding pensions but including benefits in kind to executive directors in bands of £000s:	No.	No.
£0 - £60	2	-
£60 - £80	-	-
£80 - £100	2	3
£100 - £120	1	1
£120 - £150	1	2
Over £150	2	1

During the early part of 2010/11 the Group reduced its number of directors from seven to five as part of the amalgamation process.

	£000s	£000s
Compensation for loss of office	85	-
The emoluments (excluding pension contributions) payable to the Group Chief Executive, who is also the highest paid director, were:	£	£
Remuneration	174,730	174,730
Benefits in kind	8,960	8,700
Total emoluments	183,690	183,430

The increase in benefits in kind is due to the annual change by HMRC to the CO2 parameters for company cars. 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 £49,000 during the year (2010: £62,000). One Board member waived entitlement to remuneration.

4 Employee information

	Group 2011 No.	Group 2010 No.	Association 2011 No.	Association 2010 No.
Average number of full-time equivalent employees	795	811	792	808
	Group 2011 £000s	Group 2010 £000s	Association 2011 £000s	Association 2010 £000s
Staff costs (for the above employees)				
Wages and salaries	21,784	22,184	21,343	21,850
Social security costs	1,998	2,075	1,958	2,042
Other pension costs	1,011	1,735	979	1,499
	24,793	25,994	24,280	25,391

Pension schemes

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

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

The amounts recognised in the balance sheet are as follows:

	Group 2011 £000s	Group 2010 £000s	Association 2011 £000s	Association 2010 £000s
Southern Housing Group Pension scheme	4,832	7,582	4,832	7,582
Isle of Wight Pension scheme	2,302	3,711	2,302	3,711
Total net liabilities	7,134	11,293	7,134	11,293

4 Employee information (continued)

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.

It has been agreed that the employer contribution rate to be applied from 1 July 2011 is:

Pre-July 1992 members	23.6%	(2010/11: 26.7%)
Post-July 1992 members	23.6%	(2010/11: 20.7%)
plus an additional annual payment of £564,840 (2010/11: £644,400)		

The major assumptions used in this valuation were:

Actuarial assumptions	2011 % pa	2010 % pa	2009 % pa
Rate of increase in salaries	4.50	4.70	3.80
Rate of increase in pensions in payments and deferred pensions	3.25	3.30	2.80
Discount rate	5.40	5.50	6.00
Inflation assumption – RPI	3.50	3.70	2.80
Inflation assumption – CPI	3.00	N/A	N/A

Mortality assumption	Male	Female
Current pensioner aged 65	21.58 yrs	24.03 yrs
Future retiree upon reaching 65	24.54 yrs	26.94 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.

4 Employee information (continued)

Southern Housing Group Pension Scheme (continued)

Scheme assets

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

Scheme values	2011 £000s	2010 £000s	2009 £000s
Equities	10,896	10,650	6,808
Bonds	5,221	7,414	6,422
Property	949	690	628
Absolute return fund	4,121	-	-
Cash	388	506	414
Total market value of assets	21,575	19,260	14,272
Present value of scheme liabilities	(26,407)	(26,842)	(21,113)
Net pension liability	(4,832)	(7,582)	(6,841)

Long-term rate of return	2011 %	2010 %	2009 %
Equities	7.30	6.50	6.50
Bonds	5.30	6.50	6.50
Absolute return fund	6.80	N/A	N/A
Property	6.80	6.00	6.00
Cash	3.50	4.00	4.00

Movements in present value of defined benefit obligation	2011 £000s	2010 £000s
At 1 April 2010	26,842	21,113
Current service cost	742	535
Interest on obligation	1,509	1,265
Contribution by members	129	139
Actuarial (gains)/losses	(2,348)	4,536
Administration expenses	(97)	-
Benefits paid	(370)	(746)
At 31 March 2011	26,407	26,842

4 Employee information (continued)

Southern Housing Group Pension Scheme (continued)

Movement in fair value of fund assets	2011 £000s	2010 £000s
At 1 April 2010	19,260	14,272
Expected returns on fund assets	1,155	920
Contribution by members	129	139
Actuarial gains	498	3,887
Contributions by employer	1,000	788
Administration expenses	(97)	-
Benefits paid	(370)	(746)
At 31 March 2011	21,575	19,260

Movement in deficit during year	2011 £000s	2010 £000s	2009 £000s
Deficit in scheme at beginning of year	(7,582)	(6,841)	(6,055)
Current service cost	(742)	(535)	(623)
Contributions paid	1,000	788	895
Other finance expense	(354)	(345)	(353)
Actuarial gain/(loss)	2,846	(649)	(705)
Deficit in scheme at end of year	(4,832)	(7,582)	(6,841)

Analysis of other pension costs charged in arriving at operating surplus	2011 £000s	2010 £000s	2009 £000s
Current service cost	(742)	(535)	(623)

Analysis of amounts included in other finance income/expense	2011 £000s	2010 £000s	2009 £000s
Expected return on pension scheme assets	1,155	920	1,042
Interest on plan liabilities	(1,509)	(1,265)	(1,395)
	(354)	(345)	(353)

Analysis of amount recognised in Statement of total recognised surpluses and deficits	2011 £000s	2010 £000s	2009 £000s
Actual return less expected return on assets	498	3,887	(4,483)
Experience gains arising on scheme liabilities	1,628	1,025	6
Changes in assumptions underlying the present value of scheme liabilities	720	(5,561)	3,772
Actuarial gain/(loss) recognised in Statement of total recognised surpluses and deficits	2,846	(649)	(705)

4 Employee information (continued)

Southern Housing Group Pension Scheme (continued)

History of scheme

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

	2011 £000s	2010 £000s	2009 £000s	2008 £000s	2007 £000s
Present value of scheme liabilities	26,407	26,842	21,113	23,014	23,029
Fair value of scheme assets	(21,575)	(19,260)	(14,272)	(16,595)	(17,717)
Deficit	4,832	7,582	6,841	6,419	5,312

History of experience gains and losses	2011	2010	2009	2008	2007
Experience adjustments on scheme liabilities as a percentage of scheme liabilities	6.17%	3.82%	0.03%	(0.37%)	3.49%
Experience adjustments on scheme assets as a percentage of scheme assets	2.31%	20.18%	(31.41%)	(13.59%)	(0.94%)

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 schemes are now closed to new entrants, continues to apply to current members.

The Trustee commissions an actuarial valuation of the Scheme every 3 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 59 active members employed in the group. The annual pensionable payroll in respect of these members was £1,256,415.

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%.

4 Employee information (continued)

The Social Housing Pension Scheme (continued)

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:

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.

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

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

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%

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 is currently in the process of reviewing the recovery plan for the SHPS Scheme in respect of the

4 Employee information (continued)

September 2008 actuarial valuation. A response from the Regulator is expected in due course.

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 an increase 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.

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 2007 and was updated for FRS 17 purposes to 31 March 2011 by a qualified independent actuary.

It has been agreed that an employer contribution rate of 20.8% of pensionable pay will apply for 2011/12 (2010/11: 18.7%).

The major assumptions used in this valuation were:

Actuarial assumptions	2011 % pa	2010 % pa	2009 % pa
Rate of increase in salaries	5.10	5.30	4.60
Rate of increase in pensions in payments and deferred pensions	2.80	3.80	3.10
Discount rate	5.50	5.50	6.90
Inflation assumption - RPI	3.60	3.80	3.10
Inflation assumption - CPI	3.10	N/A	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.

4 Employee information (continued)

The Isle of Wight Council Pension Scheme (continued)

Scheme assets

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

	2011 £000s	2010 £000s	2009 £000s
Equities	2,791	2,586	1,945
Bonds	814	790	533
Property	194	180	133
Other	78	36	53
Total market value of assets	3,877	3,592	2,664
Present value of scheme liabilities	(6,179)	(7,303)	(4,879)
Deficit in the scheme	(2,302)	(3,711)	(2,215)
Net pension liability	(2,302)	(3,711)	(2,215)

Long-term rate of return

	2011 %	2010 %	2009 %
Equities	7.50	7.80	7.00
Bonds	4.90	5.00	5.60
Property	5.50	5.80	4.90
Cash	4.60	4.80	4.00

The market value of the scheme's assets (whole Fund) at 31 March 2011 was £327.0 million.

Recognition of defined benefit obligation

	2011 £000s	2010 £000s
Opening defined benefit obligation	7,303	4,879
Current service cost	49	30
Interest cost	367	330
Contribution by members	13	14
Actuarial (gains)/losses	(599)	2,293
Past service costs	(706)	-
Losses on curtailments	-	2
Estimated benefits paid	(248)	(245)
Deficit in scheme at end of year	6,179	7,303

4 Employee information (continued)

The Isle of Wight Council Pension Scheme (continued)

Reconciliation of fair value of employer assets	2011	2010
	£000s	£000s
Opening fair value of employer assets	3,592	2,664
Expected return on assets	252	173
Contributions by members	13	14
Contributions by employer	148	148
Actuarial gains	120	838
Benefits paid	(248)	(245)
Total charged to operating cost	3,877	3,592

Expense recognised in Income & Expenditure Account	2011	2010
	£000s	£000s
Current service cost	49	30
Interest cost	367	330
Expected return on employer assets	(252)	(173)
Past service costs	(706)	-
Losses on curtailments and settlements	-	2
Total	(542)	189

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

	2011	2010
	£000s	£000s
Operating costs	(657)	32
Other finance costs	115	157

The total amount recognised in the Statement of total recognised gains and losses in respect of actuarial gains and losses is £719,000 gain (2010: £1,455,000 loss).

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 £156,000 (2010: £875,000 loss).

4 Employee information (continued)

The Isle of Wight Council Pension Scheme (continued)

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:

	2011 £000s	2010 £000s	2009 £000s	2008 £000s	2007 £000s
Fair value of scheme assets	3,877	3,592	2,664	3,366	3,949
Present value of scheme liabilities	(6,179)	(7,303)	(4,879)	(5,076)	(5,999)
Deficit	(2,302)	(3,711)	(2,215)	(1,710)	(2,050)

Experience adjustments	2011	2010	2009	2008	2007
Experience adjustments on scheme liabilities as a percentage of scheme liabilities	2.09%	0.00%	0.00%	7.50%	0.00%
Experience adjustments on scheme assets as a percentage of scheme assets	3.10%	23.33%	(32.88%)	(23.71%)	0.99%

The Association expects to contribute approximately £172,000 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.

5 Surplus on sale of fixed assets

	Group 2011	Group 2010	Association 2011	Association 2010 Restated
	£000s	£000s	£000s	£000s
Sale proceeds	15,716	15,597	11,178	8,487
Cost of sales	(9,402)	(10,945)	(6,750)	(7,481)
Incidental sale expenses	(26)	(92)	(26)	(92)
	6,288	4,560	4,402	914

6 Interest receivable and other income

	Group 2011	Group 2010	Association 2011	Association 2010
	£000s	£000s	£000s	£000s
Income from investments	66	600	66	600
Income from bank deposits	1,396	1,612	1,493	1,742
	1,462	2,212	1,559	2,342

7 Interest payable and similar charges

	Group 2011 £000s	Group 2010 £000s	Association 2011 £000s	Association 2010 £000s
On bank loans, overdraft and other loans:				
Repayable wholly or partly in more than 5 years	30,524	29,843	30,121	28,925
Less: interest payable capitalised	(1,283)	(3,896)	(1,128)	(3,698)
Bank charges payable	(73)	11	-	-
	29,168	25,958	28,993	25,227
Deferred interest and indexation				
Index linked loan	132	(45)	132	(45)
Deferred income written back	(83)	(83)	(83)	(83)
	29,217	25,830	29,042	25,099
Exceptional item: Write off Fair value adjustment to loan break costs	(9,492)	-	(9,492)	-
	19,725	25,830	19,550	25,099

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, the loan break costs were allowed for in the valuation.

As a result of the amalgamation this risk is totally removed, hence there is no further justification for the fair value adjustment to the loans. The balance of the fair value adjustment, £9,492k, at 31 March 2010 has been written off to Income & Expenditure Account.

8 Other finance costs

	Group 2011 £000s	Group 2010 £000s	Association 2011 £000s	Association 2010 £000s
Group Pension scheme				
Expected return on pension scheme assets	1,155	920	1,155	920
Interest on pension scheme liabilities	(1,509)	(1,265)	(1,509)	(1,265)
Isle of Wight Council Pension scheme				
Expected return on pension scheme assets	252	173	252	173
Interest on pension scheme liabilities	(367)	(330)	(367)	(330)
	(469)	(502)	(469)	(502)

9 Surplus on ordinary activities for the year before tax

	Group 2011 £000s	Group 2010 £000s	Association 2011 £000s	Association 2010 £000s
Surplus on ordinary activities before tax for the year is stated after charging/(crediting):				
Depreciation:				
Housing land & buildings	9,584	8,766	9,505	8,687
Other tangible fixed assets	1,868	1,815	1,863	1,805
Depreciation recovered on disposal of fixed assets	(553)	(328)	(553)	(328)
Operating leases:				
Housing land & buildings	8	8	8	8
Other equipment	7	15	7	15
Auditors' remuneration (including VAT and expenses):				
Audit services	148	149	129	129
Tax services	23	23	23	23
Other services	10	10	10	10

10 Taxation

	Group 2011 £000s	Group 2010 £000s	Association 2011 £000s	Association 2010 £000s
UK corporation tax				
Current tax at 28% (2010 : 28%)	-	-	-	-

The current tax charge for the year is the same as (2010: the same) the standard rate of corporation tax in the UK (28% (2010 : 28%)). The differences are explained below.

Current tax reconciliation				
Surplus on ordinary activities before tax	21,116	8,047	20,098	7,316
less: surplus from charitable activities	(20,089)	(4,971)	(20,098)	(7,316)
Taxable surplus on ordinary activities	1,027	3,076	-	-
Current tax at 28% (2010 : 28%)	288	1,903	-	-
Effects of:				
Tax relief on Gift Aid paid by subsidiaries	(288)	(1,903)	-	-
Total current tax charge (see above)	-	-	-	-

Factors that may affect future tax charges. From 1 April 2011 the rate of UK corporation tax that was enacted at the balance sheet date was 27%. Subsequently, the UK government has announced that the UK corporation tax rate will reduce from 28% to 26% on 1 April 2011. It is expected that the corporation tax rate will change to 23% over the following three years. There are no other factors that may significantly affect future tax charges.

11 Tangible fixed assets: housing properties

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
Cost					
At 1 April 2010	1,077,740	126,961	271,725	64,120	1,540,546
Amalgamation adjustment	83,311	-	-	-	83,311
At 1 April 2010 as adjusted	1,161,051	126,961	271,725	64,120	1,623,857
Reclassification	(4,042)	171	3,876	(5)	-
Schemes completed	44,539	(44,539)	40,601	(40,601)	-
Additions: New properties	4	62,155	33	20,060	82,252
Existing properties	6,774	-	-	-	6,774
Components written off	(3,429)	(95)	-	-	(3,524)
Impairment	-	348	-	(1)	347
Transfer to stock	-	-	(3,268)	(2,965)	(6,233)
Disposals	(644)	(5,716)	(5,573)	(37)	(11,970)
At 31 March 2011	1,204,253	139,285	307,394	40,571	1,691,503
Social Housing Grant					
At 1 April 2010	500,061	48,821	100,649	18,084	667,615
Amalgamation adjustment	76,159	-	728	-	76,887
At 1 April 2010 as adjusted	576,220	48,821	101,377	18,084	744,502
Schemes completed	18,673	(18,673)	13,398	(13,398)	-
Additions	2,369	43,802	8,318	6,962	61,451
Disposals	(1,145)	(2,855)	(1,567)	-	(5,567)
At 31 March 2011	594,299	71,845	122,594	11,648	800,386
Other Grants					
At 1 April 2010	33,934	1,892	2,006	-	37,832
Schemes completed	1,754	(1,754)	-	-	-
Additions	1	1,255	65	-	1,321
At 31 March 2011	35,689	1,393	2,071	-	39,153
Depreciation					
At 1 April 2010	44,863	-	-	-	44,863
Amalgamation adjustment	6,424	-	-	-	6,424
At 1 April 2010 as adjusted	51,287	-	-	-	51,287
Charge for year	9,584	-	-	-	9,584
Eliminated in respect of disposals	(424)	-	-	-	(424)
At 31 March 2011	60,447	-	-	-	60,447
Net Book Value					
At 31 March 2011	513,818	66,047	182,729	28,923	791,517
At 31 March 2010	499,610	76,248	168,342	46,036	790,236

During the year, a net write back of impairment of £0.412m (2010: £5.817m charge) was recognised. Of this amount, the write back of £0.347m was against fixed assets, and the balance against current assets shown in note 14.

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
Cost					
At 1 April 2010	1,152,527	115,593	180,790	63,783	1,512,693
Schemes completed	44,539	(44,539)	40,601	(40,601)	-
Additions: New properties	4	63,087	-	31,210	94,301
Existing properties	6,775	-	-	-	6,775
Components written off	(3,429)	(95)	-	-	(3,524)
Impairment	-	348	-	(1)	347
Transfer to stock	-	-	(3,382)	(2,777)	(6,159)
Disposals	(644)	(5,716)	(3,028)	(37)	(9,425)
At 31 March 2011	1,199,772	128,678	214,981	51,577	1,595,008
Social Housing Grant					
At 1 April 2010	572,656	48,720	52,392	17,473	691,241
Schemes completed	18,673	(18,673)	13,398	(13,398)	-
Additions	2,369	40,076	8,318	11,368	62,131
Disposals	(1,145)	(2,855)	(438)	-	(4,438)
At 31 March 2011	592,553	67,268	73,670	15,443	748,934
Other Grants					
At 1 April 2010	33,934	1,892	721	-	36,547
Schemes completed	1,754	(1,754)	-	-	-
Additions	1	1,255	65	-	1,321
At 31 March 2011	35,689	1,393	786	-	37,868
Depreciation					
At 1 April 2010	50,911	-	-	-	50,911
Charge for year	9,505	-	-	-	9,505
Eliminated in respect of disposals	(424)	-	-	-	(424)
At 31 March 2011	59,992	-	-	-	59,992
Net Book Value					
At 31 March 2011	511,538	60,017	140,525	36,134	748,214
At 31 March 2010	495,026	64,981	127,677	46,310	733,994

During the year, a net write back of impairment of £0.412m (2010: £5.817m charge) was recognised. Of this amount, the write back of £0.347m was against fixed assets, and the balance against current assets shown in note 14.

11 Tangible fixed assets: housing properties (continued)

	Group 2011 £000s	Group 2010 £000s	Association 2011 £000s	Association 2010 £000s
Housing properties comprise:				
Freehold	1,634,384	1,573,069	1,413,324	1,487,654
Long leasehold	57,119	50,788	25,667	25,039
	1,691,503	1,623,857	1,438,991	1,512,693

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

	Group 2011 £000s	Group 2010 £000s	Association 2011 £000s	Association 2010 £000s
SHG and other capital grants deducted from:				
Housing properties at cost	839,539	782,334	710,690	591,115
Homebuy and starter home initiative	9,196	9,396	312	-
Add: cumulative amount credited to Income & Expenditure Account	21,498	21,432	21,498	21,432
	870,233	813,162	732,500	612,547

Additions to housing properties during the year included net capitalised interest paid of £1,283,000 (2010: £3,896,000).

	Group 2011 Units	Group 2010 Units	Association 2011 Units	Association 2010 Units
Accommodation in management comprises:				
Units owned and managed:				
General needs	17,592	17,493	17,592	17,493
Housing for older people	2,603	2,578	2,603	2,578
Staff accommodation	78	95	78	95
Supported housing	213	184	213	184
Shared ownership	3,029	3,051	1,315	1,343
Intermediate rent	788	582	788	582
Other	27	28	27	28
	24,330	24,011	22,616	22,303
Units managed on behalf of other landlords:				
General needs	8	-	8	-
Supported housing	59	59	59	59
Shared ownership	-	-	1,714	1,708
	67	59	1,781	1,767
Managed freeholds:				
RTB leasehold	1,383	829	1,383	829
100% staircased	67	581	67	581
	1,450	1,410	1,450	1,410
Total units managed (including freeholds)	25,847	25,480	25,847	25,480
Total units owned	24,481	24,287	22,696	22,508

12 Other tangible fixed assets

Group	Freehold & leasehold properties Letting £000s	Estate equipment £000s	Plant machinery, fixtures & vehicles £000s	Computer hardware & software £000s	Total £000s
Cost					
At 1 April 2010	34,971	11,628	3,512	2,737	52,848
Reclassification	-	1,353	(1,353)	-	-
Additions	132	2,326	-	132	2,590
Disposals	-	(278)	-	-	(278)
At 31 March 2011	35,103	15,029	2,159	2,869	55,160
Depreciation					
At 1 April 2010	4,439	4,337	2,155	2,134	13,065
Reclassification	-	395	(395)	-	-
Charge for year	633	917	180	138	1,868
Eliminated in respect of disposals	-	(129)	-	-	(129)
At 31 March 2011	5,072	5,520	1,940	2,272	14,804
Net Book Value					
At 31 March 2011	30,031	9,509	219	597	40,356
At 31 March 2010	30,532	7,291	1,357	603	39,783

Association	Freehold & leasehold properties Letting £000s	Estate equipment £000s	Plant machinery, fixtures & vehicles £000s	Computer hardware & software £000s	Total £000s
Cost					
At 1 April 2010	34,565	11,628	3,512	2,734	52,439
Reclassification	-	1,353	(1,353)	-	-
Additions	132	2,326	-	132	2,590
Disposals	-	(278)	-	-	(278)
At 31 March 2011	34,697	15,029	2,159	2,866	54,751
Depreciation					
At 1 April 2010	4,426	4,337	2,155	2,134	13,052
Reclassification	-	395	(395)	-	-
Charge for year	628	917	180	138	1,863
Eliminated in respect of disposals	-	(129)	-	-	(129)
At 31 March 2011	5,054	5,520	1,940	2,272	14,786
Net Book Value					
At 31 March 2011	29,643	9,509	219	594	39,965
At 31 March 2010 restated	30,139	7,291	1,357	600	39,387

Freehold and leasehold properties comprise:	Group 2011 £000s	Group 2010 £000s	Association 2011 £000s	Association 2010 £000s
Freehold	35,054	34,285	32,579	30,332
Long leasehold	49	49	49	49
	35,103	34,334	32,628	30,381

13 Investments

	Group 2011 £000s	Group 2010 £000s	Association 2011 £000s	Association 2010 £000s
Cost				
Unlisted investments	10,637	102,840	10,662	102,865
Investment loan to wholly-owned subsidiary	-	-	12,530	11,826
Investment in joint venture	486	483	-	-
Total investments at cost	11,123	103,323	23,192	114,691
Market Value				
Unlisted investments	12,855	104,472	12,880	104,497
Investment loan to wholly-owned subsidiary	-	-	12,530	11,826
Investment in joint venture	486	483	-	-
Total investments at market value	13,341	104,955	25,410	116,323
Homebuy and starter home initiatives				
Homebuy and starter home initiatives	9,718	9,946	312	351
Less: Social Housing Grant	(9,196)	(9,396)	(312)	(351)
	522	550	-	-

Unlisted investments represent holdings in managed funds which invest in listed investments and charged funds.

Southern Housing Group Limited holds 100% of the ordinary share capital of Southern Development Services Limited, registered in England.

Southern Housing Group Limited holds 100% of the ordinary share capital of Southern Space Limited, registered in England.

Southern Housing Group Limited holds shares in the following joint venture:

Affinity (Reading) Holdings Limited

Country of registration: England

Equity Holding: Ordinary

Proportion held: 16.67% indirect holding and 33.33% direct holding

Principal Activity: Holds 100% of the share capital of Affinity (Reading) Limited, which is 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 the Athletes Village following the Olympic Games.

Investment loan to wholly-owned subsidiary	Association £000s
At 1 April	11,826
Net advances	704
At 31 March	12,530

13 Investments (continued)

Unlisted investments at market value	Group £000s	Association £000s
At 1 April	104,472	104,497
Additions	2,350	2,350
Investment repayment	(8)	(8)
Release of THFC charged funds	(94,246)	(94,246)
	12,568	12,593
Gains	632	632
Write downs	(345)	(345)
At 31 March	12,855	12,880

The amounts included in respect of joint ventures comprise the following:

	Triathlon LLP 2011 £000s	Triathlon LLP 2010 £000s
Share of turnover of joint venture	667	-
Share of assets		
Share of fixed assets	72,576	45,116
Share of current assets	1,101	1,118
	73,677	46,234
Share of liabilities		
Due within one year	655	296
Due after one year	72,536	45,455
	73,191	45,751
Share of net assets	486	483
Investment summary		
Investment at cost	500	500
Share of accumulated deficit	(14)	(17)
	486	483

Included above are the following individually significant joint ventures.

	Triathlon LLP 2011 £000s	Triathlon LLP 2010 £000s
Turnover	667	-
Profit/(loss) before taxation	3	(17)
Taxation	-	-
Profit/(loss) after taxation	3	(17)

14 Properties for sale

	Group 2011 £000s	Group 2010 £000s	Association 2011 £000s	Association 2010 £000s
Properties under construction	11,139	11,641	2,881	-
Completed properties	6,565	2,353	35	2,146
	17,704	13,994	2,916	2,146

15 Debtors

	Group 2011 £000s	Group 2010 £000s	Association 2011 £000s	Association 2010 £000s
Arrears of rent and service charges	5,854	6,569	5,545	6,109
Less: provision for bad and doubtful debts	(3,872)	(4,465)	(3,801)	(4,302)
	1,982	2,104	1,744	1,807
Social Housing Grant receivable	11,114	734	11,114	734
Amounts due from connected entities	-	-	9,488	8,674
Other debtors	9,540	6,830	5,133	2,921
Prepayments and accrued income	1,213	1,161	979	916
	23,849	10,829	28,458	15,052

16 Cash at bank and in hand

Cash balances held by Southern Housing Group Limited include amounts totalling £1.5m (2010: £1.5m) which must be used for specific purposes.

17 Creditors: amounts falling due within one year

	Group 2011 £000s	Group 2010 £000s	Association 2011 £000s	Association 2010 £000s
Social Housing Grant received in advance	139	247	-	-
Recycled capital grant fund	214	3,665	214	444
Disposal proceeds fund	732	1,608	732	1,608
Amounts due to connected entities	-	-	3	-
Accruals and deferred income	24,591	26,384	22,416	24,585
Other taxation and social security	114	-	114	-
Other creditors	10,005	13,585	5,522	9,807
Housing loans	3,160	2,398	3,160	2,398
	38,955	47,887	32,161	38,842

18 Housing loans

	Group 2011 £000s	Group 2010 £000s	Association 2011 £000s	Association 2010 £000s
Housing loans falling due after one year	691,680	689,180	653,855	651,354
Loan set up cost	(2,648)	(2,797)	(2,648)	(2,797)
	689,032	686,383	651,207	648,557

Housing loans are secured by specific charges on certain of the Group's housing properties and are repayable in instalments due as follows:

	Group 2011 £000s	Group 2010 £000s	Association 2011 £000s	Association 2010 £000s
In one year or less	3,160	2,398	3,160	2,398
Between one and two years	3,433	3,237	3,433	3,236
Between two and five years	15,438	12,742	15,088	12,667
In five years or more	672,809	673,201	635,334	635,451
	694,840	691,578	657,015	653,752

18 Housing loans (continued)

Housing loans bear hedged rates of interest ranging from 3.3% to 13.1% or variable rates based on a margin above the London Interbank Offer Rate. The final instalments fall to be repaid in the period 2017 to 2045. Southern Housing Group Limited has the following stand alone derivative transactions as at 31 March 2011:

	Market Value (£million)	
	2011	2010
£20m 3 yearly cancellable swap at a fixed rate of 4.77%, first option date July 2010	(3.74)	(3.73)
£25m 30 year cancellable swap at a fixed rate of 4.57%, option date November 2023	(3.19)	(3.26)
£30m 27 year swap at a fixed rate of 4.9875% discounted by compound RPI above 3.20% (commenced July 2010)	(5.24)	(4.54)
£75m 3 year fixed (6.35%) to floating (3.125% + 6-month LIBOR (in arrears)) swap	1.73	2.15

19 Recycled capital grant fund

	Group 2011 £000s	Group 2010 £000s	Association 2011 £000s	Association 2010 £000s
Balance at 1 April	9,139	9,284	2,504	1,768
Grant released on sales	1,960	3,082	701	960
Interest added to fund	48	47	12	8
Inter-group transfer	-	-	7,018	2,421
Grant recycled into new schemes	(10,213)	(3,274)	(9,648)	(2,653)
Balance as at 31 March	934	9,139	587	2,504
Due within one year	(214)	(3,665)	(214)	(444)
Due in more than one year	720	5,474	373	2,060

20 Disposal proceeds fund

	Group 2011 £000s	Group 2010 £000s	Association 2011 £000s	Association 2010 £000s
Balance at 1 April	3,064	4,463	3,064	4,463
Released on sales	117	76	117	76
Interest added to Fund	15	21	15	21
Recycled into new schemes	(2,235)	(1,496)	(2,235)	(1,496)
Balance as at 31 March	961	3,064	961	3,064
Due within one year	(732)	(1,608)	(732)	(1,608)
Due in more than one year	229	1,456	229	1,456

21 Deferred income

	Group 2011 £000s	Group 2010 £000s	Association 2011 £000s	Association 2010 £000s
Balance at 1 April	1,938	2,178	1,938	2,178
Transferred to Income & Expenditure Account	(420)	(240)	(420)	(240)
Balance as at 31 March	1,518	1,938	1,518	1,938
Deferred income comprises:				
Premium on debentures	1,205	1,341	1,205	1,341
Retention on property disposal	-	180	-	180
Property leasing income	313	417	313	417
	1,518	1,938	1,518	1,938

22 Provisions for liabilities and charges

	Group 2011 £000s	Group 2010 £000s	Association 2011 £000s	Association 2010 £000s
Balance at 1 April	60	368	25	312
Transferred to/(from) Income & Expenditure Account	12	(308)	-	(287)
Balance as at 31 March	72	60	25	25

23 Called-up share capital

	Association 2011 £	Association 2010 £
Shares of £1 each issued and fully paid		
Balance at 1 April	9	11
Shares issued during year	3	-
Shares surrendered during year	(5)	(2)
As at 31 March	7	9

The share capital of the Association consists of shares of £1 each which carry no rights to dividends or other income. Shares in issue are not capable of being repaid or transferred. When a shareholder ceases to be a member, that person's share is cancelled. On 1 October 2010 the shareholders of Southern Housing Group Limited (27412 R) automatically became the shareholders of the amalgamated Southern Housing Group Limited (31055 R).

24 Revenue reserve

	Group 2011 £000s	Association 2011 £000s
Balance at 1 April 2010	218,537	204,986
Prior year adjustment (see note 27)	15,714	15,714
Balance at 1 April 2010 as restated	234,251	220,700
Surplus for year	21,116	20,098
Actuarial gain relating to pension scheme	3,565	3,565
As at 31 March 2011	258,932	244,363
Revenue reserve excluding pension liability	266,066	251,497
Pension liability	(7,134)	(7,134)
Revenue reserve including pension liability	258,932	244,363

25 Revaluation reserve

	Group 2011 £000s	Group 2010 £000s	Association 2011 £000s	Association 2010 £000s
Balance at 1 April	1,656	765	1,656	765
Surplus on revaluation of investments	632	891	632	891
As at 31 March	2,288	1,656	2,288	1,656

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

26 Designated and restricted reserves

Group	Designated reserves £000s	Restricted reserves £000s	Total 2011 £000s	Total 2010 £000s
Balance at 1 April	430	1	431	431
As at 31 March	430	1	431	431

Restricted reserves are all held in Southern Housing Group Limited. They represent unspent funds received for specific purposes from external organisations. Restricted reserves are only expendable in respect of the projects for which they are received.

Association	Designated reserves £000s	Restricted reserves £000s	Total 2011 £000s	Total 2010 £000s
Balance at 1 April	430	1	431	431
As at 31 March	430	1	431	431

Designated reserves comprise:

	Group 2011 £000s	Group 2010 £000s	Association 2011 £000s	Association 2010 £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

27 Prior year adjustment

The prior year adjustment reflects a change in the accounting for negative goodwill and the charge resulting from the write off of the net book value of replaced components.

The new Statement of Recommended Practice for Registered Social Landlords 2010 (SORP) resulted in a change in the accounting policy for negative goodwill.

Under the SORP for Registered Social Landlords 2008, negative goodwill is accounted for as follows:

Negative goodwill arising on acquisition should be classified as such in the 'Capital and reserves' section of the balance sheet. Negative goodwill is depreciated over the life of the underlying properties.

Changes to this accounting treatment in the revised SORP 2010 were such that:

For non-exchange transactions, the fair value of the gifted assets and liabilities should be recognised as a gain or loss in the income and expenditure account in the year of the transaction. Amounts previously treated as negative goodwill arising from a previous business combination which meet the criteria of a gift should be credited to the opening reserves as a prior period adjustment.

Following adoption of the SORP 2010, the charge to Income & Expenditure Account resulting from replaced components is now included under depreciation, rather than being charged to surplus on sale of assets.

The effect of this change in policy is stated below:

Group	Cumulative adjustment to 31 March 2009 £000s	Prior year adjustment 2009/10 £000s	Cumulative adjustment to 31 March 2010 £000s
Balance sheet			
Negative goodwill			
as at 31 March as previously stated	15,913		15,714
Transfer of negative goodwill to revenue reserve	(15,913)	199	(15,714)
Negative goodwill as at 31 March as restated	-		-
Revenue reserve (Note 24)			
Revenue reserve as at 31 March	212,395		218,537
Transfer of negative goodwill to revenue reserve	15,913	(199)	15,714
	228,308		234,251
Depreciation of housing properties (Note 2)			
Depreciation	(8,766)	(3,346)	(12,112)
Surplus/(deficit) on sale of fixed assets			
Component write off	(3,147)	3,147	-

The negative goodwill transferred to reserves is equal to the net difference between depreciation and component write off.

27 Prior year adjustment (continued)

Association	Cumulative adjustment to 31 March 2009 £000s	Prior year adjustment 2009/10 £000s	Cumulative adjustment to 31 March 2010 £000s
Balance sheet			
Negative goodwill			
as at 31 March as previously stated	15,913		15,714
Transfer of negative goodwill to revenue reserve	(15,913)	199	(15,714)
Negative goodwill as at 31 March as restated	-		-
Revenue reserve (Note 24)			
Revenue reserve as at 31 March	199,576		204,986
Transfer of negative goodwill to revenue reserve	15,913	(199)	15,714
	215,489		220,700
Depreciation of housing properties (Note 2)			
Depreciation	(8,687)	(3,346)	(12,033)
Surplus/(deficit) on sale of fixed assets			
Component write off	(3,147)	3,147	-

The negative goodwill transferred to reserves is equal to the net difference between depreciation and component write off.

28 Capital commitments

	Group 2011 £000s	Group 2010 £000s	Association 2011 £000s	Association 2010 £000s
Capital expenditure contracted but not provided for in the financial statements	148,813	125,436	136,295	106,103
Capital expenditure authorised but not contracted	8,683	25,220	6,744	25,220

29 Operating Leases

Leasing rentals in respect of office equipment amounting to £6,794 (2010: £11,845) were charged during the year. During the year ended 31 March 2011 the Association did not enter into any new leases under the short life scheme. Under this scheme the Association has an obligation to pay rents to private landlords for periods of up to 14 years and the rental paid to landlords during the year totalled £8,040 (2010: £8,309).

At 31 March 2011 the Association was committed to making the following payments in respect of operating leases on land and buildings:

	2011 £000s	2010 £000s
Operating leases which expire:		
Within one year	4	-
Within two to five years	-	3
Within five to ten years	4	3
	8	6

30 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).

31 Group organisations

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

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

32 Related parties

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

33 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	2011 £000s	2010 £000s
Tangible fixed assets at cost	6,100	6,056
Less: Social housing and other grants	(5,609)	(5,497)
	491	559
Investments at valuation	687	647
	1,178	1,206

Net income from permanent endowed assets	2011 £000s	2010 £000s
Income from lettings	2,035	1,871
Less: expenditure on letting activities	(1,239)	(1,373)
Surplus on letting activities	796	498
Income from Investments	10	9
	806	507

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

34 Amalgamation

On 1 October 2010, Southern Housing Group Limited, James Butcher Housing Association Limited and South Wight Housing Association Limited amalgamated into one new charitable Industrial and Provident Society now called Southern Housing Group Limited (the Association). The Association accounts comprise the amalgamated entities for the year ended 31 March 2011 using merger accounting. The comparative figures represent the three pre-amalgamated entities.

The elimination and fair value adjustments are to eliminate the intercompany income, expenditure and valances between the three companies as well as to bring into the amalgamated company the fair values adjustment and FRS17 adjustment for the Group pension scheme that previously were included on Group consolidation. No adjustment was needed to align the accounting policies of the three entities.

The prior year adjustment (Note 27) arises on adoption of the SORP 2010 and reflects the change in accounting policy for the treatment of historical negative goodwill on acquisition.

Analysis of Income and Expenditure Account for 12 months ended 31 March 2010

	Southern Housing Group Limited £000s	James Butcher Housing Association Limited £000s	South Wight Housing Association Limited £000s	Elimination & Fair Value Adjustments £000s	Prior Year Adjustment £000s	Total £000s
Turnover	95,200	17,275	16,679	(2,394)	-	126,760
Operating costs	(70,118)	(13,400)	(12,772)	(682)	(127)	(97,099)
Operating surplus	25,082	3,875	3,907	(3,076)	(127)	29,661
Surplus/(deficit) on sale of fixed assets	(1,349)	(680)	(201)	3,144	-	914
Interest receivable and other income	2,310	16	16	-	-	2,342
Interest payable and similar charges	(20,134)	(3,386)	(2,428)	849	-	(25,099)
Other finance costs	-	-	(157)	(345)	-	(502)
Surplus on ordinary activities for the year	5,909	(175)	1,137	572	(127)	7,316
Gift aid donation	-	-	-	-	-	-
Surplus for the year	5,909	(175)	1,137	572	(127)	7,316

34 Amalgamation (continued)

Analysis of Balance Sheet at 31 March 2010

	Southern Housing Group Limited £000s	James Butcher Housing Association Limited £000s	South Wight Housing Association Limited £000s	Elimination and fair value adjustments £000s	Prior year adjustment £000s	Total £000s
Tangible fixed assets						
Housing properties at cost less depreciation	1,231,212	146,460	71,518	12,592	-	1,461,782
Less: Social housing grant and other grants	(637,268)	(76,113)	(14,407)	-	-	(727,788)
Net housing properties	593,944	70,347	57,111	12,592	-	733,994
Non housing fixed assets	31,570	4,956	2,997	(136)	-	39,387
Total tangible fixed assets	625,514	75,303	60,108	12,456	-	773,381
Investments						
Investments at market value	104,497	-	-	-	-	104,497
Investment in subsidiaries	11,826	-	-	-	-	11,826
Homebuy and starter home initiatives	-	-	351	-	-	351
Less: Social housing grant	-	-	(351)	-	-	(351)
	741,837	75,303	60,108	12,456	-	889,704
Current assets						
Properties for sale	2,146	-	-	-	-	2,146
Debtors	14,613	896	1,129	(1,586)	-	15,052
Cash at bank and in hand	15,333	2,080	2,641	2	-	20,056
	32,092	2,976	3,770	(1,584)	-	37,254
Creditors: amounts falling due within one year	(30,092)	(5,652)	(4,683)	1,585	-	(38,842)
Net current assets/(liabilities)	2,000	(2,676)	(913)	1	-	(1,588)
Total assets less current liabilities	743,837	72,627	59,195	12,457	-	888,116
Creditors: amounts falling due after more than one year						
Housing loans	537,263	54,664	48,319	8,311	-	648,557
Recycled capital grant fund	1,979	7	74	-	-	2,060
Disposal proceeds fund	1,367	89	-	-	-	1,456
Deferred income	1,339	599	-	-	-	1,938
Provisions for liabilities and charges	-	-	25	-	-	25
Net pension liability	-	-	3,711	7,582	-	11,293
Capital and reserves						
Share capital	-	-	-	-	-	-
Revenue reserves	200,049	17,268	(4,006)	(8,397)	15,786	220,700
Revaluation reserves	1,656	-	-	-	-	1,656
Designated and restricted reserves	184	-	247	-	-	431
Negative goodwill	-	-	10,825	4,961	(15,786)	-
	743,837	72,627	59,195	12,457	-	888,116

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