sovereign

Annual report

2016/17

and financial statements

A safe and affordable home is the foundation of everyone's life

Without one, it's difficult for anybody to realise their hopes and aspirations

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Our performance this year

Great homes and communities

- 56,000 homes for 130,000 residents
- 98% of our homes are affordable - to rent or buy
- 498 residents engaged with our employment and training service

Great customer experience

- 98% of residents are happy with their new homes
- 150,000 responsive repairs completed, with over 90% of residents happy with the work
- 560,000 calls answered in average of 14 seconds by our contact centre, where we've also created a new social media team
- 86% satisfaction with how we handled anti-social behaviour cases

Growing sustainably to deliver more

- £89m surplus to be reinvested in homes and services
- £305m of new funding arranged to support increased development
- £150m invested in building 1,225 new homes
- Operating cost per social home has reduced by 11%, focusing our investment on where it matters most and maintaining the quality of our services
- Significant stock swap with Hyde Group, with 709 homes coming to Sovereign and 720 going to Hyde
- An excellent 1.93% Current Tenant Arrears for social housing residents

Great place to work

- Achieved Investors in People gold standard for the combined business
- An award-winning in-house recruitment service
- Over 50 apprentices recruited to date through our award-winning schemes

Our year in review

It's been a year of transformation, following the merger between Sovereign Housing Association and Spectrum Housing Group. Our new 56,000-home housing association, concentrated within a tight geography, has the strength and commitment to support our residents and communities, building homes people can afford.

Across the south, with rising prices and ongoing welfare reform, the demand for quality, affordable homes has continued to grow. As a stronger and more effective housing association, we're well placed to help meet that challenge.

And now, as the sixth largest housing association in the country, we'll be able to use our increased influence at local and national levels to help meet the needs of our residents – both current and future.

Turbulent times

Last year was one of the most politically turbulent we've experienced. The country voted to leave the European Union, a new Prime Minister and Chancellor followed and recently a snap General Election returned a minority Conservative government. Meanwhile welfare reform continued, particularly impacting those in the south east, while the rent reduction impacted housing associations' ability to build. Austerity, particularly at a local government level, continued.

The economy continued to grow. But not everyone has felt the benefits of that improvement. It's been a difficult environment for housing associations, our local authority partners, our communities and, of course, our residents.

Most recently we have witnessed the dreadful fire at Grenfell Tower and the tragic events that followed.

In common with other landlords, we responded quickly to reassure residents while undertaking a review of our fire risk assessments and cladding on our taller buildings.

At the time of writing we have been notified by the Building Research Establishment that none of our high rises are affected by Aluminium Composite Material cladding, but we are doing further work to ensure that our residents are safe.

Financial strength

Sovereign posted a record £89m surplus last year, which is a tremendous result. Not only can we reinvest all of this profit in new homes and services, but it also gives us the ability to borrow at competitive rates to fund further investment and provide more housing for those in need. This is demonstrated by the £305m of new facilities agreed in the year with the European Investment Bank and Affordable Housing Finance, both at sector-leading interest rates.

In addition to funding our resident and maintenance services, our surplus combined with external funding enabled us to invest £150m in building new homes last year. We'll continue to make the most of our reputation as a strong and resilient business to achieve our social purpose.

Getting the balance right

We recognise more needs to be done to fix the broken housing market and are committed to increasing our development programme. For us, it's not just about how many properties we can build, but about providing affordable homes. We're proud to have built over 1,200 much-needed new homes in 2017 and that our 1,500-homes-a-year pipeline is predominantly focused on sub-market rent.

We'll also continue to protect our social rented homes, not converting them to a higher 'affordable' rent when a new resident moves in. Our financial strength and efficiency mean we can keep to this commitment and make a real and lasting difference to our residents and the communities in which we work.

But we don't just provide the keys to a home. As a landlord we want our residents to receive a great customer experience too.

Combining the skills and experience of Spectrum Property Care and Sovereign Response has created an in-house maintenance service that can take care of all our 56,000 homes as well as our commercial customers. Providing these services in-house gives us greater control and increases our efficiency.

On the frontline, we've seen high satisfaction with how we handle anti-social behaviour incidents, and we're continuing to develop and improve our customer service offering. We've created a new social media contact team, and we're developing a new online portal to enable residents to do business with us more quickly and easily.

Finally, if residents' circumstances change, we offer an employment and skills service. Last year we worked with nearly 500 people, helping them towards work or to advance their careers. It not only means residents can keep up with their rent, but also helps them towards achieving their aspirations and helps build thriving and successful communities.

A long-term commitment

While Sovereign continues to grow, our long-term commitment to our communities remains. We pride ourselves on strong relationships with local authorities, investors and housebuilders.

Our residents have a voice at the heart of our business, with our new approach to resident engagement providing valuable scrutiny, while our partners are involved in shaping our future strategy.

This collaborative approach will continue as we work to overcome the housing challenges we face together.

A great place to work

We've been impressed, but not surprised, by the dedication and passion of our 1,900 employees in delivering an impressive performance over the last year. Despite the uncertainty that merger brings they have continued to deliver, and we're confident they'll continue to go the extra mile for our residents. In return, we'll keep investing in them, their development and wellbeing. Our new business was immediately reaccredited with the Investors in People gold standard, confirming the fantastic learning and development opportunities we offer, including our extensive apprenticeship programme.

The merger has meant significant change as we've brought Boards, Committees and teams together. We'd like to take this opportunity to thank former chairs, Board members and employees who helped make the new Sovereign possible - their efforts are greatly valued and they can be rightly proud of what they've achieved.

The new Board, supported by our engaged residents, have the necessary skills and experience to build on this success and ensure Sovereign retains its clear direction and thoughtful approach.

Future focus

The world is likely to remain uncertain and complex, as the government completes its welfare reform and works its way towards leaving the European Union. It was these challenges that led us to create the new Sovereign.

Our challenge is to realise the benefits of the merger and to finish integrating our systems and processes. At the same time we're also transforming what we do so that we become a more modern, connected business, making it easier for customers to get in touch with us. We're on track and confident of success.

At Sovereign, we believe a safe, secure and comfortable home is a cornerstone of most people's lives. Our commitment to building more truly affordable homes, supporting strong and thriving communities, and providing a great customer experience for our residents will remain steadfast.

Gordon Holdcroft, Chair

Ann Santry, Chief Executive

Who we are

What we do

We're a respected and influential business and, with 56,000 quality affordable homes for 130,000 people, we're the sixth largest housing association in the country.

We oversee one of the largest development programmes of affordable housing in the sector, with nine out of every ten properties we build being homes at a rent or price people can afford.

We currently build around 1,200 homes per year and plan to increase this to 1,500 per year. These homes are provided for social rent (50-60% of market rates), affordable rent (up to 80% of market rates) and, for those looking to own a home, we're also a leading provider of shared ownership homes.

We also build homes for outright sale and continue to grow our portfolio of private rent (100% of market rates). The surpluses we make on these properties are used to support our affordable properties.

Through Sovereign Response and Spectrum Property Care, we take care to maintain and improve our homes as well as providing a service for commercial customers. We're working towards being a modern connected business, investing in our people and systems and providing a great customer experience for residents.

And, for those residents who need them, we offer a range of support services to help them achieve their aspirations. In Basingstoke and on the Isle of Wight, we also provide accommodation and specialist support to help people at risk of homelessness get back on their feet.

How we do it

We are a strong and resilient not-for-profit business.

We use our organisational strength, stability and resources, along with funding from government, banking and capital markets, to invest in growing our business, building and maintaining affordable homes while delivering improved services to those that need them.

Our people

A successful business relies on its employees to achieve its social and commercial objectives and to live its values every day.

An experienced Board sets the strategic direction, with a Chief Executive and Executive Board charged with ensuring the business is successful and well-managed.

We're determined to be an employer of choice, attracting and developing the best talent across the business. We invest in our 1,900 employees and their development, which has been recognised by the Investors in People's gold standard.

Our residents are at the heart of what we do and their insight and challenge help us provide better services too. Our new resident engagement structures are now in place, making sure residents have a strong voice on decisions that matter to them.

We know a diverse and inclusive culture contributes to the success of an organisation. Integrating equality and diversity into business thinking, and creating a culture of inclusion, helps us improve the services we provide to our residents and makes Sovereign a great place to work.

Sovereign exists to help people in housing need. We're committed to building great homes, shaping and investing in our communities and changing lives

Where we work

We work in some of the most expensive places to live in the country, with some house prices and private rents rising faster than London.

We focus our investment and activity in a core area covering Berkshire, Hampshire, Oxfordshire, Gloucestershire, Dorset, Devon, Wiltshire, the West of England and the Isle of Wight.

We believe in providing homes that people can afford

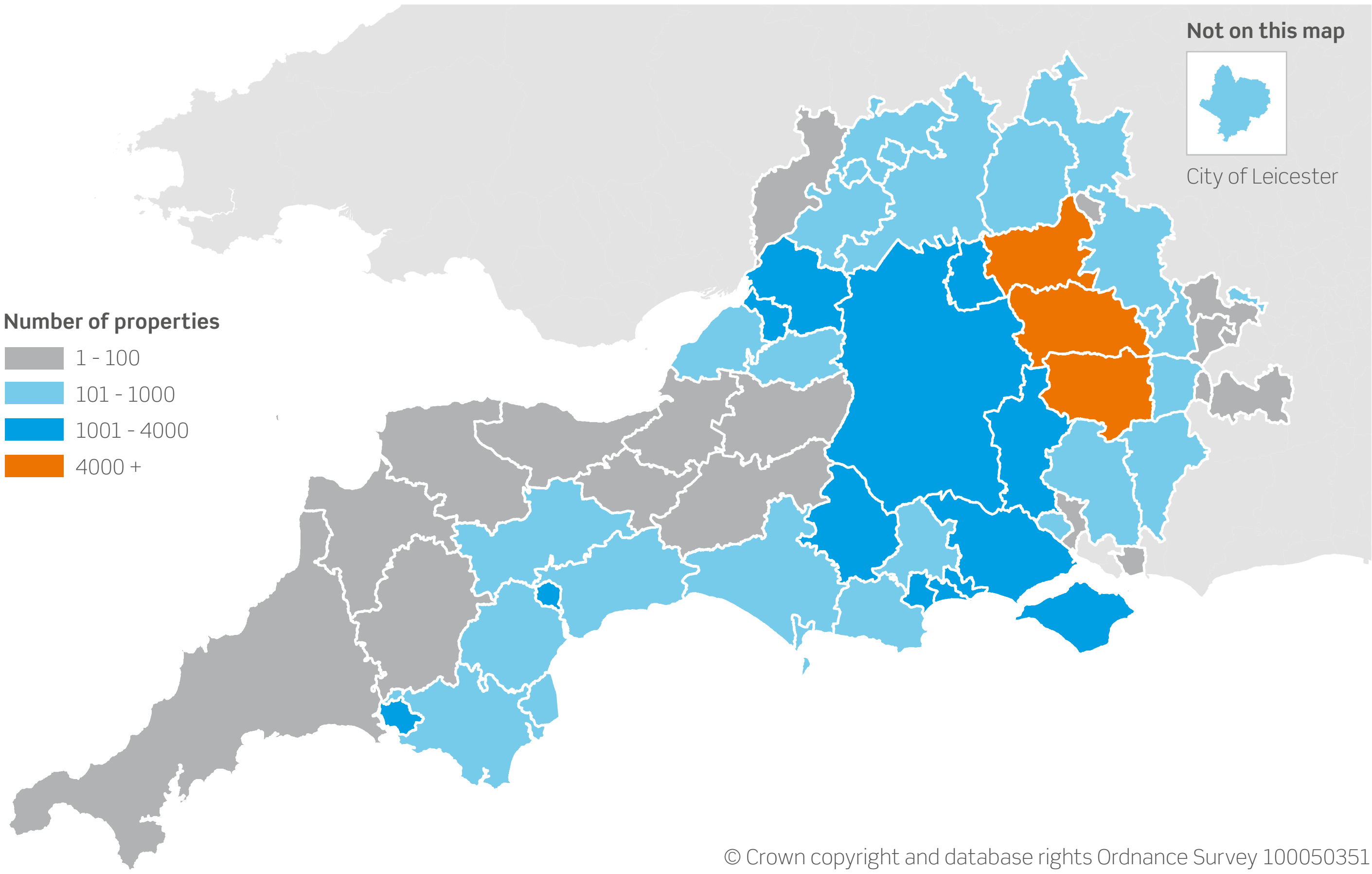
Of our 56,000 homes

81% rents are below the **open market rate**

14% support people into **home ownership**

3% are for **key workers**

2% are for **private rent**



Regional focus, national influence

To make a lasting difference to our residents and communities, we recognise the need to build long-term relationships with a range of partners. We have strong partnerships with national and local government, the Homes and Communities Agency (HCA), businesses, investors and community and charitable groups.

As one of the largest housing associations in the country, we use our local and national influence on our residents' behalf, on issues that affect them such as welfare reform and building new affordable homes.

As well as being part of the Voluntary Right to Buy pilot, we have worked with government on issues such as future rent setting and housing challenges facing young people; giving us the chance to influence policy and shape operational delivery.

Our values

Our values underpin who we are and what we do.

Can do
We do what we say we will and deliver on our promises to customers.

Creative
We make improvements by challenging the norm and looking for new and original ways of doing things.

Collaborative
We work together with residents and partners to find shared solutions that have the greatest impact.

Responsible
We're a robust, long-term business, rooted in the communities in which we work.

We provide 56,000 places for 130,000 people to make a home, just like Camilla and her family in Oxfordshire.

Our strategy

Our vision

Building homes
Shaping communities
Changing lives

The merger between Sovereign Housing Association and Spectrum Housing Group was driven by a shared long-term strategy to focus investment and activity in a core geographic area and was underpinned by a common social purpose.

The legacy organisations had an excellent geographic fit and, as we're now one of the largest housing associations in the country, we're benefiting from high levels of stock density compared to similar sized housing associations, with an average of more than 820 homes in a local authority area.

To carry us through to 2018, the Board quickly established a vision and an interim strategy. The strategy focused on realising the benefits of the merger and continuing to grow sustainably, while providing a great customer experience. We know we need great, engaged people to make this possible, so will continue to invest in our employees.

Our goals

A strong, efficient and influential organisation

- We'll remain a social business using a commercial approach to become more efficient.
- We'll use our financial strength and the proposed sector deregulation to determine our own priorities.
- We'll explore new partnerships to help us deliver additional homes and customer services more effectively.

Growing sustainably to deliver more

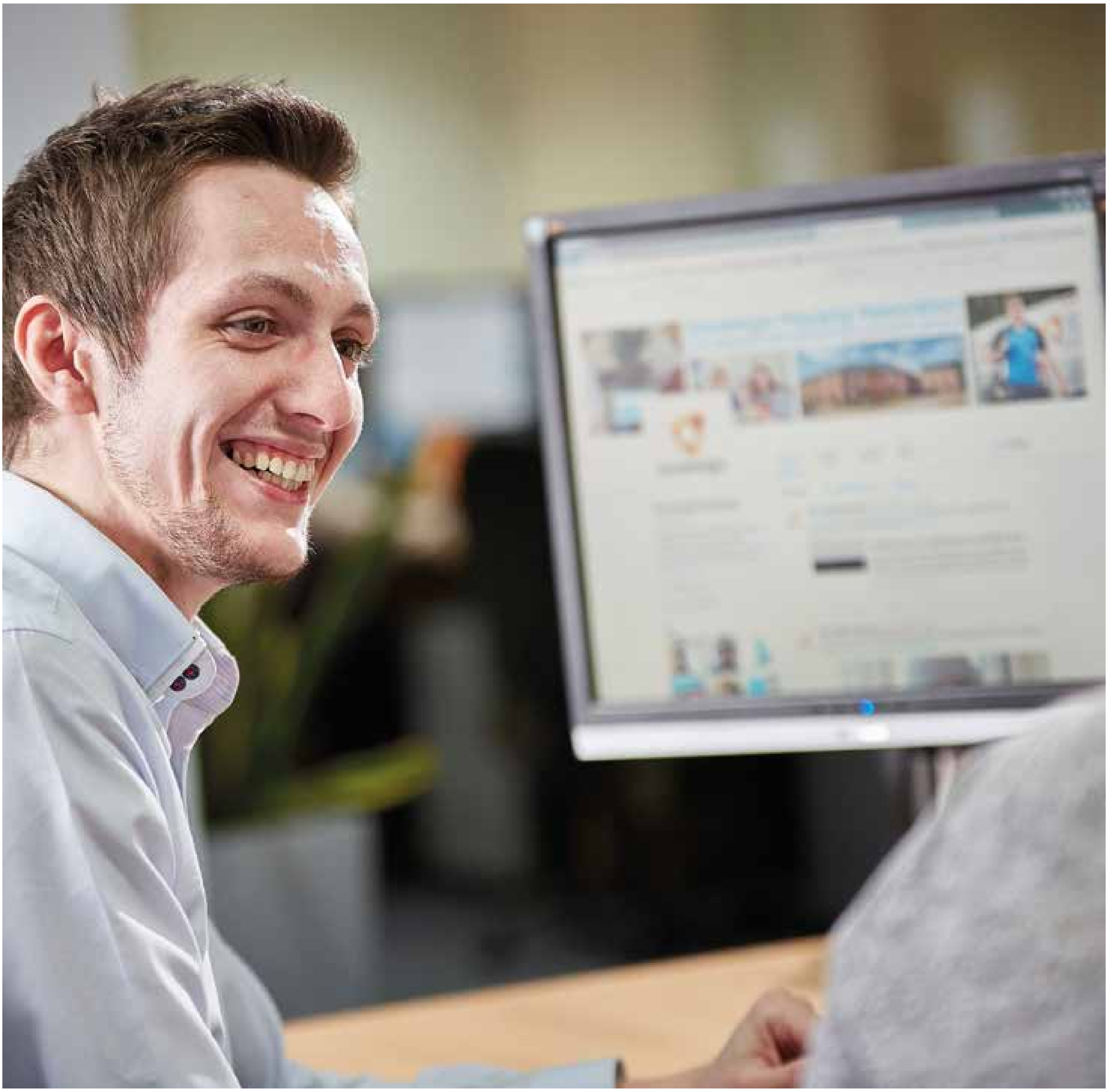
- We'll focus growth in our tight geographic operating area to help improve efficiency through new development and stock rationalisation.
- We'll develop around 1,500 new homes a year, providing a full range of tenure options for people in housing need.

Great customer experience

- We'll be a good landlord, modernising our customer service.
- We'll invest in more digital services and ways to communicate with us.
- We'll aim to protect our social rented homes to help those in housing need.
- We'll focus our investment in priority communities, targeting employment and training initiatives to help residents sustain their tenancies.

Great place to work

- We'll remain an employer of choice, retaining the Investors in People gold standard and keeping high levels of employee engagement.



A modern connected business

We want to make it easy for residents to do business with us. Our contact centre is at the frontline of providing a great customer experience and we're transforming how we do things. We've set up a social media team and are building an enhanced online resident portal - we're well on our way to becoming a modern connected business.

A modern connected business

Our commitment to providing a great customer experience has helped create our Customer Framework. This framework is guiding our journey as we bring teams and systems together, make best use of technology and digital service delivery and make sure we have information at our fingertips. We are empowering our front line teams to deliver high-quality services as efficiently as possible.

We'll achieve our vision through a two-year programme of strategic integration and improvement projects, overseen by a Merger Integration Board of senior leaders.

Sovereign is an important strategic partner to our stakeholders and a leader in the social housing sector. Our new Board appreciates Sovereign's influential position and is committed to using our financial and other strengths to make a real difference – both in terms of national policy and local priorities for homes and services.

Sovereign's future

We're now developing a new strategy, focusing on the five-year period from 2018 onwards. Sovereign will remain dedicated to providing good-quality rented homes to people in need; using our enlarged, financially robust organisation to do more; and being brave in a business that we know well.

Our skilled Sovereign Response and Spectrum Property Care teams take care of our 56,000 homes.

Our operating environment

Welfare reform

Through the year, we've seen the ongoing impact of welfare reform. In particular, over 300 more Sovereign households are now affected by the Household Benefit cap following its reduction to £20,000.

Our continuing low rent arrears are testament to our success in supporting residents through these changes. As the number of in-work households in poverty continues to increase, we've evolved our approach to individual support. In 2016/17, 498 residents engaged with our employment and training service with 113 households helped to secure more or better paid work.

Looking ahead, we're preparing for the application of Local Housing Allowance caps and for the Shared Accommodation Rate, which will make many homes unaffordable for single people under the age of 35. The caps will affect pensioners too, who have previously been protected from welfare reforms, and we're looking at how to mitigate this risk.

Deregulation

The government's decision to deregulate the sector will bring opportunities, with freedom to innovate with different organisational forms or funding approaches. Inevitably, this will require us to manage additional risk, as this innovation takes place against a backdrop of an economy and a housing market that's adjusting to major change.

Future rents

The current regime of rent reduction is due to continue until 2020. We expect a future rent settlement to be agreed this year, which will be crucial for our future business planning. We're modelling possible outcomes and are closely involved in shaping the sector's position.

Politics

It has been an encouraging year in terms of political attitudes. Sovereign joined much of the sector in welcoming the tone and content of the Government's white paper, Fixing our broken housing market, which included deregulation.

We completed our pilot of the Voluntary Right to Buy in Oxfordshire. The pilot was invaluable in helping us understand the potential opportunities and risks as well as shape an operational response to any possible future national scheme.

Customer expectations

As with many sectors, our residents' expectations are increasing. It's important that we provide a value-for-money service, but that we make it easy for them to do business with us.

Through our Customer Framework, we're investing in creating a modern connected business, underpinned by the right technology and with a focus on the customer. This also means making it easy to get in touch through social media and a new and improved online portal.

Brexit

As well as broader economic and political implications, leaving the European Union (EU) is likely to affect the construction industry, in terms of the availability of labour and materials, as well as the wider economy and housing demand.

While we believe leaving the EU does not pose a direct risk to Sovereign itself, it does have the potential to act as a catalyst in respect of a number of our key strategic risks. We're aware of these risks and have mitigations in place to minimise their impact.

Mergers

As well as our own merger, several other substantial mergers were completed in the sector. Looking forward, the continuing focus on efficiency and effectiveness is likely to be a key driver for further consolidation. Sovereign remains open to future mergers, where they fit with our overall strategic intent.

Over **300** more Sovereign households are now affected by the Household Benefit cap following its reduction to £20,000

Putting down roots, making memories

Pat, Libby and Leo had struggled to get by in a private rented home. Moving into their new Sovereign home in Cheltenham has transformed their lives.

"Once you've got a secure living space and you've got that stable base, that family home – it gives you new opportunities. It means we can start making memories and set down roots", said Pat.

Our performance

An outstanding performance

In a year dominated by the merger, Sovereign has delivered a strong operational performance as well as a record financial performance with operating surplus up 26% to £135.9m.

The foundation for our success has been the sustainable savings plans implemented by the legacy organisations in response to the 1% per year reduction in social housing rents. These savings have been made through efficiencies and improving the way we work, rather than reducing services, and position us well to deal with the further 1% reductions over the next three years.

In addition to the legacy savings plans, we have committed with our Board to deliver an additional £10m saving per year as we realise the benefits of merger.

Through development and an expanding shared ownership portfolio, we've increased our income despite the reduction in social housing rents. Our overall surplus for the year of £88.7m is £40.8m higher than the surplus delivered in 2015/16.

These results will enable us to continue to invest in our homes and services, as well as raising additional funding to build new homes.

Measure*	2017	2016
Operating surplus £m	135.9	107.5
Operating margin %	36.6	30.4
Surplus for the year £m	88.7	47.9
EBITDA £m	162.9	128.8
EBITDA %	49.5	40.5

*Performance is for the merged organisation and 2016 comparatives have been restated throughout.

Our income increased, up £18.3m to £371.6m, primarily through a £13.4m increase in receipts from shared ownership sales.

Our social rent income has also increased by £7.8m (2.7%), despite the requirement to reduce rents for existing social tenancies by 1%. This is mainly due to building more homes as well as maintaining our upper quartile rent collection rates and re-let times.

Turnover £m	2017	2016	Change
Social property rent	297.0	289.2	2.7%
Other social housing income	2.9	6.6	-56.1%
Shared ownership first tranche sales	42.0	28.6	46.9%
Open market sales	9.1	7.2	26.4%
Private rent	9.0	6.1	47.5%
Other non-social activities	11.6	15.6	-25.6%
Total	**371.6**	**353.3**	**5.2%**

Operating costs

Our operating costs have reduced by 8.3% to £193.5m.

£m	2017	2016	Change
Management costs	56.4	61.5	8.3%
Maintenance costs	69.8	74.0	5.7%
Depreciation	38.8	39.6	2.0%
Other costs	28.5	27.5	-3.6%
Pension adjustment*	0	8.4	100.0%
Total	**193.5**	**211.0**	**8.3%**

*This reflects the movement in the 2014 triennial valuation.

We have made savings across our management and maintenance functions of £9.3m, by improving the way we work and savings through procurement, as well as early merger savings. These activities are just the beginning and lay the foundations for more efficiencies as we realise the full benefits of our modernisation work and the merger.

Other costs and activities

The surplus from sales of housing assets (disposals of property, plant and equipment) increased from £3.3m to £12.0m. This is mainly through increased asset management and stock rationalisation sales, as well as sales through the Voluntary Right to Buy pilot programme.

The Group statement of financial position

The Group statement of financial position has continued to strengthen, reflecting our outstanding performance during the year and the ongoing investment programme. This strength remains a key part of the business strategy ensuring resilience in the current policy environment. The merger between Sovereign Housing Association and Spectrum Housing Group has reinforced the strong financial positions of the two organisations and created a Group with net assets of over £1.5bn.

At March 2017, fixed assets totalled £3,561m (2016: £3,441m), an increase of £120m on the previous year. The key elements of this increase include £150m invested in new developments, a net increase of £8m through acquisitions from and sales to other housing associations, £13m of capitalised improvements on existing properties and revaluation gains of £5m on investment properties. These increases are partially offset by depreciation (£37m).

Cash and short-term investments have reduced to £45m (2016: £64m). The Group considers it has sufficient liquid assets in place to cover both short-term margin call fluctuations and operational cash requirements. This was supported by the drawing of an additional £35m of bank funding taking the year-end debt position to £1,608m.

Total reserves strengthened to £1,529m, an increase of £87m.

Cash flow

There was a £19.1m decrease in cash in the year against an increase of £5.2m in the previous year. The operating cash flow has improved to £164.3m, an increase of £14.3m, reflecting the improved financial performance. The main movements in the Group's cash flow are shown in the table below.

There was a significant stock swap with Hyde Group in the year, with property purchases of £55m and sales of £44m in this single transaction. The net cash outflow from investing activities has increased to £150m in 2017, reflecting increased investment in housing properties and a further investment in a joint venture that will deliver new homes over a number of years. Social housing grant receipts at £3m continue to be low compared to historic levels. Interest paid has reduced as new loans are taken at a lower interest rate than those being redeemed. Net loans increased by £35m which, with the reduction in cash, means the group ended the year with an increase in net debt of £54m. This highlights the Group's commitment to continue providing new homes.

	2017 £m	2016 £m
Net cash generated from operating activities	164.3	150.0
Cash flow from investing activities		
Investment in jointly controlled entity	(6.9)	(3.1)
Purchase of tangible fixed assets	(216.9)	(197.2)
Proceeds from sale of tangible fixed assets	70.3	72.2
Grants received	2.7	3.7
Interest received	1.2	1.0
Sale of subsidiary undertaking	-	2.2
Net cash from investing activities	**(149.6)**	**(121.2)**
Cash flow from financing activities		
Interest paid	(67.2)	(69.3)
Investment in UK treasury gilts and collateral deposits	(0.9)	12.2
New new borrowings	34.6	34.0
Withdrawal from deposits	(0.4)	(0.5)
Net cash used in financing activities	**(33.8)**	**(23.6)**
Net change in cash and cash equivalents	**(19.1)**	**5.2**

We invested **£150m** in building new homes

We spent **£46.1m** on our existing homes

including new kitchens, bathrooms, doors, windows and heating systems

Development

Growing sustainably is one of our strategic goals and last year we built 1,225 homes. Given our focus on the affordability of our homes, our priority continues to be sub-market housing. 92% of our new homes last year were affordable, whether to rent or buy, complemented by market rent and sales where appropriate. This makes us a sector leader in the provision of affordable homes.

Number of properties completed	2017	2016
Social rent	208	284
Affordable rent	531	482
Intermediate rent	0	1
Market rent	45	93
Shared ownership	387	343
Open market sales	45	42
Joint venture sales	9	20
Total	**1,225**	**1,265**

The majority of our development is self-funded using a mixture of reinvested surpluses and external borrowing. We received £3.3m of Government grant in 2017, just 2% of the £150m we spent on our development programme.

Future growth

We'll continue to grow sustainably within our core operating area through development, stock acquisition and further mergers where appropriate. We're targeting around 1,500 new homes every year in our core geography, one of the largest development programmes in the sector. Underpinning this is a commitment to deliver a sustainable programme of affordable housing of around 1,350 new homes.

Stock rationalisation

We continue to explore opportunities to rationalise our stock outside our core geography or increase our stock in our priority local authority areas.

This year we swapped stock with Hyde Group, resulting in 709 homes coming to Sovereign and 720 going to Hyde. We also sold 42 homes to South Devon Rural. Overall we disposed of 762 homes, (2015/16: 67) and acquired 709 (2015/16: 75).

Investing in our homes

As well as developing new homes, we continue to invest in our existing properties, maintaining high living standards for our residents as well as the value of our assets. During the year we spent £46.1m on our homes of which £13.2m was spent on major investments such as new kitchens, bathrooms, doors, windows and heating systems.

An affordable step on to the property ladder

When Jen and Luke got engaged they wanted to set up a home together, but knew they couldn't afford a full mortgage. A new apartment at Castle View on the outskirts of Newbury, available for shared ownership, was the perfect opportunity to buy a home and start their life together.

"It's a good way of getting on the property ladder, and we're getting more back than if we were renting," said Luke.

Operational performance

WE INVESTED...	WE DELIVERED...	OUR CUSTOMERS SAID...	NEXT YEAR WE WILL...
£36.9m in routine maintenance, up from **£34.1m** in 2016 **£46.1m** in planned maintenance as we seek to maintain the quality of our existing properties	**150,287** **Repairs completed** **93%** **Completed within target** **1,041** kitchens **707** bathrooms **2,399** doors and windows **1,711** new boilers or heating systems	over **90%** of residents **SATISFIED** with responsive repairs	Expand responsibility for in-house Spectrum Property Care and Sovereign Response teams, including: • All responsive repairs in Devon • Gas servicing across the West • Voids in Hampshire These changes are expected to save the business around £2m over the next five years.
in **modernising** our lettings processes, including more **online** and **text** contact	**53% reduction** in lettings related calls, because residents know what's next in the process **2,596** relets Average relet time **18 days**	over **98%** of residents **HAPPY** with their new home	Complete an enhanced online customer portal to allow greater self-service supported by specialist frontline employees where necessary.

WE INVESTED...	WE DELIVERED...	OUR CUSTOMERS SAID...	NEXT YEAR WE WILL...
£2.8m in running our **contact centre** **modernising** the way we work to meet the needs of our **customers**	**560,000** calls answered by our **contact centre** in average of **14 seconds** We've also created a new **social media** team	**Thank you so much!** **Your customer service is amazing and get jobs done!**	Bring in new systems to aid great customer service: • A shared contact platform • Integrated systems so employees have all information at their fingertips
£1.4m in our **Communities** team in supporting **residents** towards **work** or better work in our priority communities	**498** residents engaged with the **employment** and **training** service **391** residents supported with specialist **debt advice**	**Nothing was happening until Sovereign's Employment and Training team came along so I would definitely recommend it**	Focus resources on priority communities that face the biggest challenges and where we can have the greatest impact.

Treasury management

Treasury and funding are key to ensuring that sufficient facilities are in place to support our longer term strategy

A strong governance procedure is encapsulated in the Treasury Management Policy, which sets the framework for managing the treasury activities. The Board delegates responsibility for the approval and regular review of the policy to the Treasury Committee, and a new policy came into effect following completion of the merger.

Treasury strategy is reviewed at least annually. It is documented in the Annual Treasury Plan, and signed off by the Treasury Committee. A new plan was approved following the merger.

Capital structure

Sovereign is financed by a combination of capital market bonds, long-term bank debt, Social Housing Grant funding, and retained surplus. The bank debt is provided by six principal commercial lenders together with the European Investment Bank (EIB).

All of Sovereign's bonds and bank debt is secured by way of charges on properties, with the exception of the £150m facility with the EIB which is available to be drawn until December 2019.

At 31 March 2017, there were more than 16,000 additional properties available to be pledged as security for the EIB facility or for any new borrowing, with a value in excess of £1.0bn. Accordingly, secured borrowing capacity remains available to support ongoing development.

We are confident that our financial position makes Sovereign a strong investment proposition and that, in the absence of a material change in market sentiment, further funding to support a continuing development programme will be available at competitive rates.

Covenants

Sovereign's bonds and bank debt include various covenants and undertakings. The financial covenants are primarily in respect of interest cover, gearing and asset cover. Compliance with financial covenants is monitored on an ongoing basis and confirmed quarterly to the Treasury Committee. Discussions are on-going with lenders to adjust covenant definitions in order to achieve a broadly neutral position following the introduction of FRS102. There have been no covenant compliance breaches. Future compliance with interest cover and gearing covenants is considered as part of the business planning process.

Despite the government's introduction of a rent reduction regime, which has adversely affected existing use property values, our business plan has considerable headroom in relation to our valuation-based gearing covenants, as it does in relation to our interest cover covenant. The headroom is tighter in relation to our one cost-based gearing covenant, but that covenant measure is predictable and it does not constrain our planned development levels.

Liquidity

Sovereign has a minimum liquidity policy that requires cash and confirmed finance facilities to be in place to cover the expected financing requirements for at least 18 months. For added prudence, an element of any forecast sales revenue is excluded for the purposes of this calculation. At 31 March 2017, Sovereign's undrawn loans totalled £331m. We also held £45m in cash, including cash on notice deposit (reflected as current asset investments in the Group statement of financial position). We remain well placed to capitalise on development and stock acquisition opportunities, as well as to protect against any unexpected eventualities arising from economic, political or regulatory challenges.

Sovereign's finance facilities have a weighted average term of 16 years with £268m of Sovereign's total £1,933m finance facilities maturing within the next five years. Counterparty exposure is managed by keeping cash balances low and through retaining available facilities across a number of different funders.

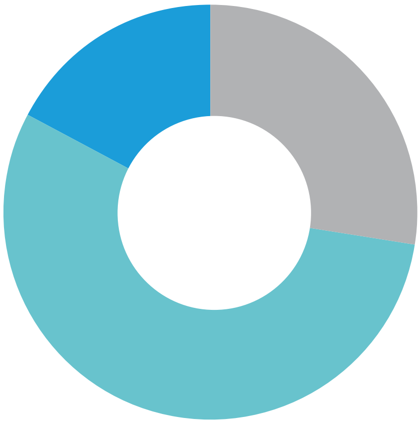
New long-term facilities amounting in aggregate to £305m were arranged during the year. Sovereign participated in bonds issued by Affordable Housing Finance with an aggregate notional value of £95m, and arranged £60m of debt facilities through the same provider. A £150m facility was also arranged with the EIB. These facilities will support Sovereign's continuing strong development programme.

Interest rates

Sovereign's bonds bear interest at fixed rates. Bank debt is a combination of fixed and variable rates. Interest rate exposure in relation to the variable rate bank debt is managed through the use of standalone interest rate derivatives. The average interest rate payable in the year has reduced to 3.9% (2016: 4.1%). The Treasury Management Policy requires Sovereign's annual business plan to be stress-tested to ensure it is not unduly exposed to risks associated with interest rate movements. The interest rate hedging strategy is adjusted as required. At 31 March 2017, 80% of drawn debt was at fixed rates or at rates fixed through the use of derivative financial instruments.

Under FRS102 the value of standalone interest rate derivatives is reflected on the balance sheet. At 31 March 2017, the aggregate value of these derivatives was £97m negative (2016: £105m negative). This reduction reflects the buy-out of two forward-starting interest rate swaps together with regular payments made during the year, offset by market expectations of lower average interest rates over the remaining lives of the derivatives.

Total facilities



Work is well underway at our mixed-tenure development of 70 new homes at Mount Pleasant Farm, Longwell Green, Bristol.

Managing risk

We are committed to continually improving our risk management framework and risk taking culture across the organisation to ensure the long-term growth and sustainability of our business

Our risk management philosophy

Risk is inherent to the environment in which we work, particularly given the fast pace of change politically and economically. The operating environment for social housing providers, which is shaped by government policy and budget announcements, remains challenging.

At Sovereign, our aim is to identify and then manage risks so that they can be understood, reduced, mitigated, transferred or avoided. This requires a proactive approach to risk management and an effective organisation-wide risk management framework.

Our overall risk management process is overseen by the Board through the Audit and Risk Committee.

We recognise that risk management is the responsibility of everyone within the organisation. Rather than being a separate standalone process, we consider risk management an integrated part of our business and decision-making process.

Sovereign's risk management objectives:

- At a strategic level, we're focusing on the identification and management of material risks in order to better equip ourselves to pursue the organisation's strategic business objectives. In pursuing growth opportunities, Sovereign aims to optimise risk/return decisions whilst establishing strong and independent review and challenge processes.
- At an operational level, Sovereign aims to identify, assess, evaluate and mitigate operational risks to create safe, healthy, efficient and environmentally-friendly places for our employees and residents.

Risk appetite and risk profiling criteria

Sovereign's risk appetite represents the amount of risk as an organisation we are willing to take in pursuit of the achievement of our strategic and business objectives.

We are therefore only willing to accept the level of risk that fits our strategy, that's in line with our values and can be understood and managed. We will not expose the organisation to any risk that we believe could have a severe impact on our customers, our employees or our business.

We are continually reviewing our risk management processes and procedures. This year's in-depth review included a review of risk culture. An action plan has subsequently been developed and approved, to enable us to make continuous improvements on the way we manage risk. Our risk management process identifies the following as the most significant material risks for the organisation.

Top strategic risks and response - as at March 2017

The risk	Response/comment
Detrimental impact on income streams due to changes in the rent policy environment and other government initiatives.	We manage and mitigate the impact of such changes by improving our operating efficiencies, reviewing service delivery and looking for other income streams. As part of the business planning process, we run stress tests against further negative outcomes.
Welfare benefit reform changes impact on rental income streams.	We work with residents to keep them informed of changes and help them access support and benefits. We assist with moves to more affordable accommodation and will help with training and employment opportunities. We continually monitor arrears and have an active management process.
Significant rise in pension costs and liabilities.	Risks include increased pension costs arising from low investment returns and increasing longevity along with deficit crystallisation risks in closed schemes. Mitigation is through closure of schemes to new members and future accrual, long-term business planning and negotiations over longer-term funding requirements.
Financial exposure to sales.	Open market and shared ownership sales present exposure to the cyclical housing market. This is mitigated through financial limits on sales, responding to market intelligence and ensuring our liquidity policy can cope with a severe market downturn.
Negative media attention leading to adverse reputation.	Media relationships are carefully managed by the Communications team, with guidance in place for employees and designated and trained spokespeople. This is supported by regular contact with operational leads across the business and the maintenance of a reputational risk log. Our social media policy clearly identifies accountability and actions to minimise risk, including monitoring tools and a proactive social media team in the Contact Centre.
Failure to deliver and maintain business applications, systems and IT working practices, which meet the needs of the business.	Significant investment in core IT infrastructure is in place to ensure our employees are equipped with the most appropriate tools to work effectively, and customers can be served both face-to-face and electronically. We're working hard to migrate to one system solutions across our merged IT architecture.
Failure to prevent an IT security breach causing data loss and/or system failure.	Sovereign handles large volumes of data, some of which is confidential or sensitive. Our data protection policies and procedures and IT security, including cyber risk controls, are part of our management measures. We're also working towards the new General Data Protection Regulations that will come in to force in May 2018.
Leaders and managers fail to effectively manage their teams and people through change.	Merger has brought significant change to the business which is being managed through an organisational culture and harmonisation programme. Our performance monitoring, training and development support and employee engagement are all being updated for the new organisation.
Failure to recognise safeguarding issues for vulnerable residents or those at risk of abuse, harm or neglect.	We've established a policy and regularly reviewed procedures for Careline, in line with industry guidelines. Our business-wide Safeguarding core group sets strategic direction, shapes policy, process and guidance for the business.
Failure to take full advantage of the recent Sovereign/Spectrum merger and manage the integration process, placing Sovereign at risk.	A dedicated Merger Integration Board oversees the strategic projects in relation to our new organisation including future vision, operating model, business cases and delivery plans. Projects cover housing (including residents), property, IT and support functions.
Failure to attract, recruit and retain high calibre employees within the agreed manpower budget.	The harmonisation project is currently reviewing employee Terms and Conditions to ensure that we are an organisation that employees want to stay in, and that attracts new employees through its positive reputation.

The risk	Response/comment
Failure to identify and respond to external change (PESTLE), particularly in respect of government policy.	The Executive Board and the Strategy team monitor changes externally and are active on a number of government working parties. This gives Sovereign influence, early warning, and insight into potential changes that may impact us and the housing sector generally.
A reconstituted Board, Executive Board and a new Chair could result in ineffective leadership and control at a point of significant change.	There have been frequent opportunities for the Board and Executive Board to get to know each other, develop a shared vision for the business and ensure an effective working relationship. Ongoing training plans ensure knowledge continues to be developed.
Regulatory risk, including legal compliance.	We have a robust process of governance and compliance supported by external advice where necessary. An internal assurance process supported by Internal Audit provides the Board with adequate assurance.

Emerging risks

We are always scanning the horizon for any new or emerging risks that may have a positive or detrimental impact on the business.

Most recently we have been paying close to attention to cyber-attacks taking place across a range of sectors. We regularly review and update the security of our systems to make sure we're protected against such attacks. Should these systems be breached however, we have recovery plans in place.

We have a safety culture and work closely with local fire services to ensure our residents and their homes are safe. However, following the tragic fire at Grenfell Tower in London we undertook a detailed review of all our taller buildings. The review provided assurance of the level of compliance and control Sovereign have across this important area of resident safety.

We provide a range of homes, and extra support if it's needed, to help residents, like Ted and Maureen, live happy, independent lives

Value for money

Even though the merger has taken considerable time and resources, Sovereign has maintained its focus on ensuring that it delivers significant efficiency savings and continues to improve on its value for money delivery. This has been achieved against a back drop of decreasing social rents, welfare reform impacts and a growing development programme.

A value for money business

Value for money is a key focus for Sovereign's Board and Executive Board and was a significant driver in the decision to merge. As a single organisation we are stronger; our increased scale means we can deliver greater efficiencies and we are more resilient for the future.

As a business we are continuously striving to improve the way we work so we can provide better services to our residents and build increasing numbers of affordable homes in our core operating area. Value for money is central to this and underpins our strategy.

Prior to merger, both Boards had set ambitious five-year efficiency targets to meet the challenges of our changing policy environments. These targets combined were to deliver £24m of saving to annual costs over five years from 2015/16; we have delivered £21.5m at the end of 2016/17, of which £17.8m was in the year.

Post-merger, the Board has set a new savings target to reduce our costs by a further £10m a year. These targets have been consolidated with the pre-merger savings targets and built into our financial plans.

Our approach to value for money

As a social landlord we have a responsibility to take a balanced view of value for money that considers performance and investment through three lenses:

- **Financial value:** The value to Sovereign. This could be savings, through efficiencies or increased income, or delivering more with the same resource.
- **Resident value:** The value for our residents. This could be direct savings, or similarly reducing their dependency on benefits.
- **Social value:** The value to the wider society and the economy. This could be savings to the public purse or benefits to the community and local environment.

We are committed to our social purpose and are confident we can meet our savings targets while continuing to have a positive impact on our residents and our social value.

Our assets provide the foundation for our success. These include the homes our residents live in, the people who work hard so we can achieve our strategic goals, and our infrastructure, which enables us to efficiently provide services and run the business.

By ensuring we manage our assets effectively and efficiently, we enable **operational excellence**, which means we are providing great services to our residents, and have the financial strength to build more homes.

£21.5m
saved over just
2 years

Our homes

We take a strategic approach to managing our homes to make sure we're consistent in our investment decisions.

The basis of this approach is having a clear understanding of the performance of our assets from a financial, resident and social perspective, and using this information to make the right investment choice to improve the overall value.

All of our assets are held on our Geographic Information System (GIS). Using GIS, we can see at a glance the location of our assets and information such as tenure, Net Present Value (NPV) of the rent and NPV of major repairs. In the future, we will also be able to see property level detail on maintenance spend thanks to the implementation of our property maintenance system (SPINE).

This gives us a good picture of the financial value of a home by showing the projected income stream against costs. To support analysis, we also consider local information, such as the condition of the property and any neighbourhood issues, as well as what sort of housing the local area needs.

This insight is vital for our Asset Management Review Group (AMRG), which is responsible for investment decisions on our assets. The AMRG meet regularly to review issues raised by the business about the performance of our assets. The group evaluate each issue on merit using a consistent options appraisal and try to come up with imaginative solutions, before looking at more traditional asset management options, such as change of use, refurbishment or redevelopment. There's also the option of disposal, but for properties in our core geography this is always a last resort.

As well as reacting to queries, the group also looks strategically; one of our key current projects involves using GIS to look at underutilised land across our geography to see if there are opportunities to create more value. We're also looking at land holdings with local authorities in our key operating areas to see if there are opportunities to combine land to provide affordable housing – an example of this is a new development at May Street in Basingstoke.

Our people

We want new Sovereign to be a great place to work. Prior to the merger, both organisations held the Investors in People gold standard, which measures an organisation's ability and commitment to lead, support and improve its people. Post-merger, we've retained this standard and are working on an action plan to improve on this moving forward.

We have agreed a new HR strategy which focuses on engagement and creating the right culture and behaviours to deliver fantastic customer service. Our newly created employee-led forums will ensure that employees have real input into the future of the business.

We are currently reviewing our reward offer across the business to ensure we have an attractive and flexible package for new and existing employees whilst remaining affordable for the business. We have recently been recognised as one of the best in-house recruitment services by winning best newcomer at the In-house Recruitment Awards.

Growing our own

We continue to focus on 'growing our own'. 27% of roles were filled internally across the company in the last financial year.

We recruited nine apprentices and converted three into permanent roles in this financial year with more planned for the future. Recruiting apprentices and trainees continues to be a great way for Sovereign to create a pipeline of valuable skills and knowledge and grow our own talent for the future. Sovereign's programme won West Berkshire Training Consortium's (WBTC) 'Certificate of Excellence' award for the fourth year running.

Employee development

We have designed and delivered a new approach to employee development which has provided a significant cost saving while providing more focused, higher quality development opportunities for our employees.

- Training is primarily delivered in-house, utilising our internal skills and saving on external suppliers.
- Training is more workplace based and involves learning the skills to do the job rather than abstract classroom learning.
- Delivery of programmes tailored to the organisation, with a current focus on supporting our people through change as a result of the merger.

Engaged employees

As an organisation that recognises the importance of having an engaged workforce and cares about how employees feel about working at Sovereign, we have introduced a new way of measuring employee engagement. We have replaced the traditional annual survey with pulse surveys to provide us with a more frequent temperature gauge of how engaged our employees are. This is run in-house, reducing costs and allowing us to respond more promptly to feedback.

We recently asked employees how likely they would be to recommend Sovereign as a great place to work to give us an indication of how our employees were feeling during merger. We achieved an average score of 6/10 with many comments relating to the uncertainty and change associated with the merger. We would of course like this score to be higher and are acting upon this feedback. This will also be the first area of focus for our new joint employee forum.

Our infrastructure

Our infrastructure is the systems and processes we have in place to allow our people to deliver great services to our residents.

Prior to merger, both organisations were investing in infrastructure to deliver long-term efficiencies by improving the way we work and interact with our residents. Some examples of projects that were delivered in 2016/17 are as follows:

Project	Benefit
SPINE is the new property services system used for legacy Sovereign homes. SPINE delivers a faster process for appointments; easier access to information for residents and internal teams; and smarter job scheduling and stock management so that we can complete more jobs at the first visit. The system has been rolled out from June 2016 and has had a measurable impact.	Since go-live, the first time fix rate is 93.9% - a 13.9% improvement. Operatives are averaging 4.0 jobs per day, compared with 3.4 prior to roll out. Resident satisfaction with repairs has increased from 88% to 93%. This has led to an estimated annual saving of £590k.
We are testing the effectiveness of a revolutionary housing management approach in Berkshire, through a Patchless Working project. Instead of the traditional 'patch', housing officers are scheduled work based on availability and appropriate skills. Patchless Working is underpinned by a CRM system to ensure that all the information needed on each case is available at housing officers' fingertips.	Fair and even workloads for housing officers. Getting the right people to support our residents as quickly and efficiently as possible. More efficient working - reduced travel times and less bureaucracy.
We have developed a solution to introduce the use of text messaging throughout the lettings process. This move is saving us time and money, and is helping us to deliver a great customer experience.	Since launching in October 2016, the new approach has saved the business nearly £6k on printing and postage. Lettings-related calls have reduced by 53%, because residents know what's next in the process.
As part of our digital strategy we are making core services, such as rent payment and repairs reporting, more effective and well-used online. We're also moving our communications to employees and residents online as the default option while enabling more effective online and home working to release pressure on offices and depots.	Given the timing of the merger, 2016/17 was about finalising strands of this project. Mobile CRM fully functional – employees able to respond at source. Completed automation of Aids and Adaptations, Mutual Exchanges and Fixed-term tenancy processes. Embedded text solution for the Voids process.

Future plans

Since the merger, we've been working on integrating our systems as well as exciting plans to further modernise our services. Our Merger Integration Board with members of our Executive Board and senior operational leaders will oversee integration and modernisation projects, and make sure the business cases deliver value for money.

Integrating systems

We commissioned PriceWaterhouseCoopers to carry out an IT options review to make sure we develop systems suitable for the technology landscape of the new organisation. We've decided on the systems we'll be using and have a roadmap for integration. We've already made considerable progress.

Modernising our services

We have ambitious plans to enhance and modernise our service to make sure that:

- Residents can make payments, report repairs and track progress at the click of a button via an online portal.
- Our customers have an improved experience when they call us through the implementation of a business-wide contact centre platform.
- Our systems are connected and all information is available to our frontline employees.

Work is underway across all of these projects with the ambition to launch the enhanced online portal in September 2017.

Procurement

Value for money across the full life cycle of a contract continues to be at the forefront of Procurement's strategy. Post-merger, focus was initially on developing a detailed understanding of Sovereign's contractual position and future combined requirement for goods, services and works across the organisation. These reviews have established a procurement pipeline of projects which will deliver future value for money benefits.

The team continue to support contract management activities to ensure that tender driven savings are realised and contracts work effectively. Supplier relationship and contract management is a key driver to delivering additional savings as well as cost avoidance for Sovereign and our residents. It complements direct procurement savings and contributes to the corporate savings target.

Notable in-year projects have included tenders for Building Materials and Contractors, Lift Maintenance Services, Communal Cleaning, Utilities, Vehicles leasing and Agency, contributing to £3m of contract savings for the merged organisation.

In 2016, we achieved an internationally recognised standard for the effectiveness and efficiency of our supply chain, systems and processes. The Chartered Institute for Procurement and Supply (CIPS) carried out an in-depth assessment of how we work and awarded us the top Corporate Certification Standard.

We're building 210 quality homes at Victory Oak, a redevelopment of a hospital site in the New Forest, for outright sale, affordable rent and shared ownership.

Operational excellence

Our key measures show that we have sustained an excellent operational and financial performance through the merger

We monitor our performance closely to ensure we are improving and identifying where performance is not at the level we'd expect. We have strategic performance reports that are scrutinised at Board and Executive Board level, and more detailed operational management information that tracks our performance over time.

Relet times for **social** rented homes

18.14 days

Our **gas** servicing is **100%** compliant

Only **0.62%** loss of rent through **voids**

Sector leading **1.93%** current tenant **arrears** for social homes

The strong financial performance is demonstrated with our cost per unit (CPU) indicator showing an improvement of 11%, from £3,420 to £3,049. This equates to an overall saving of £18.9m.The breakdown of this movement is as follows:

Cost per unit (CPU)	Sovereign 2017	Sovereign 2016	Peer group 2016	Sector benchmark 2016
Management CPU	1,110	1,238	916	1,036
Service charge CPU	274	298	527	529
Maintenance CPU	942	967	1,180	998
Major repairs CPU	690	899	807	876
Other social housing CPU	34	18	643	520
Social housing CPU total	**3,049**	**3,420**	4,073	3,959
Units managed (for calculations)	50,853	49,651		

Our peer group is made up of ten housing associations with similar characteristics, such as size, operating area and rating agency profiles. These are A2Dominion, Affinity Sutton, AmicusHorizon, Family Mosaic, London & Quadrant, Metropolitan, Midland Heart, Notting Hill, Sanctuary, and Southern. Sector benchmark is HCA Global Accounts data.

Management

Our CPU for management has fallen by £128 from £1,238 to £1,110. This results in an overall saving of £6.5m. This follows a number of improvements to the way we work across our front and back office teams, alongside early merger savings. We recognise there is still some work to do to bring the costs down towards the levels of our benchmark group, but our cost savings work is taking us in the right direction, and we expect further improvements as we start to realise the full benefits of the merger and modernising our services.

Maintenance

Our CPU for maintenance has fallen by £25 from £967 to £942. This results in an overall saving of £1.3m and the foundations are in place for more substantial future savings.

- Optimisation programme: a key element to delivering the Property vision has been the investment in developing front line managers. By providing them with a number of tailored tools and techniques and by helping them create and embed a culture of optimisation they now know their homes, know their people and know their numbers. This, alongside investment in technology to support an optimised service, has created not just financial savings but better outcomes for residents.
- Project Hampshire: we've insourced responsive repairs from MITIE to a new local Sovereign Response team. The project delivered new resources, technology and infrastructure to form a new team delivering responsive repairs to customers throughout the Hampshire region.

We have been in-sourcing other property services to our Spectrum Property Care (SPC) and Sovereign Response teams so that we will provide all repairs, gas servicing and voids work to all of our homes, offering a consistent service for all our residents as well as bringing down costs. From April 2017, Sovereign Response will take over voids work in Hampshire and SPC will provide routine maintenance and gas servicing in Devon. These changes are expected to save the business around £2m over the next five years.

Major repairs

Our CPU for major repairs has fallen by £209 from £899 to £690. This £10.6m net reduction is a combination of the following:

- Exploiting Sovereign's economies of scale, and the development of our new procurement wave plan, has delivered greater supplier efficiency, particularly in the area of framework contractors.
- The natural lifecycle for the replacement of prime components, such as heating and kitchens, informs a rolling programme that can result in some annual fluctuation in demand.

Other social housing costs

Our CPU in this area has increased from £18 to £34, although this is considerably less than the £643 per unit of our peer group.

What this means

Our high performing assets and operational excellence means we can deliver our other two strategic goals, great customer experience and sustainable growth.

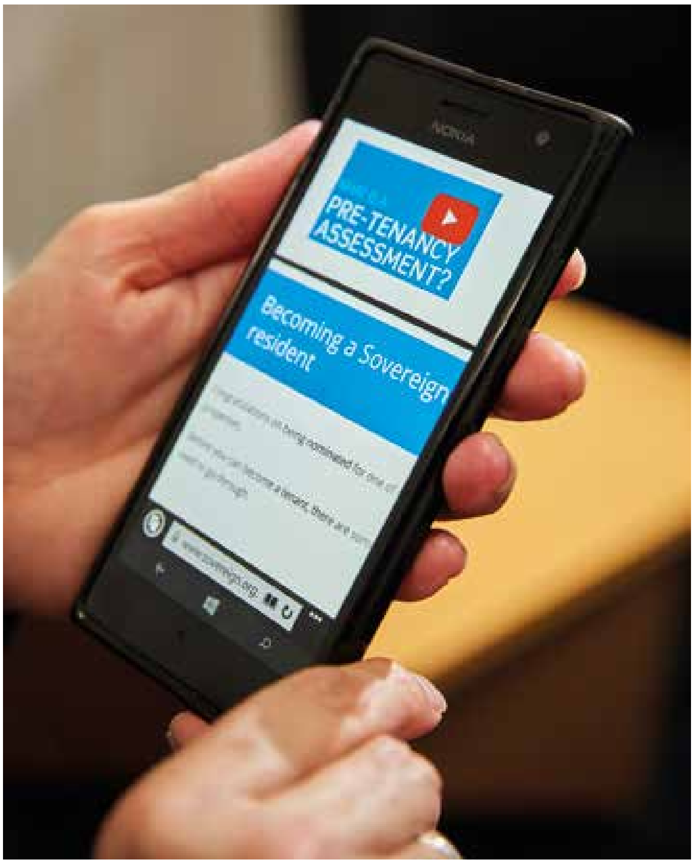
£2m saved by taking responsibility for all repairs, gas servicing and voids work

for all our

56,000

homes

Customer experience



£127.6m
in social value delivered last year

One of our strategic goals is to provide great customer experience. We've shown that we're modernising our services to make us more responsive and better equipped to deal with issues first time. We're also investing in our priority communities, and targeting employment and training initiatives to help residents sustain their tenancies.

Community investment

Sovereign is committed to working with existing and new communities to ensure they are places where residents feel safe, supported and able to maximise their potential. Our dedicated Communities team works with residents, groups, and partners, delivering key operational objectives. As well as being the right thing to do, this also contributes to the value for money agenda, as those residents we support represent a risk to rental income if they are unable to achieve employment.

The team has had another positive year, working with our residents. Key outcomes include:

- 498 residents engaged with the employment and training service
- 113 residents were supported into work or a better job
  - 85 residents into work following a period of unemployment
  - 28 residents working with a low income have been supported into better work
- Adult skills courses are being delivered in every priority community
- 218 participants in our priority communities met an education or skills goal
- Working with money partners, 391 residents have been supported with specialist debt advice
- Our resident-led Community Forums have made 21 grants to wider community-based groups and projects with a value of £35,987
- 19 Action for Neighbourhoods or other estate improvement works were supported plus seven Tenant and Residents Associations

Customer satisfaction

A measure of our success in this area is customer satisfaction. There has been a clear improvement in satisfaction across the indicators which, coupled with the savings we have made, highlights our excellent operating performance in the year.

Resident satisfaction	2017	2016
New home	**98.3%**	96.2%
Mutual exchange	**96.6%**	90.9%
Repairs	**93.2%**	88.4%
ASB service	**85.4%**	79.4%
Complaints	**70.8%**	66.3%

Measuring the social value of our homes

We're working on a new methodology to measure the social value of our homes. By providing homes at sub-market rents to our residents, they benefit. This benefit can be calculated by using a simple, repeatable calculation with readily available data. We can use this data to track our social value over time, and therefore see if we're delivering on our strategic goal to protect our social rented homes.

The value is calculated using the difference between the rent our resident pays and what they would either pay on the open market, if they are not on housing benefit, or what they would pay at Local Housing Allowance levels if they are. If we calculate this for all our residents, we get the total social value of providing sub-market rent.

The headline numbers are pretty impressive. In 2016, we delivered £127.6m in social value.

Because of rising prices, this was up £5.9m since 2015. On average, each of our homes achieved £2,919 in social value, an increase of £70 since 2015.

Building new homes

Building new homes is central to our strategy. We know that every new home we deliver generates significant value for money:

- New homes increase our income potential and our asset value.
- Residents benefit from paying sub-market rents.
- Building homes also generates social value; the capital investment stimulates the economy by providing jobs. New homes are generally more energy efficient and provide environmental benefits. We provide homes at subsidised rents, which reduces pressure on the Housing Benefit bill.
- There's also significant resident value that's less easy to quantify; for example, the wellbeing that comes from having a new home to live in, more security for families, and the benefits of a more energy efficient home.

Our financial strength enables our ambitious development plans. We've recorded a strong surplus, which we'll reinvest in homes. This surplus also reassures our lenders and helps us borrow at very competitive rates; this borrowing is vital as we invest significantly more than our surplus each year in our development programmes.

In 2017 we delivered 1,225 new homes in a difficult market constrained by land and labour shortages. Of these, 739 were at sub-market rents and 387 were for shared ownership, demonstrating Sovereign's commitment to delivering affordable homes for people across a range of incomes.

We also developed nine homes through Joint Ventures, collaborating to share expertise and risk, and we will continue to pursue partnerships where they add value.

Looking forward, we're aiming to develop around 1,500 new homes a year, providing a full range of tenure options for people in housing need.

We will be publishing our comprehensive Value for Money Self-Assessment on our website in September at **www.sovereign.org.uk**

Taking care of our homes

Our Sovereign Response and Spectrum Property Care teams now take care of repairs, gas servicing and voids work for every one of our 56,000 homes.

Taking control of these services means we can create jobs, be responsible for providing a great customer experience and we'll save money too, which we can reinvest in homes and services.

The Board's report

Sovereign is a Registered Society under the Co-operative and Community Benefit Societies Act 2014, and is a registered provider of social housing of which our primary business is the provision of housing at below market rates.

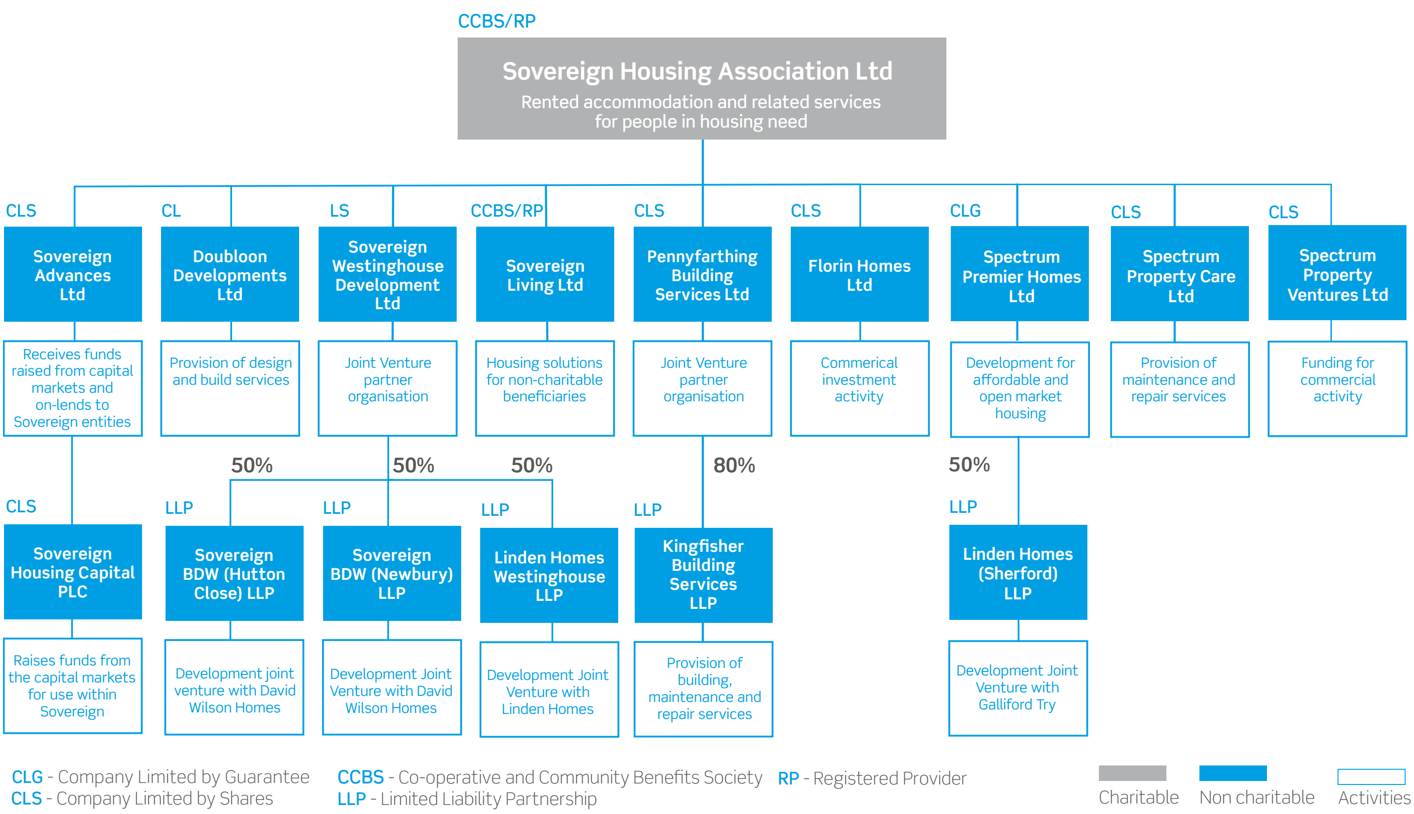
The Board presents its report and audited financial statements for the year ended 31 March 2017. The Board believes that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook. As a consequence the Board has a reasonable expectation that the Group has adequate resources to continue to adopt the going concern basis in preparing the annual financial statements.

Group structure

Sovereign Housing Association Limited (7448) was formed on the amalgamation of SHA 2016 Limited (26480R – formerly known as Sovereign Housing Association) and Spectrum Housing Group Limited (32020R). This was an amalgamation pursuant to section 109 of the Co-operative and Community Benefit Societies Act 2014 without the dissolution or division of funds of either society. Under section 109(3) there was a statutory vesting of the property of each of the predecessor societies which occurred as part of the amalgamation. This includes all of the property, rights and liabilities of the predecessor societies including taxation rights and liabilities.

As a result of the amalgamation the predecessor societies only exist and operate as part of the amalgamated Sovereign Housing Association Limited (7448). They have not traded independently since 11 November 2016.

The main trading activities are undertaken by Sovereign Housing Association Limited, the 'parent', with the Group structure and purpose of the subsidiaries as shown below, excluding dormant and non-trading subsidiaries.



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Principal valuers
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Principal solicitors
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EC1Y 8YZ

Board members as of July 2017

Gordon Holdcroft (Chair) Joined 2010 and appointed Chair July 2017
Former Chief Executive of Basingstoke and Deane Borough Council, with extensive experience in both the public and private sectors at Board level.

Barbara Anderson (Chair of Audit and Risk Committee) Joined 2014
An experienced non-executive director and committee chair with a background in investment management and specific expertise in growth strategy and marketing, financial and investment planning and stakeholder communications.

Lee Bambridge (Chair of Treasury Committee) Joined 2013
Finance Director of Newbury Building Society since July 2007. Lee is a chartered accountant and corporate treasurer. He previously worked in the aerospace industry.

Simon Lindley (Chair of Spectrum Property Care) Joined 2013
Consultant to various financial institutions such as banks, insurers, stock exchanges, clearing houses and pension funds in the UK, Europe, Africa, Asia and the USA. Currently holds a variety of non-executive positions.

Christine Turner (Chair of Remuneration Committee) Joined 2010
Christine has over 35 years' experience in senior executive and non-executive roles in the social housing sector, including as board chair, a group deputy CEO in a top 20 housing association and as a consultant to a major private sector developer. Christine champions customer involvement and standards of service as well as the role of housing to support social regeneration.

Elizabeth Sabey (Resident Board member) Joined 2008
Elizabeth, who founded and managed a catering company, has significant experience as a housing association Board member. Chair of a variety of resident-led involvement and scrutiny groups. Elizabeth is passionate about value for money and ensuring Sovereign provides the most effective and efficient service to its residents.

Claire O'Shaughnessy Joined 2015
Claire helped set up the Homes and Communities Agency before leading many of its major land, regeneration and investment programmes from 2008 to 2014. Claire brings experience from the Defence Infrastructure Organisation and Deloitte Real Estate as a director in real estate consulting.

Jennifer Dykes (Resident Board member) Joined 2016
A former NHS manager, Jennifer has been a social housing resident for more than 40 years. Her focus is on ensuring Sovereign remains a strong organisation, committed to maintaining high standards of service and providing housing for those in need.

Stuart Laird (Chair of Development Committee) Joined 2014
A senior executive with a proven track record in facilities management and outsourcing markets, Stuart has experience in leading on property acquisitions and disposals.

Ann Santry CBE (Chief Executive) Joined 1999
Executive member of the Board and on the Executive Board. Ann is Chair of the Consortium of Associations in the South East (CASE) and a non-executive director of the States of Jersey Development Company.

Richard Hill (Deputy Chief Executive) Joined 2013
Former Chief Executive of Spectrum Housing Group and former Deputy Chief Executive and Director of Programmes at the Homes and Communities Agency, where he had responsibility for investment of £5bn annually. Having secured a chief executive role with One Housing Group, Richard resigned from the Sovereign Board with effect from 31 August 2017.

Mark Hattersley (Chief Financial Officer) Joined 2015
Sovereign's Chief Financial Officer, Mark brings experience from both commercial and charitable sectors as a former finance director of Birmingham Airport and Staffordshire University.

Katarzyna Vandermesh joins the Resident and Board Partnership as part of our new approach to resident involvement.

Board responsibilities and governance

Governance framework

As well as a broad range of skills and experience, the Board's decisions are informed by the expertise and scrutiny from its supporting committee structure. In the future this will be enhanced by the challenge and insights from its resident engagement structure; linking most closely with the Resident and Board Partnership.

Prior to merger, both Sovereign and Spectrum had effective and well-established resident scrutiny structures, based on an organisation-wide scrutiny group, regional forums and specialist panels. While both approaches worked well, the merger provided the opportunity to review the approach.

A joint review process, involving engaged residents from both organisations and facilitated by an independent adviser, was undertaken to develop new structures suitable for the new business. Working with engaged residents we have designed three strands of resident engagement around partnership, scrutiny, and supporting our local communities.

Resident and Board Partnership: we are committed to residents working collaboratively with the Board. The partnership gives residents the opportunity to influence strategies, policies and service standards, as well as monitoring and reviewing the quality and performance of services. This group will meet around six times a year, matching the Board meetings.

Scrutiny Coordination Group: we are committed to good quality services and great customer experiences, embedding and making scrutiny a valued tool in Sovereign. This group will agree, co-ordinate and commission service reviews over a rolling 18-month programme.

Sovereign communities: we are committed to supporting strong and resilient communities. This group is all about local voices, visibility and engagement in the many communities where we have homes.

The Board and the committees are governed and supported by Sovereign's rules, standing orders and financial regulations that provide a formal, structured framework for decision-making. These rules are constantly reviewed and regularly updated.

The committees cover Audit and Risk, Remuneration, Development and Treasury, as well as the Board of Spectrum Property Care - bringing together Board members, resident Board members and independent experts with specific skills to focus on key aspects of the business.

Sovereign recognises excellence in governance as a priority to its continuing success. We're committed to maintaining the highest standards of governance, accountability and probity, and we seek to comply fully with our adopted Code of Governance, that of the National Housing Federation (NHF) (2015).

The Code aims to support federation members in excellence at governing their organisations and being accountable to their stakeholders: shareholders, residents and the sector regulator, the Homes and Communities Agency (HCA). The NHF Code of Conduct (2012) has been adopted as the basis for Sovereign's Code of Conduct, as it aims to make sure that registered providers, and their subsidiaries, maintain high standards of conduct in their role in delivering affordable homes, neighbourhoods and services to their customers.

This governance structure is supported by a comprehensive internal audit function and regulatory framework process. The Executive Board is responsible for the day-to-day implementation of Sovereign's strategy.

A strong and effective organisation

The Board's focus in 2016/17 since amalgamation has been to oversee the integration of the two organisations, while continuing to oversee the delivery of sustained operational performance. Activity has centred on the merger integration plan and the delivery of efficiencies, while maintaining business as usual.

The economic, regulatory and political environment presents ongoing operational challenges to housing associations, their residents and partners. Some of the challenges and risks include welfare reform, the introduction of Universal Credit, the introduction of a rent cap, and low inflation. This supports the need for a responsive and experienced Board that is committed to continuous development.

The Board undertakes annual performance reviews, however, during 2016/17 the individual review was focused on recruitment for the new organisation facilitated by an independent organisation. All members of the Board of both former organisations were eligible to apply for the new Board; unless at the end of their maximum term. The exercise saw five members from legacy Sovereign and four members from Spectrum coming together. The new Board was completed by the appointment of an independent Chair and three executive members; two from Sovereign and one from Spectrum.

The new Board has demonstrated its strategic contribution as well as meeting residents, employees and senior management. We recognise that Sovereign needs to constantly review the skills and expertise required for the future with new and existing members, including bringing a broad range of commercial and sector knowledge to bear.

The appointment of all Board members was, and will continue to be, conducted in line with our Board membership and remuneration policy, which sets out the process and selection criteria. In order to attract the best candidates, the Remuneration Committee reviews the skills required. New members will be selected and interviewed by a panel, including the Chair and other Board members, with oversight by the Remuneration Committee.

There was full attendance at Board meetings by non-executive directors since the new organisation was formed in November 2016. All Committee meetings have been quorate.

Corporate governance statement

A gap analysis was undertaken in March 2017, and an action plan to address any gaps was put in place and monitored by the Remuneration Committee. The concluding report was presented to the Committee in July 2017 declaring compliance, with one exception which is explained below. The report was forwarded to the Board on the Committee's recommendation.

We were compliant with the NHF code during the year, except for exceeding the best practice recommendation of a maximum of 12 Board members for a period of time to manage succession. The Board reduced to 12 members in June 2017 and will remain at this size from now on.

All required disclosures have been made, and registers have been maintained regarding gifts and hospitality accepted and given by Board members and employees.

The Board has assessed its compliance against its adopted Code of Governance and is satisfied that the effectiveness of the organisation's governance is enhanced by its policies and procedures.

In addition, Sovereign has achieved a number of governance landmarks, including adopting the NHF Merger Code and developing a new regulatory compliance framework, which is monitored by the Audit and Risk Committee. The framework allows the organisation to self-assess and provide evidence to demonstrate its compliance with the Regulatory Standards and identifies any gaps which can then be addressed.

The self-assessment was presented to the Audit and Risk Committee in July, which demonstrated compliance.

Compliance with the Homes and Communities Agency Governance and Financial Viability Standard

The Board of Sovereign has carefully considered the requirements of the regulatory standards and has robustly assessed and taken assurance of Sovereign's compliance with them during the year. On this basis, the Board certifies that Sovereign Housing Association has complied in all material aspects with the HCA's regulatory standards during the reporting period ended 31 March 2017.

We review our performance with our shareholders each year at the Annual General Meeting. This year the meeting will be held at the Holiday Inn in Winchester at 6pm on 14 September 2017.

Regulatory performance

The HCA published a revised regulatory judgement of the merged organisation in January 2017, confirming unchanged governance and financial viability assessments of G1 and V1. This confirmed that Sovereign meets the requirements on governance and viability set out in the Governance and Financial Viability Standards and maintained the highest of the four available grades.

Equality and diversity

People are the most important asset of any business. The Board recognises the importance of being an employer of choice by attracting and retaining the right skills and the best minds. We also recognise there is a clear link between diversity, inclusion and successful organisational performance.

We constantly review our approach to equality and diversity. We have set up Sovereign's Equality and Diversity Forum which takes an overview on equality, diversity and inclusion (ED&I) issues relating to employees, customers, partners and contractors.

The Forum demonstrates the business benefits and opportunities ED&I provides through delivery of our Sovereign Mosaic strategy and action plan; and ensures the organisation meets its legal and regulatory requirements by advancing equality of opportunity, ensuring the services we provide are fair and accessible to everyone and helping to eliminate unlawful discrimination and foster good relations in the workplace and in the communities we serve.

While our residents are predominantly white British (87%), we do provide services in some diverse towns and cities such as Bristol. Just 11% of our residents are over 65, with our most typical residents being young families, with over half (54%) under the age of 34.

Sovereign has a good balance of men and women across the business (47% female, 53% male), which is replicated at Board and Executive Board level. 91% of our employees are white British while our workforce is well balanced across age ranges 24-34 (21%), 35-44 (23%) and 45-54 (28%). Where there is an imbalance, whether that's ethnicity, age or gender, we work hard to create opportunities to redress the situation. This includes our successful 'women in trades' and apprenticeship programmes.

Health and safety

Both former organisations had a good health and safety track record which has continued in the new business. We continue to strive to create a working environment that's safe and comfortable, and protects our employees, visitors, contractors, residents and members of the public from harm. There are robust controls and systems in place, including accredited training for employees and management, as well as a culture of learning. Our approach has been recognised in various areas of the business over the years with Gold and Silver Awards by the Royal Society for Prevention of Accidents for both fleet and health and safety.

Spectrum Property Care (SPC) was awarded a ROSPA Gold Medal award for five consecutive years. This shows our continued commitment to health and safety.

Additionally, our property services department obtained ISO9001:2008 Quality Management accreditation after successfully demonstrating a consistently good quality service. This standard shows the strong commitment to customer focus and a desire to continually improve as a department.

In light of the Grenfell Tower tragedy in June, Sovereign have reviewed all medium and high rise properties to confirm the specification of any cladding material and the general construction detail of the buildings. Although Sovereign have no properties with external cladding of a similar type to that installed at Grenfell Tower, a rigorous inspection has been carried out in conjunction with local Fire Authorities to check Fire Risk Assessments and confirm general fire safety systems all comply with current regulations. The safety of all residents is Sovereign's primary responsibility, and we continue to review systems and processes to ensure maximum compliance at all times.

Accident rates

We're now reporting employee accident rates for the combined Sovereign business. All of which have remained low for the past three years.

Employees	2014	2015	2016
RIDDOR	12	15	12
Total accidents	253	266	199
Accident incidence per employee	0.13	0.13	0.10

ISO 9001 and 14001

SPC is updating its existing ISO standards to the new 2015 standards and completion is forecast in 2017 as programmed. The senior managers at SPC are aware of the new requirements for involvement in order for re-accreditation in October 2017.

SPC has been re-certified to the Microgeneration Certification Scheme (MCS) as an installer for Photo Voltaic and Heat Source systems, and achieved PAS 2030 standard for the installation of Energy Efficiency Measures (EEM) under government sponsored schemes such as ECO (Energy Company Obligations).

We monitor compliance and performance, which is reported to the Strategic Health and Safety Committee, chaired by the Chief Executive, and reviewed by the Board on a six-monthly basis. An Operational Safety and Risk Committee, attended by management and employee safety champions, reviews operational risks and controls at a local level.

Appointment of the external auditor

It's Sovereign's policy to retender the external audit every seven years. The current external auditor KPMG LLP won the competitive tender process in 2010. As the incumbent provider was the Auditor for both former organisations, the contract has been extended for one year to provide stability and advice through the merger of accounting practices, policies and systems. The contract will be retendered during 2017/18 for appointment at the AGM in 2018.

A resolution to reappoint KPMG as Sovereign's auditor will be proposed at the 2017 Annual General Meeting.

The Committees

An experienced and robust committee structure ensures the Board has the necessary insight, challenge and assurance to make the best decisions

Our Committees include Board members as well as independent experts, who bring an external view and specialist skills.

This year the committees of the former organisations supported the due diligence process, the outcome of which is being overseen and monitored by the newly formed committees.

Audit and Risk Committee

The Audit and Risk Committee (ARC) oversees internal control and risk management procedures as well as reviewing the financial and value for money statements. The Committee provides challenge and scrutiny, ensuring fair and balanced financial management, and a risk profile that is managed in accordance with our strategy and risk appetite.

The Committee includes three non-Executive Board members and an independent non-Executive member. The nine-year term of the current independent member is about to expire and so we're recruiting a replacement who can provide additional financial skills to the Committee. The Committee meets at least four times a year and regularly reviews its policies, its effectiveness and ensures its work plan is in line with its delegations from the Board and its terms of reference.

Chair's review

"The Committee met in shadow form prior to the completion of the merger to ensure the ARC work plan and policies were in place for the new organisation. Regular meetings have been held since the merger in accordance with the forward plan, reporting and audit cycle.

"The Committee has retained the existing external auditors of both former organisations, KPMG LLP, for a further year to ensure continuity following the merger. There will be a tender process to select new auditors thereafter.

"Internal audit is managed with a combined internal and external team, and the internal audit plan has been agreed by the Committee and reported to Board. The effectiveness of these arrangements will be monitored on an ongoing basis.

"A new Director of Governance and Risk has been recruited to further professionalise these activities and instil best practice for the larger organisation.

"A significant piece of work has been undertaken to assimilate the Assets and Liabilities Register with the Committee reviewing progress of this at regular intervals to ensure it suits the needs of the business and meets the HCA's regulatory requirements.

"Sovereign has a robust risk management and internal controls framework monitored by the Committee on behalf of the organisation throughout the coming year."

Barbara Anderson, Chair

Treasury Committee

The Treasury Committee oversees Sovereign's treasury and funding activities, ensuring sufficient facilities are available to support the agreed strategy, and providing challenge and scrutiny of the treasury strategy, and level and nature of risks. The key treasury risks overseen by the committee are liquidity, interest rates, covenant compliance, security levels, counterparty and re-financing risk. The Committee also considers the treasury-related business planning assumptions and stress-testing.

The Committee includes three non-Executive Board members, an independent non-Executive member and the Chief Financial Officer, supported by independent treasury consultants. The Committee met in shadow form prior to the completion of the merger to ensure a treasury plan and policies were in place for the new organisation.

Chair's review

"Sovereign enjoys a strong financial position, while also being a leading developer of new homes. Following the merger, our Standard and Poor's rating stands at A+ and our Moody's rating has been confirmed at A1.

"Our liquidity position remains strong, with new facilities totalling £305m having been arranged during the year with Affordable Housing Finance and the European Investment Bank in order to support the development programme.

"The merged organisation remains one of the highest-rated associations in our sector, and making sure Sovereign retains this strength and remains well-funded will continue to be our focus through the next year."

Lee Bambridge, Chair

Remuneration Committee

The Remuneration Committees reviews the HR Strategy and all HR and governance related policies that have a significant implication or risk to Sovereign. The Committee considers issues relating to the contracts of employment for the Executive Board together with strategic issues relating to the compensation and benefit packages for employees. The Committee also has responsibility for overseeing the recruitment, induction and training of all Board and Committee members.

The Committee includes three non-Executive Board members together with two independent non-Executive members. The Executive Director for People and Change and the Company Secretary support the Committee. The new Committee met in shadow form prior to the merger to ensure a smooth handover and key policies were in place for the new organisation.

Chair's review

"Our people are our most valuable assets and the Committee played a crucial role in ensuring a smooth transition as the two businesses, employees and culture came together last year.

"Looking forward, it is critical we provide an attractive package to attract and retain the best people to deliver our services and run our business.

"Therefore, as well as ensuring robust succession plans are in place, our major focus will be harmonising the terms and conditions for the new organisation as well as updating our pension strategy and people strategy."

Christine Turner, Chair

The Development Committee

The new Development Committee oversees Sovereign's development programme. The Committee reviews progress and performance on current developments and Joint Ventures, approves new development schemes and the investment required as well as considering strategic development initiatives such as private rent.

The Committee includes three non-Executive Board directors and two independent non-Executives, both of whom are development consultants. The Committee is also attended by the Chief Financial Officer and the Executive Director for Development and Commercial.

Chair's review

"The new Sovereign had the strength and capacity to increase its development programme, building the homes our communities need. Given this focus and importance, we formed a development committee.

"We review the development strategy as well as making sure individual schemes are financially robust and meet Sovereign's strategic objectives.

"As we realise the benefits of the merger, the Committee will provide constructive challenge and advice as Sovereign delivers its ambitious development targets in the coming years."

Stuart Laird, Chair

Spectrum Property Care Board

Spectrum Property Care is a wholly owned subsidiary of Sovereign Housing Association providing a quality maintenance and repair service to Sovereign residents and commercial customers.

Following merger, the Board was refreshed and now includes three Sovereign Board members and two independent non-Executive Directors with appropriate industry experience. The Board is supported by the Executive Director for Property Services and the Chief Financial Officer.

The Board ensures the company provides an efficient, effective and fully compliant repairs and maintenance service and approves new contracts with external clients, in line with delegations set by the Sovereign Board.

Chair's review

"SPC ended the year with sales below budget and profit above budget, while customer satisfaction exceeded expectations. As a result, there will be a record level of Gift Aid returned to Sovereign.

"Merger integration has started well and is on track to deliver. The new property operations framework sets out the strategic intention to develop a new and innovative delivery model for repairs and maintenance across Sovereign.

"The framework builds on the best elements of both former delivery models, focusing on their specific strengths to deliver a quality and value for money repairs and maintenance service well into the 2020s."

Simon Lindley, Chair

The Executive Board

Sovereign's leadership and management structures provide the expertise and framework to achieve our strategic objectives

The Executive Board works to protect and grow the business, while overseeing our performance as we build and provide great homes and offer a great customer experience.

The Executive Board includes six directors, in addition to the Chief Executive. The Executive Board is supported by the Merger Integration Board and the Strategic Leadership Group, made up of the senior managers from across the business.

Like the Board, the Executive Board is made up from executives from legacy Sovereign and Spectrum who underwent a competitive recruitment process in advance of the amalgamation taking effect.

Ann Santry CBE
Chief Executive

Ann is an experienced housing chief executive, having led Sovereign since 1999. She is Chair of CASE, a lobby group on housing issues in the south east, and a non-Executive Director of the States of Jersey Development Company.

Ann is lead officer for the Executive Board, an executive member of the Sovereign Board and member of the Sovereign Living Board. She is also a Director of Sovereign Advances Ltd, Sovereign Housing Capital PLC, Florin Homes Ltd and Spectrum Property Ventures Ltd.

Richard Hill
Deputy Chief Executive

Richard led Spectrum for three years as chief executive from 2013 before merger. Richard was formerly Deputy Chief Executive and Director of Programmes at the Homes and Communities Agency, where he had responsibility for a range of high profile housing programmes and an investment of £5bn annually.

Richard is an executive member of the Sovereign Board.

Richard secured a chief executive role with One Housing Group and will leave Sovereign on 31 August 2017.

Steve Barford
Executive Director, Property

Steve joined Sovereign in 2001 and was appointed to the Executive Board in March 2015. Steve has extensive experience in construction, the majority of which has been in the private sector, including commercial estates and facilities management with national infrastructure company, Amey PLC.

Steve is also a Director of Pennyfarthing Building Services Ltd, Westworks Procurement Ltd, Spectrum Property Care Ltd and member of the Executive Committee of Kingfisher Building Services LLP.

Heather Bowman
Chief Operating Officer

Heather joined Sovereign in 2001 and has broad experience leading a range of service areas. Formerly Executive Director for Housing and Communities as well as Managing Director for former subsidiary Sovereign South+West, Heather is a member of both the National Housing Federation's South East Standing Board and the Voluntary Right to Buy Sounding Board.

Heather is lead officer for the Resident and Board Partnership and a Director of Doubloon Developments Ltd.

Mark Hattersley
Chief Financial Officer

Mark has previous experience as a Finance Director at Birmingham Airport and at Staffordshire University. He joined Sovereign in 2015 and his portfolio covers IT, Treasury, Governance and Risk, Legal Services, as well as Finance.

Mark is an executive member of the Sovereign Board, member of the Sovereign Living Board and lead officer for Treasury Committee and Audit and Risk Committee. He is also a Director of Doubloon Developments Ltd, Florin Homes Ltd, Sovereign Advances Ltd, Sovereign Housing Capital PLC, Sovereign Westinghouse Development Ltd, Spectrum Property Ventures Ltd, Spectrum Property Care Ltd and Spectrum Premier Homes Ltd. Mark is a member of the Executive Committees of Linden Homes (Sherford) LLP, Sovereign BDW (Hutton Close) LLP and Sovereign BDW (Newbury) LLP.

Phil Stephens
Executive Director
Development and Commercial

Phil joined Sovereign in 2004 and has extensive experience of delivering major development programmes across both affordable and private sectors. Formerly Regional Director for Willmott Dixon, Phil has been on the Board of the Housing Forum since 2014.

Phil is a member of the Sovereign Living Board, Director of Florin Homes Ltd, Sovereign Westinghouse Development Ltd and Spectrum Premier Homes Ltd. He is also a member of the Executive Committees of Linden Homes (Sherford) LLP, Sovereign BDW (Newbury) LLP, Sovereign BDW (Hutton Close) LLP, Linden Homes Westinghouse LLP and Kier Sovereign LLP.

Anne Wildeman
Executive Director
People and Change

A qualified coach and transformational change practitioner, Anne has over two decades of HR experience within the housing sector. Anne was formerly Group Director of Business Services and HR at Spectrum and has held a number of non-Executive posts including the Give us a Chance consortium and sits on the Isle of Wight Pensions Board.

Anne is lead officer for the Remuneration Committee.

Financial statements

Contents

Statement of Board's responsibilities
in respect of the Board's Report and the financial statements

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

Co-operative and Community Benefit Society law requires the Board to prepare financial statements for each financial year. Under those regulations the Board have elected to prepare the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under law the Board must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the association and of their profit or loss for that period.

In preparing each of the group and association financial statements, the Board is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and association will continue in business.

The Board is responsible for keeping adequate accounting records that are sufficient to show and explain the Association's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. The Board has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the group 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 the association's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to the auditor

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

a) so far as each director is aware, there is no relevant audit information of which the Group's auditor is unaware; and

b) each director has taken all the steps that he ought to have taken in his duty as a director in order to make himself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Internal Control Assurance Statement

The Board has overall responsibility for establishing and maintaining the whole system of internal control and for reviewing its effectiveness.

The Board recognises that no system of internal control can provide absolute assurance or eliminate all risk. The system of internal control is designed to manage risk and to provide reasonable, but not absolute, assurance that key business objectives and expected outcomes will be achieved. It also exists to give reasonable assurance about the preparation and reliability of financial information and the safeguarding of the Association's assets and interests.

Under the governance structure, the Board has set up a specialist Audit and Risk Committee (ARC). All audit and risk matters are managed by ARC on behalf of the Board. In meeting its responsibilities to the Board, ARC has adopted a risk-based approach to internal controls which is embedded within the normal management and governance process. This approach includes the regular evaluation of the nature and extent of risks to which the Association is exposed.

This process adopted by ARC in reviewing the effectiveness of the system of internal control, together with some of the key elements of the control framework includes:

Identification and evaluation of key risks

Management responsibility has been clearly defined for the identification, evaluation and control of significant risks. There is a formal and ongoing process of management review in each area of the significant risks. This process is co-ordinated through a regular reporting framework to ARC and the Board. The Group's Executive Board regularly considers reports on significant risks facing the Group and the Chief Executive, and members of Executive Board are responsible for reporting to ARC and the Board any significant changes affecting key risks.

Monitoring and corrective action

A process of control self-assessment and regular management reporting on control issues provides hierarchical assurance to successive levels of management and to the Board. This includes a rigorous procedure for ensuring that corrective action is taken in relation to any significant control issues, particularly those with a material impact on the financial statements.

The Group continues to maintain a significant development programme. Monitoring and reporting of development activity has been enhanced to ensure the Group remains alert to the potential dangers posed by a much more volatile and difficult external environment.

Control environment and control procedures

The Board retains responsibility for a defined range of issues covering strategic, operational, financial, and compliance issues including treasury strategy and new investment projects. The Board has adopted the National Housing Federation (NHF) Excellence in Governance Code. The Association is fully compliant with the NHF Code except for exceeding the good practice recommendation of a maximum of 12 Board members for a period, but is now compliant. The Association has adopted policies with regard to the quality, integrity and ethics of its employees, with which all employees must comply. These cover issues such as delegated authority, segregation of duties, accounting, treasury management, health and safety, data and asset protection and fraud prevention and detection. The Board has adopted the NHF Code of Conduct 2012 which ensures high standards of business conduct.

The Group has three other specialist committees in addition to the Audit and Risk Committee; the Remuneration Committee, which deals with personnel, terms and conditions and matters of governance; the Development Committee, which review the viability of development schemes for the provision of new homes; and the Treasury Committee which approves and administers the Treasury Policy and ensures the most efficient and effective funding for the Group.

Information and financial reporting systems

Financial reporting procedures include detailed budgets for the year ahead and forecasts for subsequent years. These are reviewed and approved by the Board. The Board also regularly reviews key performance indicators to assess progress towards the achievement of key business objectives, targets and outcomes. The internal control framework and the risk management process are subject to regular review by the Business Assurance Team who are responsible for providing independent assurance to the Board via ARC. An annual internal audit programme appropriate to the size and complexity of the Association is set each year and ARC considers internal audit reports at each of its meetings during the year.

The Board has received an annual report from the Association's Executive Board and ARC confirming they have reviewed the effectiveness of the system of internal control throughout this year and have taken account of any changes needed to maintain the effectiveness of the risk management and control processes.

This Strategic Report, Board Report and the Statement of Board's Responsibilities were approved on 20 July 2017 and signed on its behalf by order of the Board:

Claire McKenna, Company Secretary

Independent auditor's report

To the members of Sovereign Housing Association

We have audited the financial statements of Sovereign Housing Association for the year ended 31 March 2017 set out on pages 52 to 104. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the association in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014 and section 128 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to the association those matters we are required to state to it 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 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 49, 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 the association as at 31 March 2017 and of the income and expenditure of the group and the association for the year then ended;
- comply with the requirements of the Co-operative and Community Benefit Societies Act 2014; and
- have been properly prepared in accordance with the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Co-operative and Community Benefit Societies Act 2014 requires us to report to you if, in our opinion:

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

Harry Mears (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Gateway House
Tollgate
Chandlers Ford
SO53 3TG

25 July 2017

Consolidated Statement of Total Comprehensive Income
For year ended 31 March 2017

	Note	2017 £'000	2016 £'000
Turnover	3	**371,581**	353,331
Cost of sales	3	**(42,151)**	(34,774)
Operating expenditure	3	**(193,519)**	(211,045)
Operating surplus	3, 6	**135,911**	**107,512**
Gain on disposal of property, plant and equipment	7	**11,998**	3,271
Loss on disposal of subsidiary		**-**	(254)
Share of operating surplus in joint ventures		**281**	771
Interest receivable and similar income	8	**1,164**	1,281
Interest and financing costs	9	**(64,264)**	(66,574)
Movement in fair value of financial instruments		**(637)**	(713)
Movement in fair value of investment properties	10	**4,831**	3,357
Decrease in valuation of property, plant and equipment	14, 15	**(200)**	(178)
Surplus before tax		**89,084**	**48,473**
Taxation	11	**(50)**	(255)
Non-controlling interest		**(292)**	(292)
Surplus for the year		**88,742**	**47,926**
Unrealised deficit on revaluation of freehold offices and commercial buildings	15	**-**	(566)
Actuarial (loss)/gain in respect of pension schemes	30	**(6,180)**	4,760
Changes in fair value of hedged financial instruments	31	**4,489**	(10,287)
Total comprehensive income for the year		**87,051**	**41,833**

All the amounts above relate to continuing activities.

Association Statement of Total Comprehensive Income
For year ended 31 March 2017

	Note	2017 £'000	2016 £'000
Turnover	3	**349,446**	330,884
Cost of sales	3	**(34,511)**	(24,995)
Operating expenditure	3	**(183,540)**	(203,427)
Operating surplus	3, 6	**131,395**	**102,462**
Gift aid		**5,523**	8,333
Gain on disposal of property, plant and equipment	7	**11,788**	4,091
Interest receivable	8	**2,806**	3,017
Interest and financing costs	9	**(65,228)**	(60,386)
Movement in fair value of financial instruments		**(637)**	(713)
Movement in fair value of investment properties	10	**4,016**	1,864
Decrease in valuation of property, plant and equipment	14, 15	**(200)**	(178)
Surplus before tax		**89,463**	**58,490**
Taxation	11	**-**	-
Surplus for the year		**89,463**	**58,490**
Unrealised deficit on revaluation of freehold offices and commercial buildings	15	**-**	(566)
Actuarial (loss)/gain in respect of pension schemes	30	**(6,180)**	4,760
Changes in fair value of hedged financial instruments	31	**4,489**	(10,287)
Total comprehensive income for the year		**87,772**	**52,397**

All the amounts above relate to continuing activities.

Consolidated Statement of Financial Position
As at 31 March 2017

	Note	**2017 £'000**	2016 £'000
Fixed assets			
Property, plant and equipment – housing	14	**3,376,717**	3,258,231
Property, plant and equipment – other	15	**39,488**	40,852
Investment properties	17	**124,180**	121,070
Investments – HomeBuy loans receivable	18	**12,810**	13,391
Investments in Joint Ventures		**(1,193)**	(621)
Financial assets	19	**8,596**	7,718
		3,560,598	**3,440,641**
Current assets			
Stock	21	**45,445**	28,231
Debtors	22	**35,924**	30,481
Financial assets (short term)	23	**31,176**	30,814
Cash and cash equivalents	24	**13,987**	33,044
		126,532	**122,570**
Creditors: amounts falling due within one year	25	**(98,643)**	(104,303)
Net current assets		**27,889**	**18,267**
Creditors: amounts falling due after more than one year	26	**(2,023,270)**	(1,988,208)
Provisions for liabilities			
- Pension	30	**(34,147)**	(27,566)
- Other	28	**(1,888)**	(1,003)
Total net assets		**1,529,182**	**1,442,131**
Capital and reserves			
Called up share capital	32	**-**	-
Income and expenditure reserve		**1,203,388**	1,113,586
Revaluation reserve		**369,804**	377,044
Hedging reserve		**(44,302)**	(48,791)
Non-controlling interest		**292**	292
Total reserves		**1,529,182**	**1,442,131**

The financial statements were approved by the Board on 20 July 2017 and were signed on its behalf by:

Gordon Holdcroft	Ann Santry	Claire McKenna
Gordon Holdcroft	Ann Santry	Claire McKenna
Chair	Chief Executive	Secretary

Association Statement of Financial Position
As at 31 March 2017

	Note	2017 £'000	2016 £'000
Fixed assets			
Property, plant and equipment – housing	14	**3,381,345**	3,274,809
Property, plant and equipment – other	15	**38,373**	39,514
Investment properties	17	**89,410**	80,798
Investments – HomeBuy loans receivable	18	**12,810**	13,391
Financial assets	19	**14,890**	14,012
		3,536,828	**3,422,524**
Current assets			
Stocks	21	**31,793**	16,969
Debtors	22	**78,717**	64,795
Financial assets (short term)	23	**31,176**	30,814
Cash and cash equivalents	24	**11,049**	29,560
		152,735	**142,138**
Creditors: amounts falling due within one year	25	**(95,987)**	(101,365)
Net current assets		**56,748**	**40,773**
Creditors: amounts falling due after more than one year	26	**(2,013,685)**	(1,978,634)
Provisions for liabilities			
- Pension	30	**(34,147)**	(27,566)
- Other	28	**(1,819)**	(944)
Total net assets		**1,543,925**	**1,456,153**
Capital and reserves			
Called up share capital	32	**-**	-
Income and expenditure reserve		**1,006,699**	916,176
Revaluation reserve		**581,528**	588,768
Hedging reserve		**(44,302)**	(48,791)
Total reserves		**1,543,925**	**1,456,153**

The financial statements were approved by the Board on 20 July 2017 and were signed on its behalf by:

Gordon Holdcroft	Ann Santry	Claire McKenna
Chair	Chief Executive	Secretary

Consolidated Statement of Changes in Reserves For year ended 31 March 2017

	Income and expenditure reserve £'000	Revaluation reserve £'000	Hedging reserve £'000	**2017 Total excluding non-controlling interest £'000**	Non controlling interest £'000	**2017 Total including non-controlling interest £'000**	2016 Total including non-controlling interest £'000
As at 1 April 2016	1,113,586	377,044	(48,791)	**1,441,839**	292	**1,442,131**	1,399,732
Surplus from statement of comprehensive income	88,742	-	-	**88,742**	292	**89,034**	48,218
Transfer from revaluation reserve to income and expenditure reserve							
- on sale of revalued properties	2,680	(2,680)	-	**-**	-	**-**	-
- depreciation of revalued properties	4,560	(4,560)	-	**-**	-	**-**	-
Actuarial (loss)/gain in respect of pension schemes	(6,180)	-	-	**(6,180)**	-	**(6,180)**	4,760
Movement in fair value of financial derivatives	-	-	4,489	**4,489**	-	**4,489**	(10,287)
Distribution of non-controlling interest reserves in the year	-	-	-	**-**	(292)	**(292)**	(292)
As at 31 March 2017	**1,203,388**	**369,804**	**(44,302)**	**1,528,890**	**292**	**1,529,182**	**1,442,131**

Association Statement of Changes in Reserves For year ended 31 March 2017

	Income and expenditure reserve £'000	Revaluation reserve £'000	Hedging reserve £'000	**2017 Total excluding non-controlling interest £'000**	Non controlling interest £'000	**2017 Total including non-controlling interest £'000**	2016 Total including non-controlling interest £'000
As at 1 April 2016	916,176	588,768	(48,791)	**1,456,153**	-	**1,456,153**	1,403,190
Surplus from statement of comprehensive income	89,463	-	-	**89,463**	-	**89,463**	58,490
Transfer from revaluation reserve to income and expenditure reserve							
- on sale of revalued properties	2,680	(2,680)	-	**-**	-	**-**	-
- Depreciation of revalued properties	4,560	(4,560)	-	**-**	-	**-**	-
Actuarial (loss)/gain in respect of pension schemes	(6,180)	-	-	**(6,180)**	-	**(6,180)**	4,760
Movement in fair value of financial derivatives	-	-	4,489	**4,489**	-	**4,489**	(10,287)
As at 31 March 2017	**1,006,699**	**581,528**	**(44,302)**	**1,543,925**	**-**	**1,543,925**	**1,456,153**

Consolidated Statement of Cash Flows
For year ended 31 March 2017

	Note	2017 £'000	2016 £'000
Net cash generated from operating activities (see below)		**164,325**	**149,964**
Cash flow from investing activities			
Investment in Jointly Controlled Entity		**(6,864)**	(3,093)
Purchase of tangible fixed assets		**(216,883)**	(197,160)
Proceeds from sale of tangible fixed assets		**70,328**	72,236
Grants received		**2,681**	3,674
Interest received		**1,166**	986
Sale of subsidiary undertaking		**-**	2,184
Net cash from investing activities		**(149,572)**	**(121,173)**
Cash flow from financing activities			
Interest paid		**(67,170)**	(69,337)
Investments in UK treasury gilts and collateral deposits		**(895)**	12,185
New secured loans		**149,016**	113,718
Repayment of borrowings		**(114,423)**	(79,712)
Capital element of finance lease rental payments		**24**	29
Withdrawal from deposits		**(362)**	(460)
Net cash used in financing activities		**(33,810)**	**(23,577)**
Net change in cash and cash equivalents		**(19,057)**	**5,214**
Cash and cash equivalents at beginning of the year	24	**33,044**	**27,830**
Cash and cash equivalents at the end of the year	24	**13,987**	**33,044**
Cash flow from operating activities			
Surplus for the year		**88,742**	47,926
Adjustments for non-cash items			
Depreciation of tangible fixed assets		**37,133**	36,904
Increase in stock		**(9,857)**	(3,999)
Decrease in trade and other debtors		**1,641**	4,742
Decrease in trade and other creditors		**(4,261)**	350
Increase in provisions		**885**	832
Pension costs less contributions payable		**(550)**	(1,054)
Carrying amount of tangible fixed asset disposals		**61,870**	54,467
Impairment		**500**	310
Fair value movements in Investment Properties	17	**(4,831)**	(3,357)
Share of operating surplus/(deficit) in associate		**281**	1,392
Adjustments for investing or financing activities			
Proceeds from the sale of tangible fixed assets		**(70,328)**	(54,097)
Interest payable	9	**64,264**	66,574
Interest receivable	8	**(1,164)**	(1,281)
Cash from operations		**164,325**	**149,709**
Corporation tax		**-**	255
Net cash generated from operating activities		**164,325**	**149,964**

Notes to the Financial Statements

For the year ended 31 March 2017

1. Legal Status

Sovereign Housing Association ("The Association") is a not for profit registered provider of social housing and holds charitable status under the Co-operative and Community Benefit Societies Act 2014. The Association is a public benefit entity, an entity whose primary purpose is to provide services for the general public, community or social benefit and where any equity is provided with a view to supporting this objective rather than with a view to providing financial return.

On 11th November 2016 Sovereign Housing Association Limited was formed following the merger of Sovereign Housing Association Limited and Spectrum Housing Group Limited.

2. Principal Accounting Policies

The financial statements have been prepared in accordance Financial Reporting Standard 102 ("FRS 102"), the applicable financial reporting standard in the United Kingdom and Republic of Ireland and the Statement of Recommended Practice 2014 and comply with the Accounting Direction for Private Registered Providers of Social Housing 2015.

(a) Basis of Accounting

The consolidated financial statements are prepared on the historical cost basis of accounting except for the modification to a fair value basis for certain financial instruments and fixed asset investments, and by the annual valuation of freehold commercial properties as specified in the accounting policies below.

The financial statements are prepared under the merger accounting rules detailed in Section 19 of FRS102 for the combination of Sovereign Housing Group Limited and Spectrum Housing Group Limited. Accounting policies have been aligned where they were different between the Associations and these are outlined in the merger note, starting on page 102.

The financial statements are presented in pounds sterling and are rounded to the nearest £1,000.

(b) Exemptions for Qualifying Entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions which have been complied with, including notification of and no objection to, the use of exemptions by the Association's shareholders.

The Association has taken advantage of the exemption to prepare a statement of cash flows, on the basis that it is a qualifying entity and therefore consolidated statement of cash flows, presented in these financial statements, includes the Association's cash flows.

(c) Going Concern

The Association's business activities, together with the factors likely to affect its future development, performance and position are set out in the Report of the Management Board. The Board believes that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook. As a consequence the Board has a reasonable expectation that the Group has adequate resources to continue to adopt the going concern basis in preparing the annual financial statements.

(d) Consolidation

The consolidated financial statements include the parent association and all its subsidiaries. Intra-group surpluses and deficits are eliminated on consolidation.

(e) Turnover

Turnover represents rental and service charge income, fees and revenue based grants receivable from local authorities and from the Homes and Communities Agency (the "HCA"), amortised social housing grant, and the proceeds of first tranche sales of shared ownership properties and open market property sales. These exclude VAT (where applicable).

(f) Cyclical Repairs and Maintenance

The actual costs of cyclical repairs and maintenance are charged to the Income and Expenditure Account as incurred.

(g) Major Repairs

The capitalisation of major repairs follows the methodology of Component Accounting as laid out in the SORP 2014. Under this methodology it is recognised that a housing property will always comprise of several components with substantially different economic lives. Each major component will be accounted for separately and depreciated over its individual economic life.

(h) Provision for Major Repairs

Provision for major repairs is made only where a contractual liability exists. The Board believe that this accounting policy is appropriate commercial practice and complies with guidance given by the National Housing Federation in its Statement of Recommended Practice.

(i) Pension Costs

The Association participates in six multi-employer defined benefit pension schemes contracted out of the State scheme, all of which are now closed to new members.

Where the Association can identify their share of scheme assets and liabilities these are included in the Statement of Financial Position and the expected cost of pensions is charged to the Statement of Total Comprehensive Income so as to spread the cost of pensions over the service lives of the employees.

Pension costs are assessed triennially for each scheme in accordance with the advice of an independent qualified actuary.

Where the Association cannot identify its share of scheme assets and liabilities and the scheme is in deficit, the liability is included in the balance sheet as the discounted cash flow of future deficit catch up payments.

The Association also participates in defined contribution money purchase pension schemes which are open to new members, the details of which are given in note 30. In respect of the defined contribution schemes, employers' contributions are charged to the Statement of Total Comprehensive Income in the year incurred.

(j) Value Added Tax

The group undertakings are registered for Value Added Tax (VAT), but a large proportion of their income, including rents, is exempt for VAT purposes and the majority of its expenditure is subject to VAT which cannot be reclaimed. Expenditure is therefore shown inclusive of VAT. The Group recovers VAT where possible and this is credited against expenditure within the income statement.

(k) Joint Ventures

Joint ventures are contractual arrangements where two or more parties enter into an economic activity that they jointly control. The group has the following type of joint venture:

- Jointly controlled entities – these are joint ventures that involve the establishment of a corporation, partnership or other entity in which each partner has an interest. They are accounted for using the equity method.

(l) Leased Assets

Operating leased assets

Rentals paid under operating leases are charged to the Income and Expenditure Account on an accruals basis.

Finance leased assets

Leasing agreements that transfer to the Group substantially all of the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged to the Income and Expenditure Account in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the lease term.

Lease incentives

Lease incentives are recognised over the lease term on a straight line basis.

(m) Sale of Housing Properties

Sales of housing properties are taken into account on the completion date. Where houses are sold, the surplus or deficit in the Income and Expenditure Account is calculated by comparing sale proceeds and the carrying amount.

Sales of properties originally transferred from local authorities and sold under the right to buy legislation, and sales of shared ownership properties other than the initial tranche, are classified in the Income and Expenditure Account as sales of fixed assets – housing properties.

Due to the nature of the transfer agreements with local authorities it is not possible to identify precisely the historical cost of individual transferred properties. Management's estimate of cost is used to determine the historical cost surplus on sales of these properties.

(n) First Tranche Shared Ownership Sales

Shared ownership sales are treated under the SORP 2014 as follows:

- Shared ownership properties are split proportionally between current and fixed assets based on the first tranche proportion;
- First tranche proportions are shown in current assets prior to sale and on sale the proceeds are shown in turnover;
- The remaining element of the shared ownership property is accounted for as a fixed asset and any subsequent sale is treated as a disposal or part disposal of a fixed asset;
- Any surplus on first tranche shared ownership sales on mixed tenure developments is restricted to the net present value of future cash flows on shared ownership properties.

(o) Depreciation

Freehold land is not depreciated. Depreciation is charged so as to write down the cost of freehold properties other than freehold land to their estimated residual value on a straight line basis over their estimated useful economic lives at the following annual rates:

Housing properties	120 years
Kitchens	23-25 years
Bathrooms	25-30 years
Windows	25-30 years
Heating systems	30-40 years
Roofs	56-60 years

These components have been determined as the areas where most expenditure on replacement will occur during the lifetime of a property and which are integral to its continued effective use. The useful economic lives are based on historical data on the life span of previous installations of each type of component.

Depreciation is charged on a straight line basis over the expected useful economic lives of the other fixed assets at the following annual rates:

Office furniture and equipment	10-30% on cost
Computer equipment	20-50% on cost
Motor vehicles	over life of hire purchase contract or 20% per annum straight line
Leasehold premises	over life of lease
Leasehold Office Improvements	10% per annum straight line
Freehold offices	1% on cost
Scheme furniture and equipment	10-33.3% per annum straight line
Scheme Lifts	3.33-6.67% per annum straight line

(p) Property, Plant and Equipment

Property, plant and equipment is stated at cost or deemed cost valuation (as part of the FRS102 transition, taken at 1st April 2014) less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bring the asset to its working condition for its intended use, and borrowing costs capitalised.

The valuation as at 31 March 2014 on which the carrying values of housing properties was taken for deemed cost valuations was based on Existing Use Value – Social Housing. The aggregate surplus or deficit on revaluation is the difference between the valuation and the costs of the property less depreciation. The aggregate surplus or deficit on revaluation is included in a revaluation reserve, to the extent that any deficit does not exceed the surplus. Not all properties are included in this valuation and these have always been held at historic cost.

Housing properties developed on behalf of other housing associations are stated at cost less Social Housing Grant if applicable and are treated as current assets rather than fixed assets in line with the SORP 2014.

Housing properties in the course of construction, excluding the proportion of costs related to first tranche sales of shared ownership property are stated at cost and are transferred into housing properties when completed. Development costs include the cost of acquiring land and buildings, the valuation of contracted works to date, and acquisition and development costs including directly attributable internal costs. Interest payable is capitalised by applying the Association's cost of borrowing to expenditure during the construction of the property up to the date of practical completion.

Recoverability of properties constructed for outright sale is measured by reviewing the current net present value against the original appraisal. Allocation of costs for mixed tenure developments are based on a metre square calculation of the entire scheme for the different tenure types.

Purchases from other Housing Associations are included at fair value, measured as the purchase price. Social housing grant relating to the properties purchased is disclosed as a contingent liability within property plant and equipment.

Office buildings are held at original cost less accumulated depreciation and accumulated impairment losses.

Commercial buildings are held at valuation based on the rental yield in the relevant geographical location of each property. Valuations are carried out annually.

Plant and equipment is capitalised at cost and depreciated in line with the depreciation policy of the Association.

(q) Impairment

At each reporting date fixed assets that are held at cost are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in the Statement of Total Comprehensive Income.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the Statement of Total Comprehensive Income. Indicators considered which may give rise to impairment include government policy announcements, significant declines in future cash flows and physical evidence of obsolescence or damage.

Impairment reviews are carried out for all properties where the scheme appraisal has worsened since approved by the Board in accordance with the SORP 2014.

(r) Investment Properties

The Group holds properties for the purpose of investment gains with a view to a future sale rather than pure rental returns and categorises these as investment properties. Investment properties are initially recognised at cost and subsequently held at valuation. Valuations are performed annually by a professional valuer and are at open market value. Any gains or losses arising from changes in the fair value are recognised in the Statement of Total Comprehensive Income in the period in which they arise. Depreciation is not provided in respect of freehold and long leasehold investment properties. Investment properties held on a short term lease are reported at fair value and depreciated over the remaining life of the lease.

(s) HomeBuy Loans and Grants
HomeBuy loans to individuals are considered to be a public benefit entity concessionary loan and are accounted for in accordance with paragraphs PBE34.90 to PBE34.97 of FRS 102. Initial recognition is at the amount paid to the purchaser. Subsequent value is the loan value adjusted for any accrued interest less any impairment loss. If a HomeBuy loan is considered irrecoverable, an impairment loss is recognised in the Income Statement.

HomeBuy grants are accounted for as grant received in advance and are recognised as deferred income in the Statement of Financial Position until the point that the related HomeBuy loan is redeemed.

Other housing grants are receivable from local authorities and other organisations. Capital grants are utilised to reduce the capital costs of housing properties, including land costs. Grants in respect of revenue expenditure are credited to the income statement in the same period as the expenditure to which they relate. Other housing grants are repayable under certain circumstances, primarily following the sale of a property, but will normally be restricted to net proceeds of sale.

(t) Current Assets
Stocks of consumables are stated at the lower of cost and net realisable value.

A proportion of shared ownership properties costs relevant to the planned first tranche sale proportion are held as current assets. These are shown split between completed properties unsold at 31 March and those still under construction.

Properties being developed for outright sale and completed but yet to be sold are shown as current assets. These are shown split between completed properties unsold at 31 March and those still under construction.

(u) Social Housing Grant
Social Housing Grant is accounted for using the accrual method of accounting for government grant and any new grant received or receivable is included in creditors. The grant is amortised in line with the depreciation policy for Housing Properties. If Social Housing Grant is received in advance of related expenditure on housing construction, it is shown as a current liability. Social Housing Grant on sold property is usually transferred to the Recycled Capital Grant Fund to be used to finance future development. Social Housing Grant is repayable under certain circumstances.

(v) Disposal Proceeds Fund
The Group is required to credit a Disposal Proceeds Fund with the net proceeds of "Right to Acquire" Sales. Net proceeds comprise the sales proceeds and grant towards the discount, less permitted deductions. The purpose of the fund is to provide replacement properties for rent, at no greater cost than properties provided through the approved development programme. If unused within a three year period it may be repayable to The Homes and Communities Agency with interest. The development programme of the Group is such that the Disposal Proceeds Fund is likely to be used before it becomes repayable.

(w) Provisions
Provisions are included when there is a probable, but uncertain, economic obligation. Any provisions included are expected to cover the future liability and are recognised within the Statement of Financial Position.

Holiday pay accrual
A liability is recognised to the extent of any unused holiday entitlement which has accrued at the reporting date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the reporting date.

(x) Contingencies
Contingent liabilities are not recognised but are disclosed in the notes to the accounts, including those relating to grants transferred with stock swap properties. Contingent liabilities arise as a result of past events when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Group's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote. Contingent assets are not recognised but are disclosed in the notes to the accounts. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable.

(y) Mortgages
Mortgage loans are advanced by banks or building societies under the terms of individual mortgage deeds in respect of each property or housing scheme. Loan finance issue costs are off-set against the gross proceeds of the loan. Loans are accounted for in the statement of financial position at transaction price and subsequently at amortised cost using the effective interest method.

(z) Revaluation Reserve
The revaluation reserve represents the difference between the deemed cost of housing properties (see 2(p)) and the historic cost, net of depreciation.

(aa) Basic Financial Instruments
Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition both are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Rental arrears payment plans are determined as financing arrangements and are discounted at a rate management believes is appropriate for the level of risk involved in recovery of tenant arrears.

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Investments in subsidiaries and jointly controlled entities are carried at cost less impairment.

Cash and cash equivalents comprise cash balances and instant access deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

(bb) Other Financial Instruments
Financial instruments not considered to be basic financial instruments are defined as other financial instruments. Other financial instruments are recognised at fair value with subsequent changes recognised in the surplus of deficit for the year except hedging instruments in a designated hedging relationship shall be recognised as set out below:

Derivative financial instruments and hedging
Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised in the surplus of deficit for the year. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged. The Association includes derivatives in its financial statements which qualify for cash flow hedge accounting.

Cash flow hedges
Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised in other comprehensive income. Any ineffective portion of the hedge is recognised immediately in the surplus of deficit in the year.

For cash flow hedges, where the forecast transactions resulted in the recognition of a non-financial asset or non-financial liability, the hedging gain or loss recognised in other comprehensive income is included in the initial cost or other carrying amount of the asset or liability. Alternatively, when the hedged item is recognised in the Statement of Total Comprehensive Income, the hedging gain or loss is reclassified to the surplus of deficit in the year.

When a hedging instrument expires or is sold, terminated or exercised, or the entity discontinues designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the Statement of Total Comprehensive Income immediately.

(cc) Taxation
Corporation tax is provided on the taxable profits of each member of the Group at the current rate. Deferred taxation would normally be recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, when transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. However, deferred tax assets and liabilities are not recognised as the Group has a policy of eliminating taxable profits by making Gift Aid payments and therefore no asset or liability is likely to arise.

3. Turnover, Operating Costs and Operating Surplus by Class of Business

Group	Note	Turnover £'000	Cost of sales £'000	Operating costs £'000	**2017 Operating surplus £'000**	2016 Operating surplus £'000
Income and expenditure from social housing lettings						
Housing accommodation		280,505	-	(168,418)	**112,087**	101,014
Shared ownership accommodation		16,505	-	(8,613)	**7,892**	3,616
	4	**297,010**	**-**	**(177,031)**	**119,979**	**104,630**
Other social housing income and expenditure						
External income generated from development services		231	-	(221)	**10**	(7)
Community investment		-	-	(1,360)	**(1,360)**	(2,425)
Other		2,665	-	(498)	**2,167**	2,383
		2,896	**-**	**(2,079)**	**817**	**(49)**
Development for sale						
Shared ownership first tranche sales		41,974	(34,511)	(214)	**7,249**	3,039
		41,974	**(34,511)**	**(214)**	**7,249**	**3,039**
Total social housing activities		**341,880**	**(34,511)**	**(179,324)**	**128,045**	**107,620**
Non-social housing activities						
Market rented and commercial properties		9,021	-	(3,632)	**5,389**	3,196
Outright sales		9,053	(7,640)	-	**1,413**	999
Other		11,627	-	(10,563)	**1,064**	(1,861)
Discontinued activities		-	-	-	**-**	(2,442)
		29,701	**(7,640)**	**(14,195)**	**7,866**	**(108)**
Total		**371,581**	**(42,151)**	**(193,519)**	**135,911**	**107,512**

Discontinued operations represent the activities of Signpost Homes Limited which was sold on 15 February 2016.

3. Turnover, Operating Costs and Operating Surplus by Class of Business (continued)

Association	Note	Turnover £'000	Cost of sales £'000	Operating costs £'000	**2017 Operating surplus £'000**	2016 Operating surplus £'000
Income and expenditure from social housing lettings						
Housing accommodation		280,485	-	(169,100)	**111,385**	99,625
Shared ownership accommodation		16,505	-	(8,602)	**7,903**	3,553
	4	**296,990**	**-**	**(177,702)**	**119,288**	**103,178**
Other social housing income and expenditure						
Income from Group undertakings		2,043	-	-	**2,043**	2,587
External income generated from development services		231	-	(221)	**10**	(7)
Community investment		-	-	(1,360)	**(1,360)**	(2,425)
Other		1,217	-	-	**1,217**	1,359
		3,491	**-**	**(1,581)**	**1,910**	**1,514**
Development for sale						
Shared ownership first tranche sales		41,974	(34,511)	(214)	**7,249**	2,789
		41,974	**(34,511)**	**(214)**	**7,249**	**2,789**
Total social housing activities		**342,455**	**(34,511)**	**(179,497)**	**128,447**	**107,481**
Non-social housing activities						
Market rented and commercial properties		6,947	-	(3,187)	**3,760**	1,616
Other		44	-	(856)	**(812)**	(6,635)
		6,991	**-**	**(4,043)**	**2,948**	**(5,019)**
Total		**349,446**	**(34,511)**	**(183,540)**	**131,395**	**102,462**

4. Income and Expenditure from Social Housing Lettings

Group	General needs £'000	Shared ownership £'000	Supported housing £'000	**2017 Total £'000**	2016 Total £'000
Rent receivable net of identifiable service charges	261,592	14,158	2,872	**278,622**	273,877
Service charges	11,937	2,347	830	**15,114**	14,243
Supporting people block subsidy	103	-	566	**669**	1,020
Amortised government grant	2,605	-	-	**2,605**	2,780
Turnover from social housing lettings	**276,237**	**16,505**	**4,268**	**297,010**	**291,920**
Management	(48,542)	(6,773)	(1,129)	**(56,444)**	(61,455)
Service costs	(11,972)	(1,670)	(278)	**(13,920)**	(14,807)
Routine maintenance	(36,122)	-	(737)	**(36,859)**	(34,050)
Planned maintenance	(10,811)	-	(221)	**(11,032)**	(13,973)
Major repairs expenditure	(21,496)	-	(439)	**(21,935)**	(25,997)
Bad debts	(1,221)	(170)	(28)	**(1,419)**	(898)
Depreciation of housing property	(34,429)	-	(703)	**(35,132)**	(36,103)
Other costs	(284)	-	(6)	**(290)**	(7)
Operating costs on social housing activities	**(164,877)**	**(8,613)**	**(3,541)**	**(177,031)**	**(187,290)**
Operating surplus on social housing activities	**111,360**	**7,892**	**727**	**119,979**	**104,630**
Rent receivable is net of void losses of	1,253	85	366	**1,704**	3,649

4. Income and Expenditure from Social Housing Lettings (continued)

Association	General needs £'000	Shared ownership £'000	Supported housing £'000	**2017 Total £'000**	2016 Total £'000
Rent receivable net of identifiable service charges	261,572	14,158	2,872	**278,602**	273,927
Service charges	11,937	2,347	830	**15,114**	14,243
Supporting people block subsidy	103	-	566	**669**	1,020
Amortised government grant	2,605	-	-	**2,605**	2,780
Turnover from social housing lettings	**276,217**	**16,505**	**4,268**	**296,990**	**291,970**
Management	(48,455)	(6,761)	(1,127)	**(56,343)**	(62,009)
Service costs	(11,972)	(1,670)	(278)	**(13,920)**	(14,807)
Routine maintenance	(36,879)	-	(753)	**(37,632)**	(35,009)
Planned maintenance	(10,811)	-	(221)	**(11,032)**	(13,973)
Major repairs expenditure	(21,496)	-	(439)	**(21,935)**	(25,997)
Bad debts	(1,224)	(171)	(28)	**(1,423)**	(898)
Depreciation of housing property	(34,429)	-	(703)	**(35,132)**	(36,099)
Other costs	(279)	-	(6)	**(285)**	-
Operating costs on social housing activities	**(165,545)**	**(8,602)**	**(3,555)**	**(177,702)**	**(188,792)**
Operating surplus on social housing lettings	**110,672**	**7,903**	**713**	**119,288**	**103,178**

Rent receivable is net of void losses of	1,253	85	366	**1,704**	3,649

5. Number of Units in Management

	Group		Association	
	2017 Units	2016 Units	**2017 Units**	2016 Units
Owned and managed				
General needs	**39,903**	39,210	**39,900**	39,207
Shared ownership	**5,357**	5,105	**5,357**	5,105
Housing for older people	**4,041**	4,088	**4,041**	4,088
Supported	**920**	864	**920**	864
Non-social	**1,424**	1,518	**1,292**	1,386
Other	**1,686**	1,550	**1,686**	1,550
Managed not owned				
Owned by an external company	**632**	384	**632**	384
Total in management	**53,963**	**52,719**	**53,828**	**52,584**
Owned and not managed				
Managed by third parties	**463**	442	**453**	432
Freehold/Long leasehold (incl. Right to Buy leasehold)	**1,365**	1,592	**1,365**	1,592
Total owned not managed	**1,828**	**2,034**	**1,818**	**2,024**
Total owned or managed	**55,791**	**54,753**	**55,646**	**54,608**

6. Operating Surplus

Operating surplus is stated after charging/(crediting)	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Depreciation				
- housing properties	**33,449**	33,375	**33,445**	33,371
- other owned assets	**3,684**	3,529	**3,291**	3,238
Impairment				
- housing properties	**500**	-	**500**	-
- other owned assets	**-**	178	**-**	178
Rentals payable				
- plant, vehicles and machinery	**1,898**	2,127	**1,540**	1,054
- other assets	**270**	259	**238**	227
- operating leases	**164**	225	**164**	225
Auditor's remuneration				
- in their capacity as auditors	**174**	176	**130**	132
- in respect of tax advice	**61**	47	**22**	28
- in respect of other work	**46**	44	**36**	44

7. Income from Sale of Housing Properties and Other Fixed Assets

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Proceeds from house sales	**72,052**	18,953	**72,051**	19,498
Cost of sales	**(66,024)**	(16,625)	**(66,233)**	(16,418)
Depreciation	**6,061**	1,140	**6,061**	1,208
Selling expenses	**(91)**	(197)	**(91)**	(197)
Net surplus	**11,998**	**3,271**	**11,788**	**4,091**

8. Interest Receivable and Similar Income

	Group		Association	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
On investments	**89**	89	**89**	89
On deposits	**1,092**	1,209	**601**	1,380
In respect of intra-group loans	**-**	-	**2,133**	1,565
Interest receivable	**1,181**	**1,298**	**2,823**	**3,034**
Amortisation of investment to nominal value	**(17)**	(17)	**(17)**	(17)
Interest receivable and similar income	**1,164**	**1,281**	**2,806**	**3,017**

9. Interest and Financing Costs

	Group		Association	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
In respect of loans				
Loans and bank overdrafts - continuing operations	**(53,000)**	(53,582)	**(31,654)**	(32,305)
On hedging arrangements	**(8,373)**	(8,055)	**(8,373)**	(8,055)
Loan and hedge break costs	**(5,268)**	(7,404)	**(5,268)**	-
In respect of other Group undertakings	**-**	-	**(21,936)**	(21,936)
Recycled capital grant fund	**(70)**	(93)	**(70)**	(93)
Finance leases	**(253)**	(251)	**(253)**	(251)
	(66,964)	**(69,385)**	**(67,554)**	**(62,640)**
Less interest capitalised	**4,252**	4,409	**3,878**	3,852
	(62,712)	**(64,976)**	**(63,676)**	**(58,788)**
Unwind discounted cash flows	**(601)**	(605)	**(601)**	(605)
Other finance costs on pensions	**(951)**	(993)	**(951)**	(993)
Interest and financing costs	**(64,264)**	**(66,574)**	**(65,228)**	**(60,386)**

Interest is capitalised on active development schemes at 4% - 5% (2016: 4% - 5%).

As the sole purpose of the hedging arrangements is to reduce interest payable on the bank loans, hedging interest receivable is shown offsetting interest payable.

10. Movement in Fair Value of Investment Properties

		Group		Association	
	Note	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000
Fair value increase in investment properties	17	**4,831**	3,357	**4,016**	1,864
Fair value adjustments		**4,831**	**3,357**	**4,016**	**1,864**

11. Taxation

Sovereign Housing Association is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the charity is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part 11 Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

11. Taxation (continued)

	Group		Association	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
UK Corporation tax				
Current tax on income for the period	**360**	333	**-**	-
Prior year released	**(315)**	-	**-**	-
Adjustment in respect of prior periods	**31**	(31)	**-**	-
Total current tax	**76**	**302**	**-**	**-**
Tax on profit on ordinary activities	**76**	**302**	**-**	**-**

Factors affecting the tax charge for the current period:
The current tax charge for the year is lower (2016: lower) than the standard rate of corporation tax in the UK of 20% (2016: 20%). The differences are explained below:

	Group		Association	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Current tax reconciliation				
Profit on ordinary activities before tax	**89,084**	48,473	**89,463**	58,490
Profit chargeable to corporation tax	**89,084**	48,473	**89,463**	58,490
Current tax at 20% (2016: 20%)	**17,817**	9,695	**17,893**	11,698
Effects of:				
Profits not within the scope of taxation due to charitable status	**(17,457)**	(9,391)	**(17,893)**	(11,698)
Other timing differences	**(315)**	27	**-**	-
Prior year adjustment	**31**	-	**-**	-
Adjustment to tax charge in respect of previous periods	**(26)**	(76)	**-**	-
Total current tax charge for the year	**50**	**255**	**-**	**-**
Current tax (see above)	**76**	302	**-**	-
Deferred tax	**(26)**	(47)	**-**	-
Tax charge for the year	**50**	**255**	**-**	**-**

12. Board Members and Executive Officers

The Board Members are defined as the members of the Parent Management Board.

In accordance with the 'Excellence in Governance Code for Members of the NHF', set out below is the level of payments made to the Chair and individual board members of the Sovereign Board and its Committees.

Annual rates of pay:

Position held as at 31 March	2017 £	2016 £
Chair	**29,000**	17,000-22,000
Vice chair	**18,000**	13,500
Board member	**13,000**	6,000-11,000
Independent committee member	**5,000**	2,000-3,000
Committee chair (in addition to Board member salary)	**5,000**	2,500-4,000

The increase in remuneration for each position listed above occurred on 11 November 2016. The table below sets out all group non-Executive Board members who served during the period.

	2017 £	2016 £
Steve Abbott (resigned 11 November 2016)	**9,804**	11,000
Barbara Anderson	**14,727**	12,345
Ian Baker (appointed 10 June 2015, resigned 15 June 2016)	**1,500**	6,492
Lee Bambridge	**15,375**	13,500
Jennifer Dykes (appointed 15 September 2016)	**10,583**	-
Christine Higgins (resigned 10 November 2016)	**8,819**	13,500
Gordon Holdcroft	**15,731**	13,500
Katherine Innes Ker (appointed 11 November 2016, resigned 30 June 2017)	**17,028**	-
Mark Judge (resigned 11 November 2016)	**13,359**	11,000
Stuart Laird	**14,612**	11,000
Simon Lindley	**16,250**	14,182
Ronald Manley (resigned 17 September 2015)	**-**	6,290
Lista McArthur (resigned 24 September 2015)	**-**	3,500
Verity Murricane (resigned 30 September 2016)	**5,500**	11,000
Richard Organ (resigned 11 November 2016)	**11,333**	17,000
Claire O'Shaughnessy (appointed 15 June 2016)	**8,406**	-
Susan Rastrick (resigned 11 November 2016)	**5,833**	10,000
John Rees-Evans (resigned 30 September 2016)	**5,701**	11.000
Francesca Rhodes (resigned 7 October 2016)	**7,000**	11,833
Maureen Robinson (resigned 11 November 2016)	**4,083**	7,000
Howard Rose (resigned 11 November 2016)	**4,083**	7,000
Elizabeth Sabey	**9,500**	7,000
John Simpson (resigned 11 November 2016)	**16,301**	21,384
Robert Taylor (resigned 10 November 2016)	**7,369**	11,000
Christine Turner	**15,083**	13,000

12. Board Members and Executive Officers (continued)

Verity Murricane and Elizabeth Sabey are leaseholders and Robert Taylor and John Templeton, a member of the Board of Spectrum Property Care Limited, are residents, their tenancies are on normal commercial terms and they cannot use their position on the Board to their advantage. Ann Santry, Richard Hill and Mark Hattersley were appointed as Executive Members of the Board on 11 November 2016 and are remunerated in their capacity as members of the Executive Board. Total expenses paid to Board members that are subject to income tax were £5,231 (2016: £8,198).

In addition, the following remuneration was paid to subsidiary board members during the year:

	2017 £	2016 £
Roger Avon (resigned 23 September 2016)	**2,917**	7,000
Robert Barton (resigned 31 October 2016)	**2,333**	3,246
Lin Cousins (resigned 23 September 2016)	**2,333**	4,000
Roger Davies (resigned 31 October 2016)	**2,333**	4,000
Peter Dean (resigned 31 October 2016)	**2,333**	4,850
Nicholas Dyer (resigned 31 July 2016)	**-**	1,333
John Earley (resigned 31 October 2016)	**2,917**	8,182
Christopher Garland (resigned 31 October 2016)	**2,917**	12,000
Martin Lawton	**4,417**	3,246
Robert Morrisey (resigned 31 October 2016)	**2,333**	4,000
Niall Morrow (resigned 31 October 2016)	**2,333**	4,000
Claire O'Shaughnessy (appointed 9 June 2015, resigned 11 November 2016)	**847**	3,246
David Singleton (resigned 31 October 2016)	**1,167**	2,000
John Templeton (resigned 31 October 2016)	**2,333**	4,000
David Todd	**4,417**	3,246
Damian Ward (resigned 31 October 2016)	**1,167**	2,000
Glen Welsh (resigned 31 October 2016)	**1,167**	2,000

Directors' Emoluments

	2017 £	2016 £
Emoluments (including pension contributions and benefits in kind)	**2,166**	1,896
Total pension contributions to Executive Officers	**95**	99
Emoluments (excluding pension contributions and payments in lieu of pension contributions) including amounts paid to:		
The highest paid director	**230**	221

Pension contributions to the highest paid director were £nil (2016: £nil).

Ann Santry, Richard Hill and Mark Hattersley were appointed Executive Members of the Board on 11 November 2016. Previously Ann Santry was a co-optee of the Board of Sovereign Housing Association Limited and Richard Hill was an Executive Member of the Spectrum Housing Group Limited Board.

12. Board Members and Executive Officers (continued)

The level of emoluments to members of the Executive Board during 2016/17 is shown below:

	Pay and compensation £	Pension contributions £	In lieu of pension £	Benefits in kind £	PRP 2016/17 £	Accrued PRP 2016/17 £	**Total 2017 £**	Total 2016 £
Ann Santry	204,167	-	24,500	347	15,167	10,033	**254,214**	244,737
Steve Barford	135,217	32,452	-	347	9,995	6,805	**184,816**	171,247
Heather Bowman	141,588	25,486	-	347	10,281	7,719	**185,421**	169,376
Paul Bryan[1]	220,876	8,354	-	1,180	-	6,500	**236,910**	128,646
Wendy Drinkwater[2]	150,827	-	10,120	-	9,593	-	**170,540**	149,995
Mark Hattersley	166,250	-	19,950	347	12,133	8,867	**207,547**	201,329
Richard Hill	186,045	17,564	-	1,153	-	9,000	**213,762**	181,166
Martin Lucas[3]	210,827	5,087	-	743	-	-	**216,657**	129,312
Phil Stephens	148,311	-	17,797	-	10,478	9,022	**185,608**	164,896
Jitinder Takhar	-	-	-	-	-	-	**-**	117,549
Rob Webber[4]	178,299	4,853	-	1,173	-	-	**184,325**	125,663
Anne Wildeman	117,627	1,176	-	1,534	-	6,000	**126,337**	112,528
	1,860,034	**94,972**	**72,367**	**7,171**	**67,647**	**63,946**	**2,166,137**	**1,896,444**

[1] Redundant with effect from 31 July 2017 - aggregate payment of redundancy and notice amounted to £101,538
[2] Redundant with effect from 11 November 2016 - aggregate payment of redundancy and notice amounted to £66,494
[3] Redundant with effect from 11 November 2016 - aggregate payment of redundancy and notice amounted to £138,156
[4] Redundant with effect from 11 November 2016 - aggregate payment of redundancy and notice amounted to £108,961

Ann Santry, Heather Bowman, Phil Stephens and Anne Wildeman are deferred members of the Social Housing Pension Scheme (SHPS) which is one of the defined benefit schemes that the Association participates in (see note 30). Of the current Executive Board, Steve Barford, Heather Bowman, Richard Hill and Anne Wildeman are ordinary members of the SHPS defined contributions scheme. Funding is by employer and employee contributions and no enhanced or special terms apply to the Chief Executive and any other Director. The Chief Executive does not have any other individual pension arrangement (including a personal pension) to which the Association or any of its subsidiaries make a contribution.

We benchmark Executive Board's pay, with salaries in the medium quartile of executive pay among comparative housing associations. However in order to recruit and retain the best talent, our Remuneration committee has developed a performance related pay structure. Executive Board members can earn up to a maximum 15% of their basic pay by achieving the four performance measures of underlying margins, resident satisfaction levels, employee engagement and personal performance.

No pension contributions are accruing to former executives (2016: £nil).

13. Employee information

Highest paid staff

Sovereign has the following numbers of staff, including Executive Board members with remuneration of £60,000 or more, shown in bands of £10,000.

	2017 Number	2016 Number
Salary £1,000s		
>60 to 70	**45**	48
>70 to 80	**26**	26
>80 to 90	**10**	14
>90 to 100	**8**	9
>100 to 110	**4**	7
>110 to 120	**5**	5
>120 to 130	**3**	2
>130 to 140	**1**	2
>140 to 150	**-**	2
>150 to 160	**1**	-
>160 to 170	**-**	2
>170 to 180	**1**	1
>180 to 190	**4**	-
>190 to 200	**-**	1
>200 to 210	**1**	1
>210 to 220	**2**	-
>230 to 240	**1**	-
>240 to 250	**-**	1
>250 to 260	**1**	-

13. Employee information (continued)

The number of persons (including executives) employed during the year has been calculated using the average of the total employees for each month:

	Group		Association	
	2017 FTE	2016 FTE	**2017 FTE**	2016 FTE
Expressed in full time equivalents (FTE)				
Central administrative services	**455**	511	**440**	496
Developing or selling housing stock	**80**	84	**80**	84
Managing or maintaining stock	**1,284**	1,285	**1,243**	1,244
Staff providing support	**43**	59	**43**	59
	1,862	**1,939**	**1,806**	**1,883**
Staff costs (for the above persons)	**£'000**	£'000	**£'000**	£'000
Wages and salaries	**58,602**	62,526	**58,782**	62,640
Social security costs	**7,108**	7,281	**5,756**	5,912
Pension costs	**4,099**	4,590	**3,675**	3,899
	69,809	**74,397**	**68,213**	**72,451**

14. Property, Plant and Equipment - Housing

Group	Housing properties held for letting £'000	Housing properties under construction £'000	Completed shared ownership properties £'000	Shared ownership properties under construction £'000	**2017 Total £'000**	2016 Total £'000
Historic or deemed cost						
At 1 April	3,109,350	97,809	314,654	22,267	**3,544,080**	3,419,409
Reclassification of schemes	-	(3,434)	-	3,434	**-**	-
Transfer to investment properties	(14,082)	11,344	-	-	**(2,738)**	(12,105)
Schemes completed	81,809	(81,809)	25,774	(25,774)	**-**	-
Additions - new units	74,607	78,523	8,951	44,430	**206,511**	161,210
Additions - improvements to stock	12,885	-	283	-	**13,168**	18,619
Transfer to current assets	(8,133)	-	(359)	-	**(8,492)**	-
Impairment	(500)	-	-	-	**(500)**	-
Disposals	(54,162)	(2,297)	(8,773)	(539)	**(65,771)**	(43,053)
At 31 March	**3,201,774**	**100,136**	**340,530**	**43,818**	**3,686,258**	**3,544,080**
Depreciation						
At 1 April	275,181	-	10,668	-	**285,849**	259,910
Charge for year	31,758	-	1,691	-	**33,449**	33,375
Transfer to current assets	(1,135)	-	-	-	**(1,135)**	(71)
On disposals	(8,185)	-	(437)	-	**(8,622)**	(7,365)
At 31 March	**297,619**	**-**	**11,922**	**-**	**309,541**	**285,849**
Net book value at 31 March 2017	**2,904,155**	**100,136**	**328,608**	**43,818**	**3,376,717**	
Net book value at 31 March 2016	2,834,169	97,809	303,986	22,267	**3,258,231**	

Additions to housing properties under construction during the year include capitalised interest of £4,252k (2016: £4,409k) and major repairs capitalised of £13,168k (2016: £18,619k). Interest is capitalised on development schemes as set out in the accounting policy in note 2(l).

In the current year the Association entered into transactions with other social landlords. Housing properties with a fair value of £55,240k were purchased from other Housing Associations, funded by £11,060k in cash and £44,180k in property sales (2016: £12,404k in cash). This value includes original government grant funding of £25,959k (2016: £810k) which has an obligation to be recycled in accordance with the original grant funding terms and conditions. The Association is responsible for the recycling of grant in the event of the housing properties being disposed.

Following purchases of housing properties from other Housing Associations in previous years, the Association has a contingent liability of £152.4m (2016: £126.4m) for social housing grant which requires recycling into new social housing development on sale of the properties originally purchased.

A detailed impairment review was carried out in the year following the government policy announcement of decreases in rent for social housing tenancies.

In addition to the capital improvements to housing properties shown above, £36,859k (2016: £34,050k) was spent on routine maintenance.

14. Property, Plant and Equipment - Housing (continued)

Group	Housing properties held for letting £'000	Housing properties under construction £'000	Completed shared ownership properties £'000	Shared ownership properties under construction £'000	**2017 Total £'000**	2016 Total £'000
Cost or valuation at 31 March is represented by						
Gross cost	2,835,222	100,136	315,726	43,818	**3,294,902**	3,150,007
Historic cost depreciation	(272,452)	-	(10,656)	-	**(283,108)**	(263,939)
	2,562,770	**100,136**	**305,070**	**43,818**	**3,011,794**	**2,886,068**
Revaluation reserve	341,385	-	23,538	-	**364,923**	372,163
	2,904,155	**100,136**	**328,608**	**43,818**	**3,376,717**	**3,258,231**
Existing use value and properties under construction	2,747,420	100,136	313, 265	43,818	**3,204,639**	3,075,745

Association	Housing properties held for letting £'000	Housing properties under construction £'000	Completed shared ownership properties £'000	Shared ownership properties under construction £'000	**2017 Total £'000**	2016 Total £'000
Historic or deemed cost						
At 1 April	3,126,877	98,190	314,104	21,474	**3,560,645**	3,431,431
Reclassification of schemes	-	(3,434)	-	3,434	**-**	-
Transfer to investment properties	(20,399)	11,344	-	-	**(9,055)**	(10,322)
Schemes completed	81,809	(81,809)	25,774	(25,774)	**-**	-
Additions - new units	79,984	69,960	9,501	41,431	**200,876**	164,368
Additions - improvements to stock	12,883	-	283	-	**13,166**	18,619
Transfer to current assets	(8,133)	-	(359)	-	**(8,492)**	(398)
Impairment	(500)	-	-	-	**(500)**	-
Disposals	(54,162)	(2,297)	(8,773)	(539)	**(65,771)**	(43,053)
At 31 March	**3,218,359**	**91,954**	**340,530**	**40,026**	**3,690,869**	**3,560,645**
Depreciation						
At 1 April	275,168	-	10,668	-	**285,836**	259,901
Charge for year	31,754	-	1,691	-	**33,445**	33,371
Transfer to current assets	(1,135)	-	-	-	**(1,135)**	(71)
On disposals	(8,185)	-	(437)	-	**(8,622)**	(7,365)
At 31 March	**297,602**	**-**	**11,922**	**-**	**309,524**	**285,836**
Net book value at 31 March 2017	**2,920,757**	**91,954**	**328,608**	**40,026**	**3,381,345**	
Net book value at 31 March 2016	2,851,709	98,190	303,436	21,474	**3,274,809**	

14. Property, Plant and Equipment - Housing (continued)

Association	Housing properties held for letting £'000	Housing properties under construction £'000	Completed shared ownership properties £'000	Shared ownership properties under construction £'000	**2017 Total £'000**	2016 Total £'000
Cost or valuation at 31 March is represented by						
Gross cost	2,657,434	91,954	315,726	40,026	**3,105,140**	2,972,198
Historic cost depreciation	(289,786)	-	(10,656)	-	**(300,442)**	(281,276)
	2,367,648	**91,954**	**305,070**	**40,026**	**2,804,698**	**2,690,922**
Revaluation reserve	553,109	-	23,538	-	**576,647**	583,887
	2,920,757	**91,954**	**328,608**	**40,026**	**3,381,345**	**3,274,809**
Existing use value and properties under construction	2,747,054	91,954	313,265	40,026	**3,192,299**	3,002,963

15. Property, Plant and Equipment - Other

Group	Freehold offices and shops £'000	Leasehold offices £'000	Office furniture and equipment £'000	Scheme plant, furniture and equipment £'000	Computer hardware and software £'000	Motor vehicles £'000	**2017 Total £'000**	2016 Total £'000
Cost or valuation								
At 1 April	27,404	1,872	8,923	10,684	28,778	2,187	**79,848**	77,225
Additions	120	330	223	95	1,723	105	**2,596**	4,964
Disposals	(361)	-	(382)	(125)	(2,857)	(165)	**(3,890)**	(1,316)
Revaluation	-	-	-	-	-	-	**-**	(847)
Impairment charge	-	-	-	-	-	-	**-**	(178)
At 31 March	**27,163**	**2,202**	**8,764**	**10,654**	**27,644**	**2,127**	**78,554**	**79,848**
Depreciation								
At 1 April	4,836	364	6,740	6,982	18,626	1,448	**38,996**	36,971
Charge for year	371	56	695	350	1,939	273	**3,684**	3,529
Revaluation	-	-	-	-	-	-	**-**	(281)
On disposals	(140)	-	(379)	(116)	(2,817)	(162)	**(3,614)**	(1,223)
At 31 March	**5,067**	**420**	**7,056**	**7,216**	**17,748**	**1,559**	**39,066**	**38,996**
Net book value as 31 March 2017	**22,096**	**1,782**	**1,708**	**3,438**	**9,896**	**568**	**39,488**	
Net book value as 31 March 2016	22,568	1,508	2,183	3,702	10,152	739	**40,852**	

Freehold shops are held at valuation and have a historic cost of £2,514k. All other fixed assets included in this note are held at historic cost.

15. Property, Plant and Equipment - Other (continued)

Group	Freehold offices and shops £'000	Leasehold offices £'000	Office furniture and equipment £'000	Scheme plant, furniture and equipment £'000	Computer hardware and software £'000	Motor vehicles £'000	**2017 Total £'000**	2016 Total £'000
Cost or valuation at 31 March is represented by								
Net book value of assets held at valuation	7,395	-	-	-	-	-	**7,395**	7,395
Net book value of assets held at historic cost	14,701	1,782	1,708	3,438	9,896	568	**32,093**	33,457
	22,096	**1,782**	**1,708**	**3,438**	**9,896**	**568**	**39,488**	**40,852**

Association	Freehold offices and shops £'000	Leasehold offices £'000	Office furniture and equipment £'000	Scheme plant, furniture and equipment £'000	Computer hardware and software £'000	Motor vehicles £'000	**2017 Total £'000**	2016 Total £'000
Cost or valuation								
At 1 April	27,404	1,872	7,691	10,684	28,759	797	**77,207**	75,241
Additions	120	330	155	95	1,720	-	**2,420**	4,219
Disposals	(361)	-	(379)	(125)	(2,857)	(150)	**(3,872)**	(1,228)
Revaluation	-	-	-	-	-	-	**-**	(847)
Impairment charge	-	-	-	-	-	-	**-**	(178)
At 31 March	**27,163**	**2,202**	**7,467**	**10,654**	**27,622**	**647**	**75,755**	**77,207**
Depreciation								
At 1 April	4,836	364	6,193	6,982	18,611	707	**37,693**	35,874
Charge for year	371	56	527	350	1,937	50	**3,291**	3,238
On disposals	(140)	-	(379)	(116)	(2,817)	(150)	**(3,602)**	(1,138)
Revaluation	-	-	-	-	-	-	**-**	(281)
At 31 March	**5,067**	**420**	**6,341**	**7,216**	**17,731**	**607**	**37,382**	**37,693**
Net book value as 31 March 2017	**22,096**	**1,782**	**1,126**	**3,438**	**9,891**	**40**	**38,373**	
Net book value as 31 March 2016	22,568	1,508	1,498	3,702	10,148	90	**39,514**	

Freehold offices and shops are held at valuation and have a historic cost of £2,514k. All other fixed assets included in this note are held at historic cost.

15. Property, Plant and Equipment - Other (continued)

Association	Freehold offices and shops £'000	Leasehold offices £'000	Office furniture and equipment £'000	Scheme plant, furniture and equipment £'000	Computer hardware and software £'000	Motor vehicles £'000	**2017 Total £'000**	2016 Total £'000
Cost or valuation at 31 March is represented by								
Net book value of assets held at valuation	7,395	-	-	-	-	-	**7,395**	7,395
Net book value of assets held at historic cost	14,701	1,782	1,126	3,438	9,891	40	**30,978**	32,119
	22,096	**1,782**	**1,126**	**3,438**	**9,891**	**40**	**38,373**	**39,514**

16. Property, Plant and Equipment - Valuation Methodology

Commercial properties were last professionally valued by Jones Lang LaSalle on the basis of open market value as at 31 March 2016 and in accordance with the RICS Appraisal and Valuation Standards. The valuer is neither an employee nor an officer of the Association. No valuation was undertaken as at 31 March 2017 as management believe the market to be stable with no material fluctuations in the intervening period.

17. Investment Properties

	Group		Association	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Cost or valuation net of social housing grant				
At 1 April	**121,070**	139,790	**80,798**	72,953
Additions to new units	**2,724**	24,081	**9,041**	18,515
Disposals	**(4,445)**	(46,158)	**(4,445)**	(12,534)
Fair value increase	**4,831**	3,357	**4,016**	1,864
At 31 March	**124,180**	**121,070**	**89,410**	**80,798**
Historic cost net book value	**112,839**	113,464	**82,175**	76,330

Investment properties, which primarily comprise market rent properties, were professionally valued by Jones Lang LaSalle at open market value as at 31 March 2017. The valuation was undertaken in accordance with the RICS Appraisal and Valuation Standards.

18. Investments - HomeBuy Loans Receivable

	Group		Association	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
At 1 April	**13,391**	14,100	**13,391**	14,100
Loans repaid	**(581)**	(709)	**(581)**	(709)
At 31 March	**12,810**	**13,391**	**12,810**	**13,391**

Loans are made to individuals to purchase a property. There is no interest charge on the loan but it is repayable on sale of the property with an appreciation of property value being included in the repayment.

19. Financial Assets

	Group		Association	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Cost or valuation				
Bonds	**1,276**	1,305	**1,276**	1,305
Debt service reserve	**2,748**	-	**2,748**	-
Collateral deposits	**4,571**	6,412	**4,571**	6,412
Shares in subsidiary undertakings	**1**	1	**6,295**	6,295
	8,596	**7,718**	**14,890**	**14,012**

Collateral deposits represent amounts held by counterparties as a result of margin calls on out-of-the-money interest rate swaps. Cash collateral deposit levels will increase or decrease in line with interest rate market movements, or if the Association places or withdraws alternative non-cash collateral. In any collateral deposit, requirements reduce towards zero by the maturity date of the underlying financial instruments giving rise to the collateral obligation.

20. Group Company information

Sovereign Living Limited is a non-charitable Registered Society under the Co-operative and Community Benefit Societies Act 2014 and is a subsidiary by virtue of the ability of Sovereign Housing Association Limited to control the composition of its Board or Committees.

Sovereign Advances Limited, Sovereign Housing Capital plc, Sovereign Westinghouse Development Limited, Florin Homes Limited, Doubloon Developments Limited, Pennyfarthing Building Services Limited, Spectrum Property Care Limited, Spectrum Premier Homes Limited and Spectrum Property Ventures Limited are all non-charitable subsidiaries of Sovereign Housing Association Limited incorporated under the Companies Act.

Sovereign Housing Association Limited also owns a non-charitable company Points West Housing Limited which is dormant and its net assets are not material. Points West Housing Limited is not consolidated within the Group's financial statements.

Sovereign Housing D1 Limited, Sovereign Housing D2 Limited and Sovereign Housing D3 Limited are dormant and net assets are zero in each.

During the year Sovereign Housing Association Limited and Sovereign Living Limited had the following intra-group transactions with non-regulated members of the Group.

	2017 £'000	2016 £'000
Payment of interest at commercial rates	**22,505**	22,427
Purchase of Design and Build Services at cost plus commercial mark-up	**102,762**	98,010
Repairs and maintenance service at costs agreed during competitive tender	**27,071**	29,069
Management charges on a cost sharing basis (income)	**(1,942)**	(2,293)
	150,396	**147,213**

21. Stock

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Properties in construction	**31,819**	20,528	**19,941**	10,942
Completed properties	**8,050**	6,209	**8,050**	5,464
Consumable stock	**5,576**	1,494	**3,802**	563
	45,445	**28,231**	**31,793**	**16,969**

As part of the agreement in setting up a joint venture with Kier Group, properties in construction to the value of £3,482k was transferred out of the Group to the joint venture after the year end date.

22. Debtors

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Rental income due				
Gross	**10,316**	10,374	**10,300**	10,238
Discounted repayment schedules	**(655)**	(569)	**(655)**	(569)
Less bad debt provision	**(5,602)**	(4,844)	**(5,588)**	(4,822)
Net rental income due	**4,059**	**4,961**	**4,057**	**4,847**
Social housing grant receivable	**1,076**	2,871	**883**	2,871
Prepayments and accrued income	**8,428**	6,028	**7,491**	4,553
Due from other Group undertakings	**-**	-	**63,645**	48,637
Other loans	**18,351**	10,639	**695**	986
Other debtors	**4,010**	5,982	**1,946**	2,901
	35,924	**30,481**	**78,717**	**64,795**
Amounts falling due within one year:	**17,236**	19,544	**40,165**	31,770
Amounts falling due after more than one year:	**18,688**	10,937	**38,552**	33,025
	35,924	**30,481**	**78,717**	**64,795**

Loans from the Association to other members of the Group are charged at a market rate of interest of between 5% and 6% (2016: 5% to 6%).

Long term debtors consist of prepayments and amounts due from joint ventures. Amounts due are dependent on sales and operating performance of the joint venture. No repayment is due within the next 12 months.

23. Current Asset Investments

	Group		Association	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Short term deposits	**31,176**	30,814	**31,176**	30,814
	31,176	**30,814**	**31,176**	**30,814**

Short term investments comprise sterling notice deposits.

24. Cash and cash equivalents

	Group		Association	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Cash and cash equivalents	**13,987**	33,044	**11,049**	29,560
	13,987	**33,044**	**11,049**	**29,560**

25. Creditors - Amounts falling due within 1 year

	Note	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Housing loans	27	**25,191**	27,210	**25,191**	27,210
Trade creditors		**13,758**	12,359	**11,335**	9,679
Social housing grant in advance		**895**	1,247	**895**	1,247
Social housing grant payable to other RPs		**-**	2,551	**-**	2,551
Social housing grant - properties		**3,075**	2,893	**3,075**	2,893
Due to Group undertakings		**-**	-	**16,519**	14,217
Other loans		**1,191**	890	**1,191**	890
Taxation and social security		**1,618**	1,829	**1,024**	1,404
SHPS pension deficit contributions	30	**3,654**	3,516	**3,654**	3,516
Recycled capital grant fund	29	**5,620**	6,542	**5,620**	6,542
Disposals proceeds fund	29	**29**	28	**29**	28
Rents received in advance		**8,058**	6,564	**8,030**	6,525
Other creditors		**2,168**	2,931	**3,336**	2,976
Accruals and deferred income		**33,386**	35,743	**16,088**	21,687
		98,643	**104,303**	**95,987**	**101,365**

26. Creditors - Amounts falling due after more than 1 year

	Note	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Housing loans	27	**1,582,747**	1,546,134	**1,148,911**	1,111,738
Non housing loans		**50**	50	**50**	50
Finance lease		**2,449**	2,432	**2,449**	2,432
Derivative financial instruments		**96,932**	104,836	**96,932**	104,836
SHPS pension deficit contributions	30	**22,954**	25,308	**22,954**	25,308
Social housing grant - properties		**288,756**	281,285	**288,469**	281,285
Deferred income		**10,883**	11,320	**10,865**	11,309
Recycled capital grant fund	29	**16,677**	14,883	**16,677**	14,883
Disposal proceeds fund	29	**637**	882	**637**	882
Other		**1,185**	1,078	**741**	911
Long term Group creditors	27	**-**	-	**425,000**	425,000
		2,023,270	**1,988,208**	**2,013,685**	**1,978,634**

26. Creditors - Amounts falling due after more than 1 year (continued)

The repayment profile of the Group's gross undiscounted long term bond liabilities including interest is as follows:

	On demand £'000	Less than 12 months £'000	1 to 5 years £'000	More than 5 years £'000	**Total £'000**
March 2017					
Amounts due to 2009 bond investors	-	9,984	39,935	349,716	**399,635**
Amounts due to 2012 bond investors	-	11,920	47,680	506,280	**565,880**
Amounts due to Afforable Housing Fund	-	2,748	10,993	154,090	**167,831**
	-	**24,652**	**98,608**	**1,010,086**	**1,133,346**

	On demand £'000	Less than 12 months £'000	1 to 5 years £'000	More than 5 years £'000	**Total £'000**
March 2016					
Amounts due to 2009 bond investors	-	9,984	39,935	359,699	**409,618**
Amounts due to 2012 bond investors	-	11,920	47,680	518,200	**577,800**
	-	**21,904**	**87,615**	**877,899**	**987,418**

27. Housing Loans

	Note	**Group**		**Association**	
		2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Repayable other than by instalments in more than five years	26	**520,000**	425,000	**520,000**	425,000
Repayable by instalments within one year	25	**25,191**	27,210	**25,191**	27,210
Repayable by instalments in more than one but less than two years	26	**41,547**	11,973	**41,547**	11,973
Repayable by instalments between two and five years	26	**147,401**	151,649	**147,401**	151,649
Repayable by instalments in more than five years	26	**873,799**	957,512	**864,963**	948,116
		1,607,938	**1,573,344**	**1,599,102**	**1,563,948**

All loans are held at amortised cost.

The loan facilities are provided by eight funders and three bond issues, the predominant funders being Santander, Barclays, Bank of Scotland, Dexia, RBS NatWest, Nationwide and THFC. Loan interest rates range from 0.50% to 10.75% per annum (2016: 0.70% to 10.75%). The average rate achieved over the year was 3.9% (2016: 4.1%). Interest on housing loans is charged to the Statement of Total Comprehensive Income or capitalised in the year that it is incurred. The housing loans are secured by first fixed charges over the Group's housing properties. The total undrawn loan facilities at 31 March 2017 were £331m (2016: £109m).

28. Provisions

	Group		Association	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
As at 1 April	**1,003**	171	**944**	122
Additions in year	**885**	848	**875**	838
Utilised during the year	**-**	(16)	**-**	(16)
As at 31 March	**1,888**	**1,003**	**1,819**	**944**

29. Recycled Capital Grant Fund and Disposal Proceeds Fund

		Group		Association	
	Note	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000
RCGF					
As at 1 April		**21,425**	19,399	**21,425**	19,399
Reclassification		**314**	-	**314**	-
Grants recycled		**5,113**	6,322	**5,113**	6,322
Interest accrued		**65**	92	**65**	92
New build		**(4,620)**	(4,388)	**(4,620)**	(4,388)
As at 31 March	25, 26	**22,297**	**21,425**	**22,297**	**21,425**
DPF					
As at 1 April		**910**	292	**910**	292
Reclassification		**(314)**	-	**(314)**	-
Grants recycled		**103**	643	**103**	643
Interest accrued		**5**	2	**5**	2
New build		**(38)**	(27)	**(38)**	(27)
As at 31 March	26	**666**	**910**	**666**	**910**

30. Pension arrangements

The Association participates in five defined benefit pension schemes which are multi-employer defined benefit schemes providing benefits based on final pensionable pay. All of the defined benefit schemes are now closed to new members. New employees are able to join a defined contribution scheme operated either by the Social Housing Pension Scheme or Scottish Widows.

(a) Social Housing Pension Scheme (SHPS)
The Trustee of the Scheme commissions an actuarial valuation of the scheme every three years. The main purpose of the valuation is to determine the financial position of the scheme in order to determine the level of future contributions required so that the scheme can meet its pension obligations as they fall due.

The actuarial valuation assesses whether the scheme's assets at the valuation date are likely to be sufficient to pay 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.

It is not possible in the normal course of events to identify the underlying assets and liabilities belonging to individual participating employers. Accordingly, the scheme is not accounted for as a defined benefit plan but as a defined contribution plan with the discounted value of the agreed total deficit contributions included as a liability in the Statement of Financial Position.

The last formal valuation of the scheme was performed as at 30 September 2014 by a professionally qualified actuary using the projected unit method. The market value of the Scheme's assets at the valuation date was £3,123m (2011 valuation £1,527m).

The valuation revealed a shortfall of assets compared with the value of liabilities of £1,323m (2011 valuation £1,035m), equivalent to a past service funding level of 70% (2011 valuation 67%).

The Association has closed its SHPS defined benefit scheme, however £292,940 (2016: £218,708) shortfall payments were made each month for the shortfall on the 2014 valuation. The shortfall payments are programmed for a further 10 years to clear the deficit by 2027. In addition an expense charge was levied for £9,127 per month (2016: £6,460).

The scheme is closed, no contributions other than deficit payments were made.

The Association paid employer's contributions up to 12% for the SHPS defined contribution scheme. The rate is variable dependent on the contributions rate selected by the employee. Total contributions amounted to £2,663k (2016: £2,286k).

The Association along with all other members of the Scheme are potentially liable to cover obligations due from failed associations.

Under FRS 102 multi-employer pension schemes such as SHPS are included in the balance sheet and the liability is calculated as the total deficit catch up payments agreed with the pension provider discounted at the appropriate rate. The discount rate is based on the return on a good quality corporate bond at the reporting date.

	Note	**2017 £'000**	2016 £'000
As at 1 April		**28,824**	22,390
Deficit contribution paid		**(3,516)**	(2,624)
Unwinding of the discount factor		**555**	464
Remeasurements - impact of changes in assumptions		**745**	175
Remeasurements - increase in total contributions due		**-**	8,419
As at 31 March	25,26	**26,608**	**28,824**

30. Pension arrangements (continued)

SHPS defined benefit

Major Assumptions	%
Long dated Gilt yield	3.0
Corporate bond yield	4.0
Market implied inflation rate	3.4
Pre-retirement discount rate	5.9
Post-retirement discount rate	3.3
Rate of price inflation - RPI	3.1
Rate of price inflation - CPI	2.2
Earnings growth assumptions	4.2
SHPS total scheme value as at 30 September 2014 valuation	**£million**
Assets	3,123
Liabilities	(4,446)
Net pension liability	**(1,323)**

(b) Royal Berkshire Pension Fund (Berkshire)
The Royal County of Berkshire Pension Fund was closed to new members in 1989.

The last full actuarial valuation was carried out as at 31 March 2016 and was updated to 31 March 2017 by a qualified independent actuary.

Future pension increases have been assumed to be at CPI.

It was agreed that an employer contribution rate of 21.9% of pensionable pay would apply in the year ended 31 March 2017 (2016: 21.9%). An additional allowance is payable each year in respect of past service deficits. The allowance for the year ended 31 March 2017 was £394k (2016: £377k).

c) Local Government Pension Scheme administered by Dorset County Council (Dorset - legacy Sovereign Housing Association Limited)
This is a statutory, funded, occupational final salary scheme which is now closed to new members. The assets of the scheme are held in separate trustee administered funds.

The last full actuarial valuation was carried out as at 31 March 2016 and was updated to 31 March 2017 by a qualified independent actuary.

Future pension increases have been assumed to be at CPI.

It was agreed that an employer contribution rate of 16.5% of pensionable pay would apply in the year ended 31 March 2017 (2016: 16.5%). A one off payment of £315k was made in 2015 to lock in lower employer contributions. There were no past service deficit payments.

(d) Local Government Pension Scheme administered by Oxfordshire County Council (Oxford)
The last full actuarial valuation was carried out at 31 March 2016 and was updated to 31 March 2017 by a qualified independent actuary.

There were no past service deficit payments. The scheme was closed on 31st August 2014.

Future pension increases have been assumed to be at CPI.

(e) Local Government Pension Scheme administered by Hampshire County Council (Hants)
The last full actuarial valuation was carried out at 31 March 2016 and was updated to 31 March 2017 by a qualified independent actuary.

An employer contribution rate of 15.6% of pensionable pay applied for the year ended 31 March 2017 (2016: 15.6%). An additional allowance is payable each year in respect of past service deficits. The allowance for the year ended 31 March 2017 was £15,200 (2016: £12,700).

Future pension increases have been assumed to be at CPI.

(f) Local Government Pension Scheme administered by Dorset County Council (Dorset - legacy Spectrum Housing Group Limited)
The last full actuarial valuation was carried out at 31 March 2016 and was updated to 31 March 2017 by a qualified independent actuary.

An employer contribution rate of 16.3% of pensionable pay applied for the year ended 31 March 2017 (2016: 12.5%). A one off payment of £506k was made in 2014 to cover past service deficits for the following 3 years.

Future pension increases have been assumed to be at CPI.

30. Pension arrangements (continued)

(g) Local Government Pension Scheme administered by Isle of Wight Council (IOW)
The last full actuarial valuation was carried out at 31 March 2016 and was updated to 31 March 2017 by a qualified independent actuary.

An employer contribution rate of 20.5% of pensionable pay applied for the year ended 31 March 2017 (2016: 20.5%). An additional allowance is payable each year in respect of past service deficits. The allowance for the year ended 31 March 2017 was £109k (2016: £109k).

Future pension increases have been assumed to be at CPI.

(h) Assumptions
The assumptions used by the actuaries for the individual schemes are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescales covered, may not necessarily be borne out in practice.

	2017						2016					
	% per annum						% per annum					
	Berks	**Dorset**	**Oxford**	**Hants**	**Dorset**	**I.O.W**	Berks	Dorset	Oxford	Hants	Dorset	I.O.W
Major assumptions												
Price increases RPI	**3.3**	**3.5**	**3.5**	**3.1**	**3.6**	**3.4**	2.9	3.2	3.3	2.8	3.3	-
Price increases CPI	**2.4**	**2.6**	**2.6**	**2.0**	**2.7**	**2.4**	2.0	2.3	2.4	1.7	2.4	-
Pension increases	**2.4**	**2.6**	**2.6**	**2.0**	**2.7**	**2.4**	2.0	2.3	2.4	1.7	2.4	2.2
Pension accounts revaluation rate	**-**	**-**	**-**	**2.0**	**-**	**-**	-	-	-	1.7	-	-
Discount rate	**2.3**	**2.7**	**2.7**	**2.5**	**2.7**	**2.6**	3.3	3.6	3.7	3.4	3.7	3.5
Salary increase	**3.9**	**4.1**	**4.1**	**3.5**	**4.2**	**2.8**	3.8	3.8	4.2	3.2	3.9	4.2
Return assumptions												
Asset portfolio	**2.3**	**2.7**	**2.7**	**2.5**	**2.7**	**2.6**	3.3	3.6	3.7	3.4	3.7	3.5

The return on assets is quoted as the same value as the discount rate in each of the actuarial reports.

The assumed life expectancy from the age of 65 is as follows:

	Berks	Dorset	Oxford	Hants	Dorset	I.O.W
Retiring today						
Males	23.0	23.9	23.4	24.0	23.9	22.3
Females	25.0	26.0	25.5	27.0	26.0	24.7
Retiring in 20 years						
Males	25.1	26.1	25.6	26.0	26.1	23.9
Females	27.4	28.3	27.8	29.3	28.3	26.5

30. Pension arrangements (continued)

(i) Historical Data

Berkshire	2017 £'000	2016 £'000	2015 £'000	2014 £'000	2013 £'000
Assets and liabilities value as at					
Present value of funded obligation	**(19,274)**	(16,871)	(18,137)	(16,783)	(18,710)
Fair value of Scheme Assets (bid value)	**8,810**	7,844	8,321	8,337	8,646
Net liability	**(10,464)**	**(9,027)**	**(9,816)**	**(8,446)**	**(10,064)**
Experience adjustments					
Experience adjustments on scheme assets	**-**	-	235	(467)	411
Experience adjustments on scheme liabilities	**(73)**	-	-	(171)	-

Dorset (legacy Sovereign Housing Association Limited)	2017 £'000	2016 £'000	2015 £'000	2014 £'000	2013 £'000
Assets and liabilities value as at					
Present value of funded obligation	**(11,217)**	(9,210)	(9,706)	(8,466)	(7,950)
Fair value of Scheme Assets (bid value)	**5,357**	4,665	4,808	4,465	4,112
Net liability	**(5,860)**	**(4,545)**	**(4,898)**	**(4,001)**	**(3,838)**
Present value of unfunded obligation	**(27)**	(29)	(31)	(29)	(29)
Net liability (including unfunded obligations)	**(5,887)**	**(4,574)**	**(4,929)**	**(4,030)**	**(3,867)**
Experience adjustments					
Experience adjustments on scheme assets	**-**	-	176	313	340
Experience adjustments on scheme liabilities	**(228)**	-	-	(52)	(1)

30. Pension arrangements (continued)

	2017 £'000	2016 £'000	2015 £'000	2014 £'000	2013 £'000
Oxfordshire					
Assets and liabilities value as at					
Present value of funded obligation	**(26,821)**	(22,624)	(24,242)	(21,346)	(20,845)
Fair value of Scheme Assets (bid value)	**27,017**	23,127	23,864	21,744	18,799
Net assets/(liability)	**196**	**503**	**(378)**	**398**	**(2,046)**
Experience adjustments					
Experience adjustments on scheme assets	**-**	-	1,635	2,350	2,402
Experience adjustments on scheme liabilities	**1,293**	-	469	1,185	-
Hampshire					
Assets and liabilities value as at					
Present value of funded obligation	**(8,910)**	(7,850)	(8,350)	(7,640)	(8,120)
Fair value of Scheme Assets (bid value)	**6,370**	5,460	5,670	5,150	4,940
Net liability	**(2,540)**	**(2,390)**	**(2,680)**	**(2,490)**	**(3,180)**
Experience adjustments					
Experience adjustments on scheme assets	**-**	-	410	120	380
Experience adjustments on scheme liabilities	**-**	-	60	240	20

30. Pension arrangements (continued)

Dorset (legacy Spectrum Housing Group Limited)	2017 £'000	2016 £'000	2015 £'000	2014 £'000	2013 £'000
Assets and liabilities value as at					
Present value of funded obligation	(25,640)	(20,378)	(21,398)	(18,009)	(17,136)
Fair value of Scheme Assets (bid value)	13,401	11,066	11,317	10,454	10,085
Net liability	**(12,239)**	**(9,312)**	**(10,081)**	**(7,555)**	**(7,051)**
Present value of unfunded obligation	(78)	(70)	(74)	(46)	(46)
Net liability (including unfunded obligations)	**(12,317)**	**(9,382)**	**(10,155)**	**(7,601)**	**(7,097)**
Experience adjustments					
Experience adjustments on scheme assets	-	-	-	-	-
Experience adjustments on scheme liabilities	-	-	-	-	-

Isle of Wight					
Assets and liabilities value as at					
Present value of funded obligation	(12,734)	(11,057)	(11,751)	(9,625)	(9,210)
Fair value of Scheme Assets (bid value)	9,599	8,361	8,000	6,807	6,188
Net liability	**(3,135)**	**(2,696)**	**(3,751)**	**(2,818)**	**(3,022)**
Experience adjustments					
Experience adjustments on scheme assets	-	-	-	-	-
Experience adjustments on scheme liabilities	-	-	-	-	-

Consolidated	2017 £'000	2016 £'000	2015 £'000	2014 £'000	2013 £'000
Assets and liabilities value as at					
Present value of funded obligation	(104,596)	(87,990)	(93,584)	(81,869)	(81,971)
Fair value of Scheme Assets (bid value)	70,554	60,523	61,980	56,957	52,770
Net liability	**(34,042)**	**(27,467)**	**(31,604)**	**(24,912)**	**(29,201)**
Present value of unfunded obligation	(105)	(99)	(105)	(75)	(75)
Net liability (including unfunded obligations)	**(34,147)**	**(27,566)**	**(31,709)**	**(24,987)**	**(29,276)**

30. Pension arrangements (continued)

(j) Analysis of Pension Costs in the Statement of Total Comprehensive Income

	2017 £'000	2016 £'000
Charged to operating costs		
Current service cost	**649**	847
Administration costs	**34**	31
Total charged to operating costs	**683**	**878**
(Credit)/charge to other finance income		
Expected return on pension fund assets	**(2,141)**	(1,989)
Interest on pension scheme liabilities	**3,092**	2,982
Net charge to other finance costs	**951**	**993**

(k) Asset and Liability Obligation Reconciliations

	2017 £'000	2016 £'000
Benefit Obligation		
Defined benefit obligation at the beginning of the year	**88,089**	93,689
Service cost	**649**	847
Interest cost	**3,092**	2,982
Change in financial assumptions	**18,510**	(6,691)
Change in demographic assumptions	**(402)**	-
Experience gains	**(2,517)**	(162)
Estimated benefits paid (net of transfers in)	**(2,877)**	(2,762)
Past service cost	**-**	7
Contributions by scheme participants	**163**	185
Unfunded pension payments	**(6)**	(6)
Defined benefit obligation at the end of the year	**104,701**	**88,089**

30. Pension arrangements (continued)

	2017 £'000	2016 £'000
Asset Reconciliation		
Fair value of scheme assets at the beginning of the year	**60,523**	61,980
Interest on assets	**2,141**	1,989
Return on assets less interest	**8,441**	(1,993)
Other actuarial gains	**970**	(100)
Administration expenses	**(34)**	(31)
Contributions by employer	**1,233**	1,261
Contributions by scheme participants	**163**	185
Estimated benefits paid (net of transfers in)	**(2,883)**	(2,768)
Fair value of scheme assets at the end of the year	**70,554**	**60,523**

31. Financial Instruments

(a) The carrying amount of the financial assets and liabilities includes:

	2017 £'000	2016 £'000
Assets measured at amortised cost	**7,693**	7,718
Liabilities measured at fair value through the income statement (derivatives)	**96,932**	104,836
Liabilities measured at amortised cost (housing loans)	**1,607,938**	1,573,344
	1,712,563	**1,685,898**

(b) Financial Instruments measured at fair value

Derivative financial liabilities at fair value are calculated using quoted market prices to establish expected future cash flows, which are discounted at a market derived interest rate.

31. Financial Instruments (continued)

(c) Hedge Accounting

The following table indicates the periods in which the cash flows associated with cash flow hedging instruments are expected to occur as required by FRS 102.29(a) for the cash flow hedge accounting models:

Interest rate swaps

	2017						2016					
	Carrying amounts £'000	**Expected cash flows £'000**	**1 year or less £'000**	**1 to <2 years £'000**	**2 to <5 years £'000**	**5 years and over £'000**	Carrying amounts £'000	Expected cash flows £'000	1 year or less £'000	1 to <2 years £'000	2 to <5 years £'000	5 years and over £'000
Liabilities	96,932	117,331	8,354	8,222	23,701	77,054	104,836	122,146	8,062	7,797	21,176	85,111
	96,932	**117,331**	**8,354**	**8,222**	**23,701**	**77,054**	**104,836**	**122,146**	**8,062**	**7,797**	**21,176**	**85,111**

The Group uses cash flow hedges to manage interest rate risk arising from uncertain future interest rates on its floating rate loans. Interest rate swaps (the hedging instrument) are used to swap a proportion of the Group's floating rate interest cash flows (the hedged items) for fixed rate cash flows, thereby reducing the cash flow and income statement uncertainty. The Group recognises interest rate exposure as a key risk to be managed as an integral part of its strategy for managing its overall business risks and costs.

Change in fair value

	2017 £'000	2016 £'000
Recognised through other comprehensive income	**4,489**	(10,287)
Recognised through the income statement	**(637)**	(713)
Increase/(decrease) in fair value	**3,852**	**(11,000)**

(d) Fair values

	2017 £'000	2016 £'000
The amounts for all financial assets and financial liabilities carried at fair values are as follows		
Hedging instruments	**96,932**	104,836
	96,932	**104,836**

32. Called Up Share Capital

Each shareholder of the Parent holds a non-equity share of £1 in the Parent. The shares carry no rights to dividends and are non-redeemable. They carry the right to vote at meetings of the Parent on the basis of one share one vote. No rights to participate in the net assets of the Parent in the event of a winding up are conferred by the shares.

	2017 £	2016 £
Allotted issued and fully paid		
At 1 April	**146**	146
Issued in the year	**7**	6
Cancelled during the year	**(33)**	(6)
At 31 March	**120**	**146**

Under Financial Reporting Standard 102, the Association's share capital falls under the description 'non equity'.

33. Reserves

Called-up share capital – represents the nominal value of shares that have been issued.

Income and expenditure reserve – includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

Hedging reserve – gains and losses on hedge effective financial instrument.

Revaluation reserve – the difference between historic cost and valuation or deemed cost of fixed assets.

Non-controlling interest – the share of distributable reserves of interest within the Group held by parties from outside of the Group.

34. Capital Commitments

	Group		Association	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	**264,312**	202,960	**239,155**	175,065
Capital expenditure that has been authorised by the Executive Board but has not yet been contracted for	**79,310**	111,114	**79,268**	111,672

At 31 March 2017, the Association had cash and short term deposits of £45m and a further £331m of undrawn committed funding, of which £148m was secured and available immediately. These funds, along with cash generated from operating activities, are expected to fund the above capital expenditure.

35. Operating Leases

The Group and Association hold office premises and equipment, and vehicles under non-cancellable operating leases. Non-cancellable operating lease rentals are payable as follows:

	Group		Association	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Land and buildings				
- within one year	**205**	265	**173**	211
- between two and five years	**1,578**	1,591	**981**	1,016
- in over five years	**546**	741	**546**	741
Temporary social housing initiatives				
- within one year	**36**	33	**36**	33
- between two and five years	**108**	99	**108**	99
- in over five years	**36**	66	**36**	66
Other				
- within one year	**1,526**	1,191	**1,444**	1,081
- between two and five years	**3,839**	3,647	**2,612**	2,172
- in over five years	**3**	9	**3**	9
	7,877	**7,642**	**5,939**	**5,428**

36. Related Party Transactions

Resident Board and Committee members are charged normal policy rents and receive no favourable treatment in any respect as a result of their membership of the Association.

Sovereign Housing Association holds 100% of the share capital in the following subsidiaries:
Doubloon Developments Limited
Florin Homes Limited
Sovereign Living Limited (registered provider)
Pennyfarthing Building Services Limited
Sovereign Advances Limited
Sovereign Westinghouse Development Limited
Spectrum Property Care Limited
Spectrum Property Ventures Limited

Spectrum Premier Homes Limited is a company limited by guarantee.

The Association also holds 2% of the share capital of Sovereign Housing Capital plc, with 98% held by Sovereign Advances Limited.

Pennyfarthing Building Services is a Member of Kingfisher Building Services LLP with a majority interest of 80%.

Sovereign Westinghouse is a Member in four joint ventures with equal interests from two Partners in each case. These are Linden Homes Westinghouse LLP, Sovereign BDW (Newbury) LLP, Sovereign BDW (Hutton Close) LLP and Kier Sovereign LLP.

Spectrum Premier Homes Limited is a Member in Linden Homes (Sherford) LLP, a joint venture with equal interest from two Partners.

37. Accounting Estimates and Judgements

Assumptions for the Local Government Pension Schemes have been obtained from the annual reports performed by qualified actuaries. The discount rate is the annualised yield at the 19 year point on the Merrill Lynch AA-rated corporate bond yield curve which has been chosen to meet the requirements of FRS 102 and with consideration of the duration of the Employer's liabilities. This is consistent with the approach used at the last accounting date.

The Social Housing Pension Scheme year end liability is obtained from the Pensions Trust using analysis provided by a qualified actuary. To derive the discount rate a £GBP AA Corporate Bond yield curve is used which is supplied by Bank of America Merrill Lynch at the reporting date. The rates from the yield curve are used to calculate a present value of the pension scheme's future agreed deficit reduction contributions at the reporting date. A single equivalent discount rate is then derived.

Rental arrears payment plans are discounted at a rate which management believes is appropriate for the level of risk in the recovery of such debt.

Commercial properties were valued on the basis of open market value as at 31 March 2016. The assessment of rental values is formed purely for the purposes of assisting in the formation of an opinion of capital value and is generally on the basis of Market Rent.

Costs in determining the carrying value of housing properties in current assets are applied as prescribed in the relevant SORP. The apportionment is based on the out turn of the scheme at the reporting date but is subject to future influences from government policy changes and economic conditions.

Estimation of cost of sales on first tranche shared ownership sales has been harmonised as part of the merger process including the treatment of cross subsidy to the general rented element of mixed developments.

38. Sovereign Housing Association Limited - New Merged Entity

On 11th November 2016 Sovereign Housing Association Limited and Spectrum Housing Group Limited merged into a new entity, Sovereign Housing Association Limited. The Association and Group financial statements presented here incorporate the results of both organisations prior to merger and the new entity from merger date to 31 March 2017.

The share of Total Comprehensive Income for the prior year, the share of Total Comprehensive Income in the current year to the merger date with the effect of any accounting policy adjustments and the contribution post merger date, and the share of net assets at merger are disclosed in accordance with FRS 102 PBE34.86.

Total Comprehensive Income 31 March 2016

	Sovereign Housing Association £'000	Spectrum Housing Group £'000	**Total £'000**
Turnover	234,724	118,607	**353,331**
Cost of sales	(18,699)	(16,075)	**(34,774)**
Operating expenditure	(134,922)	(76,123)	**(211,045)**
Operating surplus	**81,103**	**26,409**	**107,512**
Gain on disposal of property, plant and equipment	4,557	(1,286)	**3,271**
Loss on Disposal of subsidiary	-	(254)	**(254)**
Share of operating surplus/(deficit) in joint ventures	1,392	(621)	**771**
Interest receivable and similar income	881	400	**1,281**
Interest and financing costs	(44,682)	(21,892)	**(66,574)**
Movement in fair value of financial instruments	(713)	-	**(713)**
Movement in fair value of investment properties	3,184	173	**3,357**
Decrease in valuation of property, plant and equipment	(178)	-	**(178)**
Surplus before tax	**45,544**	**2,929**	**48,473**
Taxation	-	(255)	**(255)**
Non-controlling interest	(292)	-	**(292)**
Surplus for the year	**45,252**	**2,674**	**47,926**
Unrealised deficit on revaluation of freehold offices and commercial buildings	(566)	-	**(566)**
Actuarial gain in respect of pension schemes	2,472	2,288	**4,760**
Changes in fair value of hedged financial instruments	(10,287)	-	**(10,287)**
Total comprehensive income for the year	**36,871**	**4,962**	**41,833**

38. Sovereign Housing Association Limited - New Merged Entity (continued)

Total Comprehensive Income and Net Assets share in the year of merger

	Prior to Merger Date					
	Sovereign Housing Association £'000	Spectrum Housing Group £'000	Accounting Policy Adjustments £'000	**At Merger Date £'000**	Post Merger £'000	**31 March 2017 £'000**
Turnover	162,610	77,091	(212)	**239,489**	132,092	**371,581**
Cost of sales	(17,311)	(11,681)	-	**(28,992)**	(13,159)	**(42,151)**
Operating expenditure	(76,613)	(41,819)	392	**(118,040)**	(75,479)	**(193,519)**
Operating surplus	**68,686**	**23,591**	**180**	**92,457**	**43,454**	**135,911**
Gain on disposal of property, plant and equipment	5,416	904	-	**6,320**	5,678	**11,998**
Share of operating surplus/(deficit) in joint ventures	665	(226)	-	**439**	(158)	**281**
Interest receivable and similar income	425	329	-	**754**	410	**1,164**
Interest and financing costs	(27,058)	(8,841)	-	**(35,899)**	(28,365)	**(64,264)**
Movement in fair value of financial instruments	-	-	-	**-**	(637)	**(637)**
Movement in fair value of investment properties	-	-	-	**-**	4,831	**4,831**
Decrease in valuation of property, plant and equipment	-	-	-	**-**	(200)	**(200)**
Surplus before tax	**48,134**	**15,757**	**180**	**64,071**	**25,013**	**89,084**
Taxation	-	-	-	**-**	(50)	**(50)**
Non-controlling interest	(159)	-	-	**(159)**	(133)	**(292)**
Surplus for the year	**47,975**	**15,757**	**180**	**63,912**	**24,830**	**88,742**
Actuarial loss in respect of pension schemes	-	-	-	**-**	(6,180)	**(6,180)**
Changes in fair value of hedged financial instruments	-	-	-	**-**	4,489	**4,489**
Total comprehensive income for the year	**47,975**	**15,757**	**180**	**63,912**	**23,139**	**87,051**
Net Assets	**1,371,290**	**135,493**	**180**	**1,506,963**	**22,219**	**1,529,182**

38. Sovereign Housing Association Limited - New Merged Entity (continued)

Accounting Policy Adjustments

A review of the accounting policies of Sovereign Housing Association and Spectrum Housing Group Limited was undertaken.

The adjustments aligning accounting policies are outlined below:

	£'000
Capitalisation of replacement roofs	351
Amortisation of social housing grant	(212)
Depreciation of housing properties	341
Bad debt provision	(300)
	180

Roofs are now capitalised in the whole organisation as this is deemed to be significant enough an expenditure to improve the property to which the replacement relates.

Housing properties previously depreciated over 100 years are now depreciated over 120. The depreciation charge for housing properties has reduced however amortisation of associated social housing grant will reduce as it is also dependent on the life of the asset.

Bad debt provision has been harmonised with all former tenant arrears provided for in full and a scale of provision being raised on tenancy balances depending on their relative age.

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