ANNUAL REPORT
AND FINANCIAL STATEMENTS

2014/15

Contents

Sovereign Housing Association exists to make a difference to people's lives.

We do this by providing quality, affordable housing, investing in people and communities, and supporting our residents in achieving their aspirations.

We provide homes for rent and shared ownership at the exciting Great Western Park development in Didcot, Oxford.

Our year in review

Kerrie and Leila Gilonis have made a Sovereign house their home in Gloucestershire.

Our highlights

We are growing sustainably to achieve more

- We own and manage 37,825 quality homes, for more than 88,000 residents.
- We have built 982 new homes in the last year.
- A strong £2.6bn balance sheet underpins our longer term plans.

We are a strong and effective organisation

- A £45m operating surplus and £103m operating cash flow supports the funding of future growth.
- Current tenant arrears reduced from 2.83% to 1.99%.
- £21m efficiency savings delivered over a four year period.
- Homes and Communities Agency Viability and Governance ratings maintained at V1 and G1.
- Moody's A1 and Standard & Poor's AA credit ratings maintained.
- Stock disposal proceeds of £82m.

We invest in great homes and communities

- We supported 113 residents into employment, with an additional 413 helped towards work through training, volunteering or work experience opportunities.
- £3.1m invested on resident and community initiatives.
- The re-let time for vacant properties was reduced by five days to 21 days.
- 136,195 repairs were completed, 96% within the target time.
- We invested more than £140m to build and acquire additional homes.

We have talented people working together

- Our employee engagement score of 80% keeps us in the top 10% of UK employers.
- 15 apprentices recruited as part of our ongoing plan to provide employment and training opportunities for young people.
- Our commitment to investing in our employees has been recognised by the Investors in People's Gold Standard.

Chair's statement

The world in which housing associations operate is changing fast, and I believe Sovereign continues to adapt effectively to meet the challenges. Over the last year we have improved our service performance and continued to build almost 1,000 new homes across a range of tenures. We achieved this while also delivering an impressive financial performance.

We understand the need to control the benefit bill and to deliver greater efficiency across the sector. We recognise we can and should do more to support this agenda. However, we are concerned that the recent Budget announcements, including planned welfare reform, the 1% rent reduction each year for four years and the extension of Right to Buy to housing associations, will reduce our ability to provide more affordable homes at a time when there is growing pressure to increase supply.

The measures to reduce the benefit bill by £12bn, including freezing working-age benefits and lowering the benefit cap, will impact our residents' finances and their ability to keep up with rent payments, despite the proposed increase in the minimum wage. Meanwhile Right to Buy, while supporting aspirations, will see valuable social homes lost.

Looking forward

As a charitable organisation we have an obligation to provide homes and services for people in housing need and, with the current housing shortage, this number is growing. Striking the right balance between investing in support for our existing residents, many of whom will be severely impacted by the welfare changes, and subsidising new supply will become more challenging.

It is clear that the Board will have tough choices to make about future priorities. We are currently reviewing our forward plans to see how we will accommodate the change in the rent formula which will lead to a reduction of about £24m in our income over the next four years.

However we start from a good position. The combination of strong underlying performance along with sales proceeds has resulted in a surplus for the year of £45m, the majority of which will be used to support the building of new homes. We have also successfully achieved £21m of savings over the last four years, delivered while continuing to perform well across a range of resident services.

Providing lenders continue to see the sector as a good investment, we will use our financial strength to build as many homes as possible. We will also continue to support our residents, including helping people towards employment and financial independence.

Affordability

Across our operating area there is a growing recognition of the chronic shortage of new homes, particularly affordable ones. To tackle this, the government has pledged to build 275,000 affordable homes, which is a positive move and one we support.

The affordability of housing is a key issue and as a country we need a range of housing products that support people from different income groups and at varied life stages. Home ownership has been a successful route for many but is not right for everyone. Given the increasing gap between house prices and incomes, we believe that low rent housing will always be needed.

We are committed to playing our part in building these much-needed affordable homes and will maintain a substantial development programme. However, given the impacts of the rent reductions and welfare reform, we are likely to review the types of homes we build.

Partnerships

Over the last 18 months we've been working closely with key local authority partners to redesign our relationships in order to build more new homes and deliver greater operating efficiencies, for mutual benefit. The recent policy changes make these new partnerships even more important.

We are also working more closely with housebuilders through joint ventures. This combines our skills and experience, with Sovereign providing land and investment in return for a share in the profits, which can be reinvested in more new homes. This is a model in which we will be investing more in over the coming years.

Our Board

During the year, there were a number of changes to the Board. Gerry Boyle and Gill Sinkinson stood down after long periods of service and Matthew Sands left on ceasing to be a Sovereign resident. Ron Manley will also leave in September after 10 years' service. I would like to thank all of them for their dedication and for their contribution to Sovereign's success.

I'd also like to welcome our new members, who bring fresh outlook and challenge. I look forward to working with them, and all our partners, as we continue to deliver our core purpose of building homes and creating communities. I would also like to thank Simon Byng and his colleagues on the Residents' Council and regional panels as well as all our employees for their dedication – the successful year is down to their hard work and commitment.

John Simpson, Chair

Chief Executive Officer's statement

In May 2014 we launched our most focused and challenging strategy yet. We reaffirmed our social purpose and set out how we would use our independence and financial strength to meet the needs of our current and future residents.

This included a commitment not to convert any of our social rented homes into the more expensive Affordable Rent. Although this reduced the amount of income we could generate, we believe social rented homes are central to creating places of opportunity where people on low incomes can flourish.

It also meant rationalising our stock to concentrate activities in a tighter geographic area so we could provide residents with an even better and more efficient service.

However with the recent policy announcements, which have dramatically changed the world in which we work, we're now reviewing and reshaping our approach.

A strong year

We have increased our surplus this year, which demonstrates our effective management and operating efficiencies. This was achieved against a backdrop of lower income inflation, higher external costs and reduced income where we have already disposed of some of our outlying stock.

We continue to use our strong financial performance to leverage in additional funding enabling us to invest more than three times our annual surplus on new homes.

We have also invested in additional support for our residents, which has resulted in a reduction in rent arrears to below 2%. This is an excellent result given continuing welfare reform. Our teams have engaged with residents, helping them to understand the changes, obtain support where available, and facilitate moves to smaller properties where desired - demonstrating the adaptability of both our residents and the business.

And we continue to deliver a large development programme. In addition to our traditional housebuilding and Section 106 opportunities, we over-delivered on our Affordable Homes Programme 2011-15 commitments. Over the four year programme, we delivered 1,383 new affordable homes for £17.2m in grant, and in addition provided 2,114 new homes without grant funding – a total of 3,497 new affordable homes – playing our part in meeting the government's supply challenge.

Growing sustainably, to deliver more

It is now four years since we consolidated the group into one Sovereign and we have continued to be more efficient and effective. In addition to supporting a major development programme we have:

- introduced a new approach to voids, which was shaped by our Residents' Council, and means we are now able to turn a void property into a new home in an average of 21 days, five days faster than 2013/14.
- completed 136,195 repairs, with 96% being achieved within the target time.
- supported 113 residents into employment, with a further 413 residents supported towards their goal of employment through the provision of training, volunteering or work experience opportunities.

While focusing on efficiency we understand that strong operational performance requires us to have modern, efficient support systems. Residents are interacting with us using a range of channels, including computers, tablets and mobile phones. Consequently we are making a significant investment in our IT systems to improve our resident-facing systems and to drive out further operational savings. However this will not entirely replace the face to face services that I know many of our residents need and value.

Given the increasingly challenging environment, we also believe size matters and that being a larger regional association would enable us to be even more efficient. Our strategy includes a plan to grow to 50,000 homes by 2018, through a combination of development, property purchase and swaps, as well as looking at potential merger opportunities. This growth will bring greater independence and capacity, both financially and operationally, to build additional homes and help more people in housing need.

And finally

No organisation can succeed without committed employees dedicated to delivering its vision. The Sovereign team is focused on supporting residents to have the best opportunities possible and to continue to build new homes for those increasing numbers of people who need our support. At the end of the day our purpose is to make a difference to people's lives by providing a safe and secure home, regardless of whether they own or rent.

Ann Santry, Chief Executive Officer

Who we are

Sovereign is a social business, committed to developing great homes and communities and meeting the interests of our residents and partners. Living up to that commitment is at the heart of what we do and central to our decision-making.

We are a strong and effective organisation where talented people work together to make a real difference to people's lives. We combine our social ethos with a forward-thinking commercial approach which allows us to grow sustainably and deliver more for people in housing need.

Our business

We build and provide homes for a range of people in need, including social rent (50-60% of market rates), Affordable Rent (up to 80% of market rates) and private rent (100% of market levels). We also offer the chance to own a home, through shared ownership and outright sale. We take care to maintain and repair our homes, and, for those residents that need them, we offer a range of support services to help them achieve their aspirations. This could be support towards work or training, or help to get online.

Although we do receive some capital funding from government, we are an independent business. We use our organisational strength, stability and resources along with funding from the banking and capital markets to maintain and grow our business, delivering more homes and improved services to those in need. Of our 37,825 homes, 83% are provided at rents below the open market rate, 14% support people into home ownership and 3% are available at market rent.

Jesse Meek, our Head of Operations in Berkshire, was one of 24Housing magazine's top 10 Young Leaders in 2014.

Our values

Our values underpin who we are and what we do.

Service

We are committed to the interests of our residents and partners, living up to that commitment is at the heart of what we do and central to our decision-making.

Collaboration

By working together and drawing on our skills, knowledge and experience, we are stronger and more effective in everything we do.

Integrity

We aim to do the right thing; respecting our residents, partners and colleagues and balancing our ethical, social and financial responsibilities.

Progressive

We constantly challenge the way we do things, making plans for the future and aiming to deliver more.

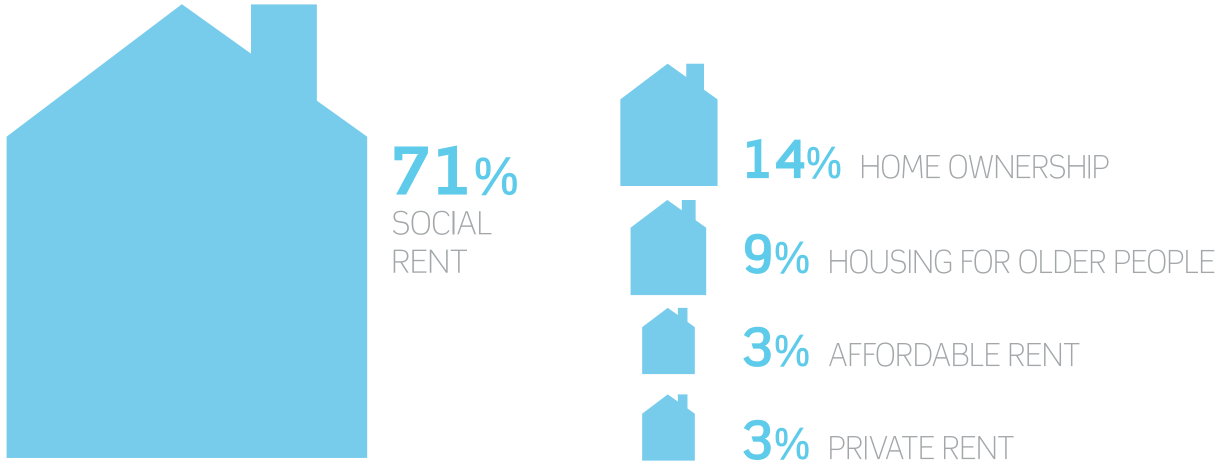
Our people

Our people are our most important asset. A successful business relies on its employees to achieve its social and commercial objectives and to live its values every day.

We strive to be an employer of choice, attracting and developing the best talent. We do this by investing in our employees, and we regularly receive exceptional employee engagement scores in our annual survey. Our commitment to investing in our employees' learning and development has been recognised by the Investors in People's Gold Standard.

We know that a diverse and inclusive culture is crucial to a successful organisation. We continue to work to create equal opportunities, integrating equality and diversity into business thinking and creating a clear culture of inclusion – all of which will help us to improve the services we provide to our residents.

Our residents have diverse backgrounds, incomes and ambitions, and so we provide a range of housing options to meet their needs.



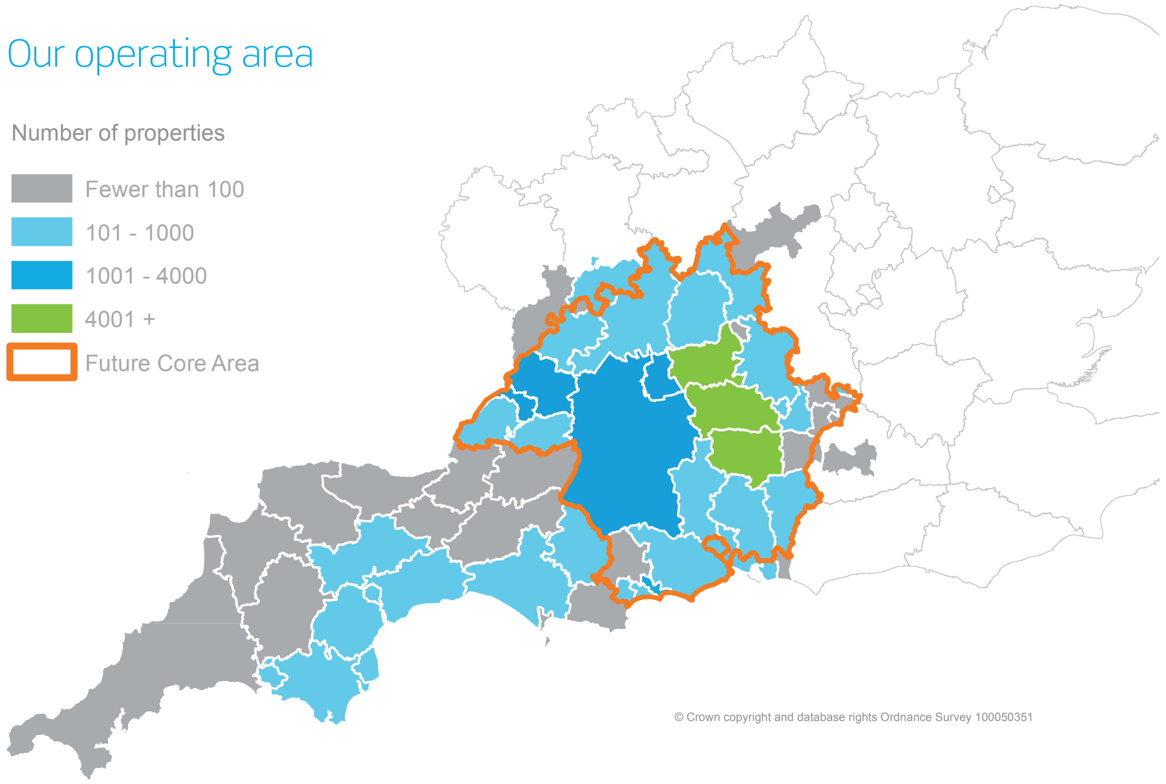
Local focus, national influence

We work in the south and south west of England, where demand for homes far exceeds supply. House prices and rents have risen sharply in this area, while wages have stagnated. This continues to make the affordability of quality accommodation a challenge for many.

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 pride ourselves on our partnerships with national and local government, Local Enterprise Partnerships, the Homes and Communities Agency (HCA), businesses, investors, community and charitable groups and many more.

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

Our operating area



Our strategy for the future

Sovereign's size and geographic focus already make us a leading housing association in the south and south west. We take this leadership role seriously, and our current strategy is based on robust research and stress testing. We recognise that responsibility for our business and for our residents' homes rests with us.

Our strategy covering 2015-18 reaffirms that Sovereign will remain a social business, dedicated to providing good quality rented homes to people in need. It also recognises that to do this effectively we will need to build even stronger relationships with key stakeholders, particularly local councils.

We have therefore embarked on a major stock rationalisation programme which will see around 10% of our stock swapped or sold to other housing associations as we focus on a tighter geographical footprint. This will enable us to build more productive relationships with fewer than 30 local authorities, rather than the 60 that we currently work with. The rationalisation programme is underway with strong interest from other associations and we are keeping those residents directly affected fully informed as our plans progress.

Delivery of our strategy is supported by a detailed plan, and a suite of focused performance measures, with progress reported to the Board at six-month intervals.

Alison Caves, a Tenancy Support Advisor in Dorset, helps residents to live successful, independent lives.

The key elements of the strategy are:

Great homes and communities

Great homes and communities are at the heart of what we do, and social rented homes are vital in supporting people on low incomes to flourish. We will retain our low social rents and provide more quality homes and services to people in need.

Growing sustainably to deliver more

We will play our part in meeting housing need in the south and south west. Using our capacity to deliver a balanced development programme, and combining this with our experience in stock acquisition, we are aiming to grow to 50,000 homes by 2018.

A strong and effective organisation

Our organisational strength allows us to do more for our communities. Our Value for Money strategy is making us leaner and more resilient, ensuring our investment makes the biggest difference. We will invest more in our IT systems and capabilities, to ensure we have strong foundations on which to improve services and deliver further operating efficiencies.

Talented people, working together

Every employee has a crucial role in making our strategy a reality. We have high levels of employee engagement, and are continuing to develop an even more performance focused culture – supporting our people in achieving their potential.

The world in which we work

In order to deliver our purpose, providing quality affordable homes and creating thriving communities, we take the time to identify the current and potential risks that could affect our business, our residents and our partners.

A General Election and new policy

While this report focuses on the final year of the Coalition government, the General Election in May 2015 returned a majority Conservative administration with a clear manifesto which included the planned introduction of the Right to Buy for housing association residents. In July, the Chancellor set out further extensive welfare reform measures in the Budget, as the government seeks to save £12bn from the benefit bill.

These measures include freezing working age benefits, reducing the household benefit cap to £20,000 (outside London) and limiting Child Tax Credit. To date we have largely mitigated the risk of the social sector size criteria (the 'bedroom tax') through targeted investment and support, however these new measures will have a very significant impact on our residents' finances. This also presents a potential risk to our rental income, in turn affecting our ability to provide services and our capacity to build new homes.

The Budget also included plans to reduce rents for social housing by 1% a year for four years. This will ease the pressure on residents, but will have a substantial impact on the finances of housing associations.

The extension of the Right to Buy to housing association properties is an opportunity for more people to buy their own homes and as a principle this is something that we welcome. However the detail of how the scheme will operate and how housing associations will be reimbursed for the discounts is still awaited. We look forward to working with the government to help design the new scheme, so that it enables more homes to be built to replace those sold.

These new policies when combined will put greater pressure on local budgets, whether through reducing capital grant or vital support services. Looking ahead we will need to develop new and innovative partnerships with local authorities, other housing associations and charities, along with delivering greater operational efficiencies from within the business, so that we are able to continue to achieve our shared purpose.

Building the homes we need

Sovereign is committed to providing new homes across a range of tenures. Housing associations and local authorities working together will have a crucial role in achieving the government's commitment of building 275,000 affordable homes over the next five years.

Currently housebuilding outputs remain low and it has been a challenging environment to build in, with many competing priorities as well as a serious shortage of skilled labour and materials. However we are continuing to explore all routes to deliver our growth targets.

With the amount of government grant available continuing to fall, Sovereign is committed to using its own resources to build more homes, and we have plans to provide around 1,000 additional homes per year for the next five years across a range of tenures.

The economy and our residents

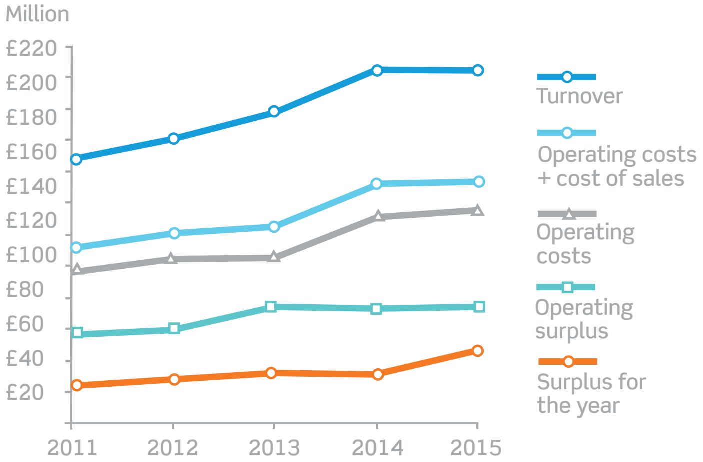
The economy continues to recover with sustained growth and improving living standards. However not everyone is benefiting. The growth in employment masks a trend towards more part-time, less sustainable work and those with lower incomes have been disproportionately affected by welfare changes. This group also benefits less from the low interest rate environment which has seen base rates maintained at 0.5% for a number of years.

This puts increased pressure on our residents' household budgets and regular bills such as rent, which can put our income at risk. For the last two years, we've been supporting residents with advice on ways to manage finances effectively, move towards employment or apply for any benefits that they are entitled to. This investment will need to continue given the additional benefit changes announced in the Budget.

Our performance report

Financial and operating performance

Sovereign continues to build upon its financial strength through increased efficiency and by focusing our activities, both operationally and geographically, where we can have the greatest impact. Although turnover remained flat in the year, our operating surplus increased slightly to £72.4m (2014 £72.1m) and the net surplus increased by 47% to £45.2m (2014 £30.8m). The increase in net surplus was primarily driven by stock rationalisation gains resulting in a surplus on disposals of £16.9m compared to £2.4m in the previous year.



The balance sheet reflects the strong operating performance which, when combined with revaluation gains on properties, increased by £151m to £2.6bn (2014 £2.5bn). After allowing for long-term liabilities, capital and reserves increased by £116m to £1.5bn (2014 £1.4bn). This provides a solid financial foundation to support the delivery of the longer term development and growth strategy.

After 12 years in a social rented home, Keith and Inge Parnell became shared owners in Pangbourne, Reading.

Turnover

Turnover reduced by 0.2% in the year as the business refocused on its key operations. Rents from Sovereign's core strategic business of providing social housing grew by £7.7m (4.1%) through a combination of rent increases and new properties being developed. The market rent activity remained in line with the previous year reflecting consistent performance of the portfolio with shared ownership first tranche sales reducing slightly in line with the lower level of property completions in the year. Open market sales reduced significantly as Sovereign intentionally limited its exposure to this activity, by working in joint ventures with housebuilders and thereby sharing the development risk.The reduction in other activities is due to lower levels of development services, primarily through a reduction in the HomeBuy contract.

Turnover	£m 2014/15	£m 2013/14	Variance
Social property rent	193.9	186.2	+4.1%
Market rent	8.0	7.7	+3.9%
Shared ownership first tranche sales	17.6	18.6	-5.4%
Open market sales	1.0	6.5	-84.6%
Other activities	3.1	5.0	-38.0%
Total	**223.5**	**224.0**	**-0.2%**

Operating costs

	£m 2014/15	£m 2013/14	Variance
Employee costs	46.1	40.1	+15.0%
Depreciation	23.5	19.8	+18.7%
Other costs	64.5	69.8	-7.6%
Total	**134.1**	**129.7**	**+3.4%**

These costs have increased by £4.4m (3.4%), mainly due to higher employee costs and depreciation.

Employee costs

These costs have increased by 15%, primarily through our investment in additional employees to support the following:

Service delivery

Insourcing more maintenance employees so that we are less reliant on external contractors, therefore reducing costs and realising VAT benefits.

Investing in our infrastructure

Increasing our in-house IT capacity to ensure that we are maximising the use of new technology to deliver operational efficiencies across the business.

These increases along with a £1.1m increase in pension costs and a 2% pay award resulted in a £6.0m annual increase.

Depreciation

Depreciation increased by £3.7m reflecting the higher value of the fixed assets along with a £1.8m increase associated with a decision to replace kitchens on a 20 year rather than a 25 year lifecycle.

Other costs

These costs reduced by £5.3m with the main element being a £6.0m reduction in impairment charges to £0.1m (2014 £6.1m).

Other key changes include:

- a £6.2m increase in repairs, planned routine maintenance and major repairs expenditure of which £0.8m has been capitalised.
- a £0.8m reduction in bad debts due to the improvement in our rent collection.

Other costs and activities

The net surplus on sales of housing assets increased by £14.5m to £16.9m (2014 £2.4m) with the majority of this (£12.0m) relating to the sale of housing assets as part of the stock rationalisation strategy. The other elements include proceeds from asset management sales, the sale of further elements of shared ownership properties ('staircasing') along with Right to Buy and HomeBuy sales.

Net interest payable increased by £0.8m to £43.8m as additional long-term loans were drawn to support the development programme. The average interest rate payable over the year reduced slightly to 4.25% from 4.3%.

Balance sheet

The balance sheet has continued to strengthen, reflecting our strong performance during the year, the ongoing investment programme and gains made on asset revaluations. This strength remains a key part of the business strategy ensuring resilience in the current policy environment.

At March 2015, fixed assets totalled £2,613m (2014 £2,465m), an increase of £148m on the previous year. The key elements of this increase include £119m investment in new developments, £21m on acquisitions of housing stock from other housing associations, £10m of capitalised improvements on existing properties and revaluation gains of £72m. These increases were partially offset by depreciation (£24m) and disposals (£61m) as part of the stock rationalisation strategy. Fixed assets also include a £17m increase in investments; this being cash deposited to cover margin calls on the Group's portfolio of interest rate swaps.

Cash and short term investments increased from £36m to £49m as the group ensured it had sufficient liquid assets in place to cover both short term margin call fluctuations and the ongoing development programme. This was supported by the drawing of an additional £42m of bank funding taking the year end long-term debt position to £1,141m.

Total reserves strengthened to £1,458m with the revaluation reserve accounting for £932m and the income and expenditure reserve £526m, an increase of £41m.

Cash flow

There was a £3.1m increase in cash in the year against a decrease of £6.9m in the previous year. The operating cash flow remained steady, with the main movements in the Group's cash flow being:

	£m 2014/15	£m 2013/14
Operating activities	103.0	102.6
Returns on investment and financing	(48.2)	(46.8)
Capital expenditure and acquisitions	(152.1)	(125.1)
Grants received	4.2	18.3
Receipts from disposals	81.7	11.2
Collateral deposits	(16.7)	4.0
Short term investment and loans	31.2	28.8
Net increase/(decrease) in cash	**3.1**	**(6.9)**

The table highlights that the significant investment in new assets (£152.1m) was partially funded via asset disposals (£81.7m) minimising the need for the Group to draw additional funding in the year. Other key aspects are the £16.7m of cash deposited to cover collateral calls on interest rate swaps and the £14m reduction in grant receipts reflecting the reduction in government support to affordable housing.

Development and investment programme

In 2014/15 we delivered 982 new homes across a range of tenures. This is slightly below our recent history and our internal target for the year reflecting a challenging housing market. This includes developers focusing on completing properties for open market sales along with materials and skills shortages.

2014/15 is the final year of the government's Affordable Homes Programme 2011-15, a period in which we built 1,383 homes, 314 more than originally forecast, with no additional grant. Looking forward, we have successfully bid for £2.1m of grant under the new, three-year programme, and will look to add to this throughout this period.

In addition to the government's programme, we built 2,114 affordable homes using our own resources since 2011.

Affordable homes in Colyton, Devon.

Number of properties	2014/15 with grant	2014/15 nil grant	2014/15 Total	2013/14 Total	2011-15 Total
Social rent	98	340	438	569	2,279
Affordable Rent	143	196	339	168	550
Intermediate market rent	–	–	–	23	63
Shared ownership	74	128	202	257	907
Market rent	–	1	1	70	243
Open market sale	–	2	2	26	44
Commercial	–	–	–	–	43
Total programme	**315**	**667**	**982**	**1,113**	**4,129**

The 2011-15 total includes 239 properties built with grant from pre-2011 Affordable Homes Programmes.

Future programme

Our current development strategy, which sets out how we will use our expertise and resources, aims to build around 1,000 homes a year over the next five years. However, given the various new policy changes announced by the government, we are currently reviewing our development strategy and the range of tenures we were planning to provide in line with our revised business plan.

Prior to these announcements we were committed to expanding our shared ownership portfolio, which currently stands at more than 4,000 homes. We were also increasing our private rent portfolio and using our commercial and local knowledge to identify opportunities for working more closely with the private sector on joint ventures.

Stock rationalisation

Our stock rationalisation strategy has identified the need to swap or sell up to 10% of our homes in non-core areas. Our preference is to swap homes with other housing associations, in order to maintain growth and income in our core area. We will however consider sales where swaps are not beneficial. As part of this strategy, we disposed of 665 homes and acquired 294 homes during the year.

The most significant transaction was 363 homes sold to Thames Valley Housing Association across January and February 2015 which resulted in a cash inflow of £38.5m, along with the swap with Knightstone which saw 276 homes disposed of and 229 received in return. Allowing for differing values in properties, this resulted in a net payment of £1.5m.

Depreciation and investment in our homes

Investment in our existing homes is a key part of Sovereign's strategy and during the year we undertook a survey of over 15,000 properties to update our stock condition information. The additional data collected will enable our property repair and investment programme to be delivered in a more efficient and effective manner, through the development of a more robust planned maintenance programme. In addition a decision was made to replace kitchens on a 20 year, rather than a 25 year life. This resulted in an additional £1.8m depreciation charge in the year.

During the year, £39.0m was spent on our homes of which £10.4m was spent on existing homes for investments such as new kitchens, bathrooms, windows and heating systems. In addition to the ongoing investment plan, we spent £3.0m on our Warmer Homes programme – this targets the least thermally efficient properties and can include items such external wall insulation, air source heat pumps and mini Combined Heat and Power (CHP) systems.

Investment in infrastructure

Sovereign's operations depend upon a number of major IT systems to support frontline employees such as housing officers and maintenance technicians along with back office systems that support accounting and asset management.

During the year, Sovereign undertook a comprehensive review of its IT infrastructure and has committed to spend in excess of £6m over a two year period replacing most of its network, server, PC and phone infrastructure. Not only will these investments allow more efficient and effective operations, they will transform the business's resilience and enable greater mobility for service teams.

Charlton Hayes, Bristol, is our largest current development.

Treasury management

Treasury and funding are key for Sovereign ensuring that sufficient facilities are in place to support the longer term strategy. A strong and established governance procedure is encapsulated in the Treasury Management Policy which sets the framework for managing the treasury activities, with the Board delegating responsibility for the approval and regular review of the policy to the Treasury Committee. The strategy is reviewed at least annually, which is documented in the Annual Treasury Plan signed off by the Treasury Committee.

Capital structure

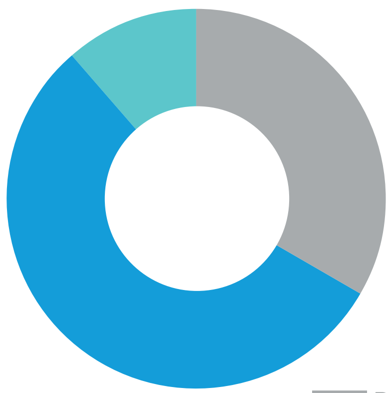
Sovereign is financed by a combination of capital market bonds, long-term bank debt, Social Housing Grant funding and retained surplus. The bank debt is provided by five principal lenders.

All Sovereign's bonds and bank debt are secured by way of charges on properties. At 31 March 2015, there were more than 11,000 further properties available to be pledged as security for additional borrowings with an existing use value in excess of £650m. This excludes properties earmarked for disposal as part of the stock rationalisation strategy. This ensures that future capacity remains available to support ongoing investments.

There has been no requirement to raise further funding during the year, due to strong operating cash flows and proceeds from property disposals. We have nevertheless continued to monitor the funding market and a number of financial institutions have indicated an interest in providing additional funding of various types, should it be required.

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.

Total facilities



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. Future compliance is considered as part of the business planning process with interest cover and gearing included within Sovereign's suite of Financial Standard measures for which minimum or maximum target levels are set. There have been no covenant compliance breaches and our business plan continues to maintain considerable headroom in relation to financial covenants in the future.

Liquidity

Sovereign has a minimum liquidity policy which requires cash and confirmed finance facilities to be in place to cover the expected financing requirements for at least 18 months. At 31 March 2015 Sovereign's undrawn loans totalled £144m while we also held £49m in cash, including cash on notice deposit (reflected as current asset investments in the balance sheet). We remain well placed to capitalise on development and stock acquisitions 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 19 years with only £92m of Sovereign's total £1,275m 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.

Interest rates

Sovereign's bonds bear interest at fixed rates. Bank debt is partly at fixed rates, by virtue of embedded interest rate derivatives, and partly at variable rates. The variable rate bank debt has in part been fixed through the use of standalone interest rate derivatives.

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 movements in interest rates. The interest rate hedging strategy is adjusted as required.

At 31 March 2015, 77% of drawn debt was at fixed rates or at rates fixed through the use of derivative financial instruments. This proportion increased to 82% during the first few weeks of the new financial year as a result of entering into further interest rate swaps, but will reduce as undrawn bank debt is drawn down to fund Sovereign's development and stock acquisition plans.

During the year, call options were bought out from several interest rate swaps, either for cash or by rolling into a higher rate. This eliminates the risk that those swaps will be terminated early by the counterparty. The fall in forward rates during the year considerably reduced the cost of these transactions.

Operational performance and customer service

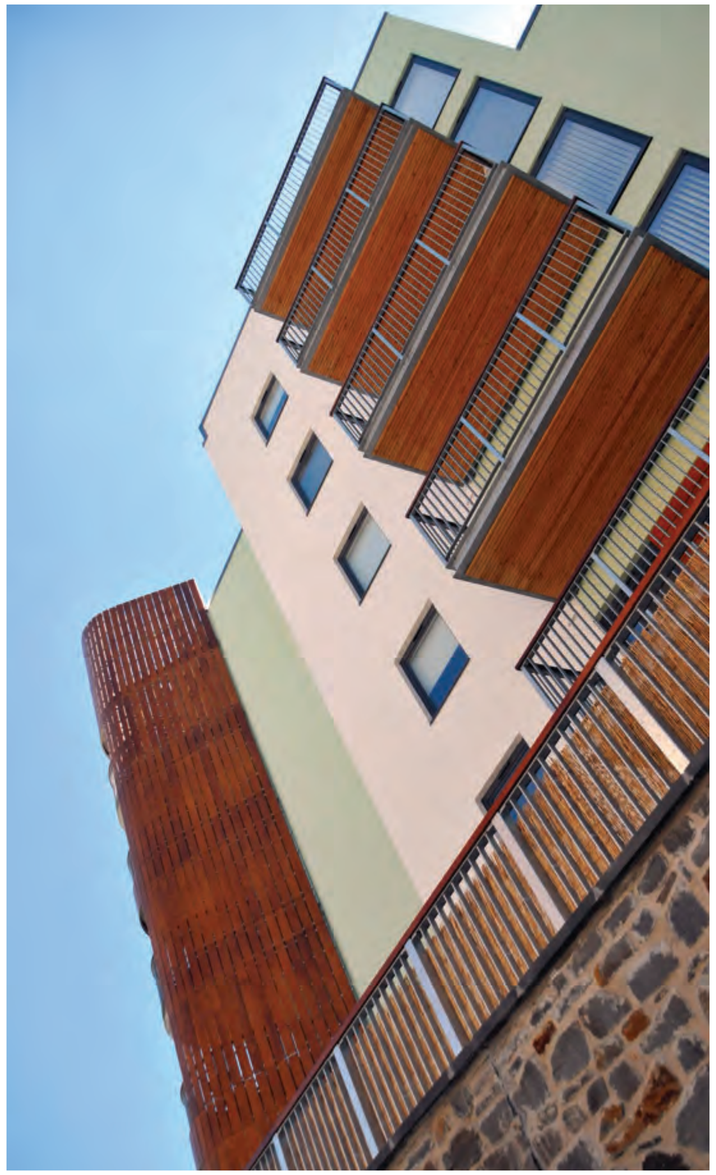
The service we provide to our residents and partners is a key measure of success. There were in excess of 650,000 calls to our Connect contact centre during the year and although we try our best, we know that we do not always meet the expectations of our customers.

The feedback we obtain is valuable as it helps to shape our future and prioritise where we invest. Some examples of feedback and the future actions are highlighted below:

WE INVESTED...	WE DELIVERED...	OUR CUSTOMERS SAID...	NEXT YEAR WE WILL...
£24.9m ON ROUTINE MAINTENANCE DOWN FROM **£25.7m** IN 2013/14	**136,195** REPAIRS COMPLETED **96%** COMPLETED WITHIN TARGET	**90%** OF RESIDENTS **SATISFIED** WITH RESPONSIVE REPAIRS	• introduce a new, more flexible, appointment process. • improve our procurement processes, so we only buy what we need to do the job. • make sure services are consistently good quality, wherever you live.
£39.0m ON PLANNED MAINTENANCE & MAJOR REPAIRS UP FROM **£32.0m** IN 2013/14	**999** KITCHENS **617** BATHROOMS **2,212** DOORS & WINDOWS **1,782** NEW BOILERS OR HEATING SYSTEMS	**92%** OF RESIDENTS **SATISFIED** WITH: • PLANNED WORK • CYCLICAL PROGRAMMES • QUALITY OF THEIR HOME	• invest more in planned, rather than responsive, maintenance. • carry out more condition surveys on homes less than five years old. • make around 300 more homes energy efficient as we tackle fuel poverty. • work towards a minimum SAP50 rating for all homes by 2020.
IN IMPROVING **LETTINGS** & HOW WE WORK WITH **LOCAL AUTHORITIES**	**696** MUTUAL EXCHANGES **2,644** NEW LETS & RELETS AVERAGE RELET TIME REDUCED FROM **26 TO 21 DAYS**	**95%** OF RESIDENTS **SATISFIED** WITH MOVING INTO THEIR NEW HOME **91%** OF RESIDENTS **SATISFIED** WITH MUTUAL EXCHANGES	• introduce any day tenancy start dates. • map a new residents' journey, to better understand how we can improve our processes.
IN A NEW **COMPLAINTS** PROCESS AND RAN **INSTITUTE OF CUSTOMER SERVICE** TRAINING FOR FRONTLINE TEAMS	**39** COMPLAINTS PER 1,000 HOMES DOWN FROM **41** LAST YEAR	**71%** OF RESIDENTS WERE SATISFIED WITH HOW THEIR COMPLAINT WAS MANAGED UP FROM **55%** LAST YEAR	• review how we gather feedback on how a complaint is handled. • use feedback to better understand residents' complaints, to inform the services we provide and how we provide them.

Risk management

A key aspect of our business risk is associated with having to make long-term decisions against a background of increasing short term risk and uncertainty such as recent changes in government policy, the economy and wider society.



Argentia Place, Portishead Marina.

Sovereign takes a long-term and responsible approach to risk management, proactively identifying and managing risks and opportunities which may impact on Sovereign's strategic objectives. This is to ensure we can adapt and respond to changes as they arise, safeguarding the organisation and its residents.

The Board has ultimate ownership of risk management with its sub-committee, the Audit and Risk Committee (ARC), taking the role of overseeing risk management activities.

We use the risk register to identify and monitor all strategic risks and score each one for impact and probability, taking into account the strength of the controls. Where risk exceeds our risk appetite further actions are planned and implemented. The risk framework is also supported by the annual assurance statements from each of the Executive Board Directors and all Board sub-committees for the benefit of the Board.

All strategic risks are considered and reviewed quarterly by the Executive Board and ARC with more frequent reviews if considered necessary. A new risk management recording system is in the process of being implemented which will enable key employees to have direct access to the live risk system. Not only will this enable a more up to date register to be maintained at all times, it will facilitate the cascading of risk management and controls throughout the business.

Another key part of risk management is environment scanning, which allows early warning signs to be detected and responded to. This is part of the engagement and reporting process to ARC and includes the capturing of any learning from risk events from within the sector, such as those reported in the HCA's regulatory judgements.

The internal risk management process is supported by the Business Assurance Team which coordinates the risk register and also manages the internal audit programme. This enables the internal audit programme to respond to the risk register, ensuring those areas considered higher risk are covered more frequently. The resulting internal audit programme is agreed by ARC and is delivered by the in house Internal Audit team, supplemented by specialist audits delivered by independent auditors where necessary.

The financial risk implications of potential changes in the operating environment, whether due to internal or external factors, are regularly tested against the Business Plan. This stress testing is undertaken on a multi-variable basis to ensure that the Board is mindful of the combinations of factors that could cause financial distress, and the contingent mitigation strategies. In light of the recent Budget announcements a full review of the risk map is being undertaken and will be updated as detailed policy guidance is issued.

Organisational risks and response – as at March 2015

The Risk	Response/comments
Detrimental impact on income streams due to welfare benefit reform, inflation and other economic changes.	Sovereign is committed to understanding the full impact of the government's welfare reforms, taking steps to ensure residents have access to advice and their income is maximised through access to employment and training initiatives.
Breach of loan covenants which results in renegotiation of loan arrangements or the loan/s becoming repayable.	Sovereign has considerable headroom on the core financial covenants and maintains a Finance Standard which outlines the minimum or maximum financial parameters within which the business should operate which are within the loan covenants and reflects our risk appetite. Both the Board and the Treasury Committee have run sensitivity tests and scenario analyses, considering options for recovering from adverse movements in the financial outlook and changes in the financial markets.
Failure to deliver and implement a single core IT infrastructure and IT operating standard which meets the needs of the business.	A major programme of IT investment is underway to ensure business consistency across all areas of operation, that employees are equipped with the tools to work effectively in the office and remotely, and that residents can be served both face to face and electronically.
Issues and liabilities arising from pensions, including auto enrolment and scheme deficits and cessation events.	Strategies have been developed to minimise the risk including closing the defined benefit schemes and mitigating potential losses arising from cessation events which are triggered when the last person in the closed scheme leaves.
Inadequate management information to support decision-making and enable performance management.	In a tighter, more risky economic climate Sovereign is further developing its suite of financial and management performance indicators to ensure they are fit for purpose and support effective decision-making for all users.
Data protection and IT security breaches.	Sovereign handles large volumes of data, some of which may be deemed confidential or sensitive, and is taking steps to deliver on its duty of care to obtain, process and store data within the requirements of the Data Protection Act 1998. This includes enhancing document retention and IT use policies along with virus protection and training employees on their roles and responsibilities.
An uncertain, complex and ambiguous environment impacts on Sovereign's organisational resilience.	There is a focus on change management and ensuring clarity of organisational goals and expected behaviours, alongside regular performance monitoring and feedback.
Charge ready security is insufficient to enable borrowing as and when required.	All of Sovereign's borrowings are made on a secured basis with banks and other institutions taking a charge over certain properties when they lend money to us. We ensure that sufficient charge ready security is available at all times and we are developing our existing assets and liabilities register to further support this process.
Failure of the Board and Executive to lead and manage the organisation with an appropriate degree of skill, competence and foresight.	Sovereign undertakes an annual collective Board effectiveness assessment, robust Board selection and recruitment process and Executive performance appraisals. There is also an annual assessment of compliance with the National Housing Federation's Excellence Governance code.
Failure to identify and respond to external change, which impacts on the housing sector and on Sovereign in particular. This could lead to Sovereign not responding to opportunities and threats in a timely or appropriate manner.	The Executive and the strategy team monitor changes externally and are active on a number of government working parties. This enables Sovereign to both influence and have early warning of and insight into potential changes.

A value for money business

Sovereign's Board and executive team are committed to building the organisation's strength and resilience. They have set ambitious efficiency targets and are challenging the business to consider social value, resident value and financial health when making investment decisions.

Value for Money 2011-15

Sovereign has successfully saved £21m since 2011, exceeding the £20m efficiency target. In 2014/15 we saved £4.7m.

This target was set by the Board to ensure that scale efficiencies were made by the business in the merger of four separate operating entities into a single organisation. During the four years the Board also challenged us to meet an EBITDA target, as this measures operational financial performance, one of the key drivers of value for money. We achieved a 42.9% EBITDA margin, ahead of the 42.0% target.

For 2014/15 along with the £4.7m efficiency targets achieved, we also delivered £0.7m of match funding, £0.5m of direct payments to our residents and set up procurement savings of £2.4m that will deliver over the life of the contracts negotiated this year. We also achieved £3.1m of social value, through our community investment work. This is evidence that we take a multifaceted approach to value for money, for our residents, society and business.

We achieved success by focusing on each stage of the lifecycle of the business:

- Managing our assets
- Leveraging our assets
- Development of new properties
- Collaborative joint ventures
- Operational excellence
- Building a resilient business
- Community investment
- Investing in our society and environment
- Wellbeing valuation (social value)

Managing our assets: Strategic asset management

Sovereign is committed to making the best use of its assets, and we are one of the most experienced housing associations at stock rationalisation.

We have developed a detailed methodology to understand the value of our stock, balancing the needs of our business and the wider community, in order to inform our decision-making.

As part of our strategic objective to provide a high standard of service cost-effectively, we have undertaken a number of disposals, acquisitions and stock swaps with other associations over the past year to reduce the geographical footprint in which we operate.

The decision-making on stock options is supported by rigorous appraisals of all potential options for improving value for money including the potential benefits of alternative delivery models, measured against our purpose and objectives.

In the past year we have disposed of 276 homes and received 229 homes in a swap with Knightstone in the west of England and disposed of 363 homes to Thames Valley Housing Association in Northern Oxfordshire.

In addition to these large scale strategic programmes we also redeveloped a number of our existing housing sites, maximising the number of homes and the return on the grant.

Leveraging our assets: Cost effective secure financing

Sovereign leverages its asset base by securing bonds and bank debts as charges on properties, excluding those which have been identified for potential disposal.

With interest rates at a record low we have taken advantage of these rates and fixed £50m over 10-15 years, minimising our financing costs and securing investment for the long-term. This ability to finance for the long-term ensures that we are able to take advantage of potential development opportunities.

Development of new homes

We have one of the largest development programmes in the housing association sector, underpinned by a strong operating surplus.

Last year we built 982 new homes. This included 202 shared ownership properties. This was 18 short of our 1,000 homes target, as a number of homes that were contracted to be delivered in 2014/15 were delayed because of shortages of materials and labour in the construction industry.

We have successfully leveraged the HCA grant that is available. Our original bid to the HCA was for 1,069 new homes at £17.3m grant and we finished 2014 with 1,383 homes completed at £17.2m grant; in summary, we delivered 129% of the homes for 99% of the grant.

Our development strategy agreed by the Board in 2013/14 sets out the type and tenure of homes we will build. Each potential site goes through a rigorous financial appraisal process to ensure maximum value for money in a market with increasing costs and reduced grant availability.

We are steadily growing our portfolio of private rent, with a target of 1,000 homes by 2018.

The return on investment net of debt is calculated by dividing Sovereign's post interest net surplus for the year by its retained surpluses, which are the only funds which Sovereign has itself provided once borrowings are deducted. The performance at 8.7% shows continued improvement over the past three years and underpins Sovereign's ability to continue to develop new homes. This percentage will reduce as interest rates rise.

Source: Statutory Accounts	2014/15	2013/14	2012/13	3 year average
Return on Sovereign's investment net of debt	8.7%	7.6%	7.2%	7.9%

Wapping Wharf, a riverside development of homes available for private rent.

Collaborative joint ventures

We recognise that we are able to achieve more when working in partnership with others who have complementary skills and expertise.

Sovereign's controlling interest in its joint venture Limited Liability Partnership (LLP) Kingfisher Building Services, ensures that 80% of the net operating profit is returned to the parent organisation (up from 72% transitional control in 2013/14). With a profit of c.£1m for the year, the controlling interest in the company will return around £800,000 of profit (an increase of £80k over last year's baseline) Gift Aided back to Sovereign for re-investment in other projects.

We also seek joint ventures for the provision of new homes and are in the process of developing Kersey Crescent, a flagship site in Newbury with David Wilson Homes, redeveloping 75 two bedroom flats for 78 homes of mixed size and tenure.

Operational excellence

From a stable cost base, our Housing and Communities department has increased the income we collect from current residents, while reducing income lost through empty properties.

At the end of March 2015, across all tenures, current tenant arrears (CTA) were 1.99% of the rent roll. This is nearly 1% lower than at the end of March 2014 and has resulted in a saving of £0.9m in respect of reduction in debt write off and provisions.

Over 2014/15, 1,881 homes were re-let in an average of 21 days, exceeding the target of 26 days. This improved performance equates to approximately £177k of additional rental income.

ACHIEVED
£21m
SAVINGS
TARGET IN
4 YEARS

The Property Services department has delivered operating efficiencies across repairs and maintenance, outperforming the budgeted average unit cost and generating £3.1m cost efficiency across responsive repairs and kitchen and bathroom replacements.

In addition to these efficiencies the Board agreed to invest a further £3m (up from £2m in 2013/14) in providing affordable warmth improvements to our least energy efficient homes. We successfully generated an additional £290k of funding via the Energy Companies Obligation. This programme has improved the thermal efficiency of 350 homes, which in turn has supported over 50% of these households out of fuel poverty.

Building a resilient business

The Board has agreed to invest in central business support services to enable further transformation and enhanced customer focus. The investment includes major IT projects and the IT support and development teams, which will facilitate improved performance and align and standardise processes across Housing, Property Services and at our call centre, Connect.

These IT investments include:

- improving the front line query handling at Connect. This has increased the speed of resolution and enabled employees to provide an enhanced service experience by taking greater ownership of resident issues at point of contact.
- enhancing self-service capability, using an application called mySovereign which allows residents to access our products and services, for example to request a repair or to pay rent. More than 10,000 of our residents have registered to use Sovereign's online portal.
- developing a new Property Services system to give transparency in our cost base in providing services to residents and allowing more effective scheduling of resources.

Community investment

Our Community Investment team has had another successful year leveraging £395k of match funding and resources to help support our local communities.

Working with partners we've provided around 1,500 residents with specialist debt advice.

Our focused effort to get people into work is also realising benefits, with 413 residents moved towards employment and 113 having secured sustainable employment.

Social and environmental investment

Sovereign has made continued efforts over 2014/15 to both better understand our carbon emissions and to continue to reduce them. Our efforts not only result in a lower contribution to climate change, they also provide financial efficiencies to Sovereign and savings in energy bills for our residents.

While our 2014/15 carbon footprint is still being calculated, we currently estimate that average CO_2 per home has reduced year on year by more than 5%. This reduction is due to a combination

of both better stock information and our interventions to improve our homes through new heating systems, insulation, renewable technologies, and replacement doors and windows. The better stock information also allows us to focus our continued efforts on the right homes.

Wellbeing valuation (social value)

In 2014/15, for the first time, we used the Housing Associations' Charitable Trust's (HACT) wellbeing value methodology to calculate the social value of some of our community investment activities.

We focused on three areas:

- financial and employee support for residents' associations.
- getting residents into employment, including full-time, part-time and self-employment.
- new neighbourhoods work: comparing four separate neighbourhoods.

We calculated that we spent £0.3m on these three areas which generated £3.1m of social value. This figure has been validated by HACT which have examined the evidence we have collected and scrutinised our calculations. This includes a 'deadweight', a calculation which ensures we are only recording the additional impact of our interventions.

Next steps

In light of the government's recent announcements we will be refining our Value for Money strategy over the summer and will publish more detail, along with our Value for Money Self-Assessment, on our website in September: www.sovereign.org.uk.

We helped Peter Harris find a new job after struggling to make ends meet on a zero-hours contract.

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 its 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 2015.

Board members, membership and attendance activity

Board member	Board (inc. away days)	Audit and Risk Committee	Treasury Committee	Remuneration Committee	Link with resident panels
John Simpson (Chair) [1]	7/7		5/5	1/2	
Gordon Holdcroft (Vice Chair)	7/7			4/4	✓
Steve Abbott	7/7	6/6	3/3		
Barbara Anderson [5]	6/6		3/3	2/2	
Gerard Boyle [2]	4/4	3/4			
Lee Bambridge	7/7	6/6	5/5		
John Rees-Evans	7/7			4/4	✓
Christine Higgins [6]	6/6	2/3			✓
Mark Judge [9]	1/1				
Stuart Laird [7]	5/6	3/3			✓
Ronald Manley OBE	7/7			4/4	
Verity Murricane	6/7			4/4	✓
Matthew Sands [3]	5/6	6/6			
Gill Sinkinson [4]	5/5	4/4	4/4		
Robert Taylor [8]	3/3				✓

Ann Santry CBE is an executive co-optee to the Board

[1] John Simpson resigned from the Remuneration Committee with effect from 25 September 2014

[2] Gerard Boyle resigned from the Board with effect from 25 September 2014

[3] Matthew Sands resigned from the Board with effect from 29 January 2015. He has remained an independent member of the Audit and Risk Committee

[4] Gill Sinkinson resigned from the Board with effect from 18 January 2015

[5] Barbara Anderson was appointed to the Board with effect from 25 July 2014

[6] Christine Higgins was appointed to the Board with effect from 25 July 2014

[7] Stuart Laird was appointed to the Board with effect from 25 July 2014

[8] Robert Taylor was appointed to the Board with effect from 11 December 2014

[9] Mark Judge was appointed to the Board with effect from 26 March 2015

Group structure

Sovereign has in recent years streamlined its Group structure which has included the merger of a number of separate entities into a single body: Sovereign Housing Association Limited.

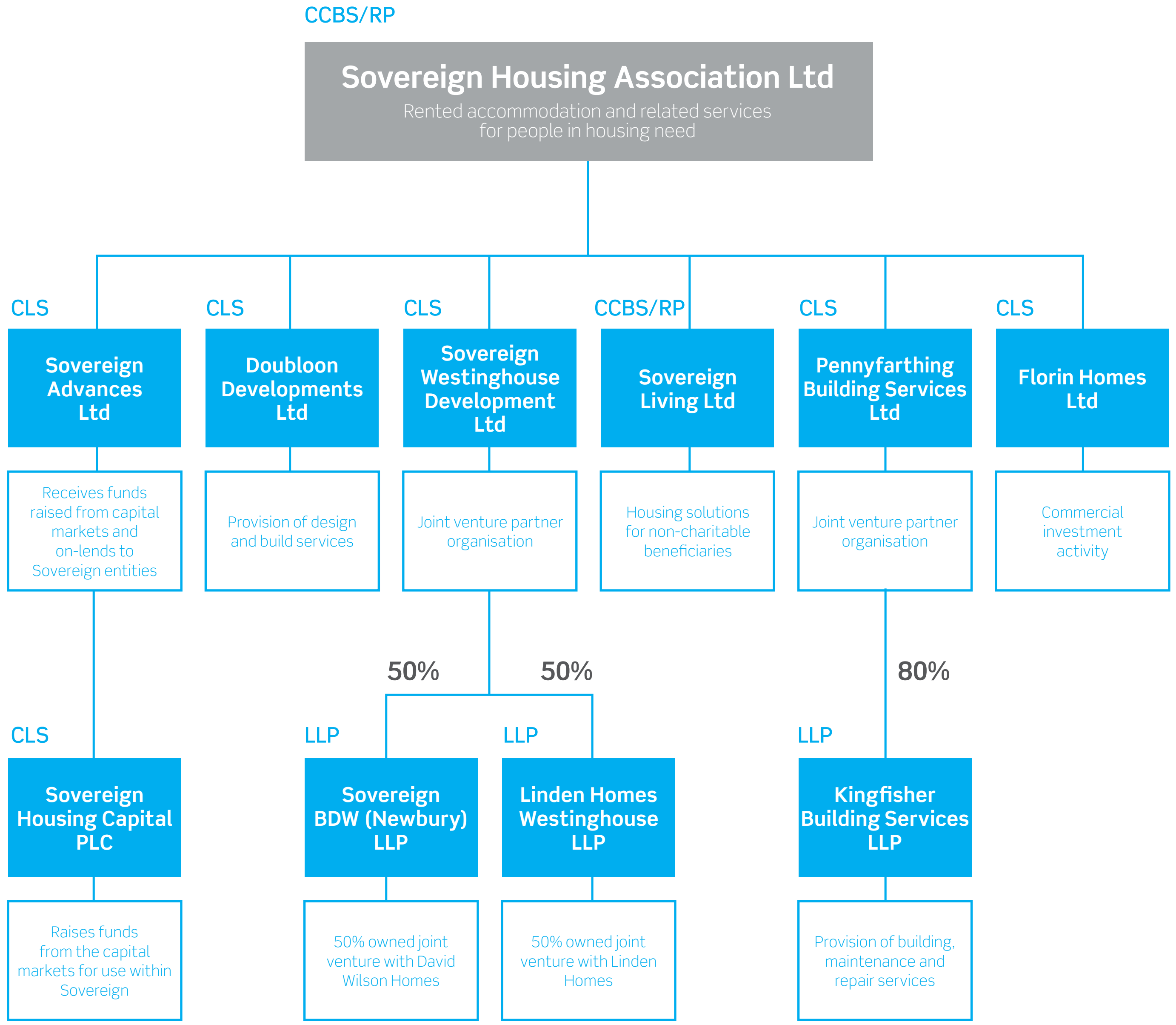
The main trading activities are undertaken by the parent, with the Group structure and purpose of the subsidiaries as shown below.

Sovereign's principal subsidiaries and activities, active at 31 March 2015:

Charitable

Non charitable

Activities



Sovereign's Head Office is in Newbury, Berkshire.

CLS - Company Limited by Shares
CCBS - Co-operative and Community Benefits Society
LLP - Limited Liability Partnership
RP - Registered Provider

Advisors and Board members

Secretary
Valerie Lynch
Registered office
Woodlands
90 Bartholomew Street
Newbury
Berkshire
RG14 5EE

Auditor (external)
KPMG LLP
Dukes Keep
Marsh Lane
Southampton
SO14 3EX

Principal bankers
National Westminster Bank Plc
Abbey Gardens
4 Abbey Street
Reading
RG1 3BA

Principal valuers
Jones Lang LaSalle
Latimer House
5-7 Cumberland Place
Southampton
SO15 2BH

Principal solicitors
Trowers & Hamlins LLP
3 Bunhill Row
London
EC1Y 8YZ

John Simpson (Chair)
Joined 2010
Former CEO of Den Norske Bank in the UK and Asia Pacific, and former Vice Chair of NHS Richmond. John is currently a director of shipping, oil drilling and fund management companies.

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

Steve Abbott
Joined 2008
Ex-housing association director with wide-ranging experience in housing management and development. Steve is a fellow of the Chartered Institute of Housing.

Barbara Anderson
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
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.

Christine Higgins
Joined 2014
Experienced chartered accountant working for the West London Mental Health NHS Trust, where she is a non-executive director and Chair of the Audit Committee. Previously worked in banking and finance.

Mark Judge
Joined 2015
A member of the Royal Institution of Chartered Surveyors with over 34 years' experience in the construction sector. Mark has specific expertise in delivering financial control within challenging environments and high level experience of mergers and acquisitions.

Stuart Laird
Joined 2014
A senior executive with a proven track record in facilities management and outsourcing markets, with expertise in leading on property acquisitions and disposals.

Ronald Manley OBE
Joined 2005
Retired international civil servant with director level experience in governance, project management, risk management and health and safety.

Verity Murricane (Resident Board member)
Joined 2007
A social housing resident for over 20 years. Verity is also a trustee of a small mental health charity and a governor of Berkshire NHS Foundation Trust.

John Rees-Evans
Joined 2009
Consultant on economic initiatives. John is a former export manager in the aerospace industry, with previous roles in economic development, tourism and European relations.

Robert Taylor (Resident Board member)
Joined 2014
A retired Branch Manager for the Post Office, Robert has experience of Sovereign's services as a resident. He has an interest in customer service and how we can improve it to the mutual benefit of residents and Sovereign.

Ann Santry CBE
Joined 1999
Co-optee on the Board from 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.

Board responsibilities and governance

Our Board provides the leadership, strategic direction and scrutiny that will enable Sovereign to achieve its social purpose while growing sustainably.

Governance framework

As well as a broad range of skills and experience, the Board's decisions are informed by challenge and insights from our Residents' Council and regional panels, as well as a supporting committee structure.

The Council and panels bring challenge to the Board from a resident perspective, and are integral to Sovereign's governance framework. The Council helps the Board shape its approach to key business projects and scrutinises decisions and performance. The work of the Residents' Council supports the Board in ensuring governance and service delivery is of the highest standard. Last year the Council scrutinised the grounds maintenance service as well as reviewing general service performance.

The Board, and the committees, are governed and supported by Sovereign's rules, standing orders and financial regulations which provide a formal, structured framework for decision-making. These rules are constantly reviewed and regularly updated. The committees cover Audit and Risk, Remuneration and Treasury bringing together Board members, resident Board members and independent experts with specific skills to focus on key aspects of the business. Sovereign is regulated by the Homes and Communities Agency (HCA). As part of our commitment to best practice, the Board follows the National Housing Federation's (NHF) Excellence Governance code.

The Executive Board is responsible for the day to day implementation of the strategy.

A strong and effective organisation

The Board's focus in 2014/15 has been on overseeing the operational and organisational transformation of Sovereign, as well as supporting the development and launch of the new strategy for 2015-18. Activity has therefore centred on our strategic objectives, while other work has included identifying and mitigating an increasing range of risks and embedding a value for money culture within the organisation.

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, difficult operating conditions 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, with reviews in 2014/15 held at both an individual and collective level. The collective review concluded that there were a few areas of improvement to be adopted to increase the Board's effectiveness and these suggestions have all been incorporated into Sovereign's governance arrangements. Appropriate succession plans are in place for the Board and are regularly reviewed.

Five new Board members have been appointed, as some of our most experienced members reach the end of their nine-year terms. These retirements provided the opportunity to review the skills and expertise required for the future with the new members bringing a broad range of commercial and sector knowledge. All the new Board members have undertaken a bespoke induction programme to enhance their contribution as quickly as possible. This involved meeting residents, employees and senior management.

All new Board members are appointed in line with our membership and recruitment policy, which sets out the process and selection criteria. In order to attract the best candidates, the Board reviews the skills required with new members being selected and interviewed by a panel including the Chair and other Board members, with oversight by the Remuneration Committee.

Corporate governance statement

We were fully compliant with the NHF code during the year, except for exceeding the best practice recommendation of a maximum of 12 Board members. There are currently 13 Board members serving but this will reduce to 12 in September 2015 when our longest serving Board member, Ron Manley, retires.

The Board agreed that, with five new members being appointed during the year, it was important to ensure the Board had the appropriate skill set and that continuity was provided during this major period of change. Ron Manley was therefore asked to remain on the Board for an additional year.

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

We review our performance with our shareholders each year at the Annual General Meeting. This year the meeting will held at the Hilton Newbury Centre in Pinchington Lane, Newbury, on 17 September 2015.


Newbury Racecourse development.

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 have been reviewing our approach to equality and diversity, and have implemented a new action plan with specific measures and targets aimed at creating equal opportunities, integrating equality and diversity into business thinking and creating a clear culture of inclusion – all of which will help us to improve the services we provide to our residents.

Health and safety

We have a good health and safety record and strive to create a working environment that is 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.

For the second year running we have been awarded a Silver Award by RoSPA for occupational health and safety management, demonstrating our high level of performance and consistent improvement.

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 on a local level.

Accident rates

During 2014/15 we have improved the way in which we report health and safety to focus on the number of lost working days to the business and the severity of accidents. This change in reporting has given us both a higher accident rate and improved clarity.

Employee accidents	2014/15	2013/14
Reported accidents	113	89
Incident rate	0.10	0.08
Working days lost	75	not recorded

Resident accidents	2014/15	2013/14
Reported accidents	330	184
Incident rate	0.004	not recorded

Appointment of the external auditor

It is Sovereign's policy to retender the external audit every seven years. The current external auditor KPMG LLP won the competitive tender process in 2010 and the contract will continue until 2016/17. The contract is subject to a mid-term review, which was carried out by the Audit and Risk Committee in January 2014. This considered experience, range and quality of service offering, cost and affordability.

The review concluded that our current external audit programme should continue to be delivered by KPMG, subject to an annual performance review and retendered thereafter in accordance with best practice. KPMG has expressed its willingness to continue in office as auditor.

Therefore a resolution to reappoint KPMG as Sovereign's auditor will be proposed at the 2015 Annual General Meeting.

The Committees

An experienced and robust committee structure provides the necessary insight, challenge and assurance to support the Board in making the right decisions.

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

Audit and Risk Committee

The Audit and Risk Committee (ARC) monitors the integrity of the financial statements, proactively reviews the system of internal control and the risk management processes and reviews the effectiveness of internal and external audit. It also recommends to the Board the appointment of external auditors.

ARC reports any significant issues to the Board after each meeting, as well as providing an annual report.

Providing risk management and auditing skills, ARC includes two independent specialists: Alfons Dankis, a retired finance director of the Guinness Partnership, and Matthew Sands, who works for Bristol City Council's Housing Department.

Our year in review

"ARC has rotated two members in line with best practice and appointed two new members, including myself as the new Chair. The Committee continued to focus strongly on the active management of current and emerging risks, in a very dynamic environment.

"Our in-house internal audit team is performing strongly, with good engagement within the business and with the Committee. Its activities are supported by external specialists where the required skill sets and technical knowledge are not available in house.

"A thorough review of the Financial Regulations, key responsibilities and delegations was undertaken this year by ARC and approved by the Board. This is crucial to ensure a robust system of internal controls is in place."

Christine Higgins, Chair

Treasury Committee

The Treasury Committee governs Sovereign's treasury and funding activities, ensuring sufficient facilities are available to support the agreed strategy and providing challenge and scrutiny over the treasury strategy and level and nature of risks.

The Committee includes independent member Bill Champion, who brings extensive treasury management experience from senior positions in banking and regulation within the Financial Conduct Authority (FCA) and Building Societies Commission.

Our year in review

"Sovereign continues to enjoy a strong financial position, whilst also being a leading developer of new homes. Our liquidity position remains strong and receipts from the disposal of properties from the first phase of stock rationalisation have meant that we have had no need to put new funding facilities in place during the year.

"We have an approved annual treasury plan, which covers the key treasury risk areas of liquidity, interest rate, covenant compliance, counterparty and re-financing risk and provides assurance to the Board. In respect of interest rate risk we took advantage of the reduction in long-term interest rates during the year to provide greater certainty on future funding costs.

"We remain one of the highest rated organisations in our sector, and ensuring 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 Committee reviews and challenges the HR Strategy and related policies that could pose a business risk. This involves determining the pay and benefits for the Executive Board, as well as reviewing compensation and benefit packages for all employees.

The Committee reviews and monitors arrangements for appraisals, induction and development of Board Members. It ensures succession plans are in place for the Board and Executive Board. It also oversees employee-related governance policies such as gifts and hospitality, anti-bribery and expenses.

Independent member Ailsa Firth, the Head of Human Resources at Arval UK, a leading provider of leasing solutions, brings experience of reward strategies and pension schemes to the Committee.

Our year in review

"In addition to undertaking the above activities the Committee has, during the current year, supported the recruitment of five new Board members and, following the retirement of the previous post holder, a new Chief Financial Officer for Sovereign.

"It has also undertaken a review of the Executive Board incentive scheme, following the end of its first year of operation and, with minor modifications, agreed to continue with the scheme.

"The Committee also began work on an in-depth review of Sovereign's management approach to the determination of our pay structures, performance-related pay arrangements and the in-service benefit package."

Ronald Manley OBE, Chair

The Executive Board

Sovereign's leadership and management structures provide the expertise and the framework to effectively deliver our strategy. They work to protect and grow the business, while overseeing our performance as we build great homes and provide value-adding services.

The Executive Board includes five directors, in addition to the Chief Executive Officer. The Executive Board is supported by the strategic leadership group, made up of senior managers from across the business.

Changes in Executive Board membership

There were three changes to the membership of the Executive Board in 2014/15. Mark Hattersley was appointed as Chief Financial Officer, following the retirement of Martin Huckerby at the end of December 2014.

The Chief Operating Officer role was made redundant, therefore Jonathan Cowie left Sovereign in March 2015. Steve Barford was appointed as Executive Director – Property Services at the beginning of March 2015.

New homes at The Zone, Bristol.

Ann Santry CBE
Chief Executive Officer

Ann has worked in housing for over 30 years and was appointed Chief Executive Officer in November 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 and a co-optee on the Sovereign Board.

Steve Barford
Executive Director
Property Services

Steve joined Sovereign in 2001 and was appointed to the Executive Board in March 2015. He has more than 30 years' 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 and Westworks Procurement Ltd.

Heather Bowman
Executive Director
Housing and Communities

Heather joined Sovereign in 2001 and was promoted to her current position in 2011. With more than 25 years' housing experience, she is on the board of the Housing Associations' Charitable Trust and the NHF's South East Standing Board.

Heather is lead officer for the Residents' Council.

Wendy Drinkwater
Executive Director
People and Communications

Wendy, a Member of the Chartered Institute of Personnel and Development, joined in 2013 with 30 years' experience across all areas of people management. She was previously Group HR Director at the Guinness Partnership and HR Director at Waterstones.

Wendy is lead officer for the Remuneration Committee.

Mark Hattersley
Chief Financial Officer

Mark has previous experience as a Finance Director in the commercial sector at Birmingham Airport and in the charitable sector at Staffordshire University. He joined Sovereign in 2015 and his portfolio covers IT, Treasury, Business Assurance, Business Change and Procurement as well as Finance.

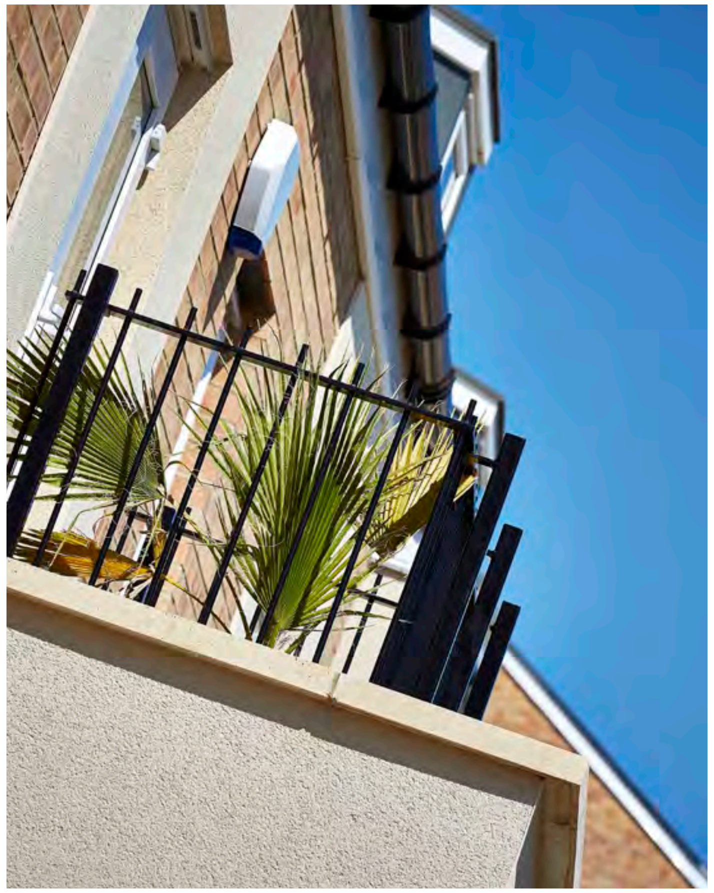
Mark is a member of the Treasury Committee and lead officer for the Audit and Risk Committee.

Phil Stephens
Executive Director
Development and Commercial

Phil joined Sovereign in 2004 and has over 40 years' experience in the development and construction industry, mainly in the private sector including as Regional Director for Willmott Dixon. He was elected to the Board of the Housing Forum in 2014.

Phil is a Director of Sovereign Living Limited.

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 that law the Board has elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the Group and the Association and of the income and expenditure of the Group and the Association for that period.

In preparing these 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 the Association will continue in business.

The Board is responsible for keeping books of account that disclose with reasonable accuracy at any time the financial position of the Association and enable them to ensure that its 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 2012. The Board has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the Association and to prevent and detect fraud and other irregularities.

The Board is responsible for the maintenance and integrity of the corporate and financial information included on the Group's website, www.sovereign.org.uk. 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 they ought to have taken in their duty as a director in order to make themselves 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 Officer, and members of the 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 Governance Code. The Association is fully compliant with the NHF Code except for exceeding the best practice recommendation of a maximum of 12 Board members. 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 two 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; 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 which is 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 the year and have taken account of any changes needed to maintain the effectiveness of the risk management and control processes.

The report was approved on 23 July 2015 and signed on its behalf by order of the Board.

Valerie Lynch, 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 31st March 2015 set out on pages 34 - 81. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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 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 31, 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 31st March 2015 and of the surplus of the Group and the Association for the year then ended; and
- 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 2012.

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
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Dukes Keep
Marsh Lane
Southampton
Hampshire
SO14 3EX

Thursday 6 August 2015

Group income and expenditure account

For the year ended 31 March 2015

	Note	2015 £'000	2014 £'000
Turnover	3	**223,525**	224,001
Cost of sales	3	**(17,029)**	(22,136)
Operating costs	3	**(134,120)**	(129,717)
Operating surplus	3	**72,376**	72,148
Net surplus from sales of housing fixed assets	7	**16,862**	2,389
Share of joint venture operating loss		**(109)**	(54)
Interest receivable and similar income	8	**614**	417
Interest payable and similar charges	9	**(44,401)**	(43,373)
Other finance income/(costs)		**110**	(371)
Surplus on ordinary activities before taxation		**45,452**	31,156
Tax on surplus on ordinary activities	10	**2**	(11)
Minority interest		**(300)**	(379)
Surplus for the year	30	**45,154**	30,766

All the amounts above relate to continuing activities.

Group statement of historical cost surpluses and deficits

For the year ended 31 March 2015

	Note	2015 £'000	2014 £'000
Reported surplus on ordinary activities before taxation		**45,452**	31,156
Realisation of property revaluation surpluses of previous years	30	**(6,999)**	3,071
Depreciation in respect of property revaluations	13	**6,550**	5,258
Historical cost surplus on ordinary activities before taxation		**45,003**	39,485
Tax on surplus on ordinary activities		**2**	(11)
Historical cost surplus on ordinary activities after taxation		**45,005**	39,474

Group statement of total recognised surpluses and deficits

For the year ended 31 March 2015

	Note	2015 £'000	2014 £'000
Surplus for the year		**45,154**	30,766
Actuarial gains and losses recognised in pension schemes	27	**(3,743)**	4,635
Unrealised surplus on revaluation of properties	29	**71,979**	131,341
Total surpluses relating to the financial year		**113,390**	166,742

Association income and expenditure account

For the year ended 31 March 2015

	Note	2015 £'000	2014 £'000
Turnover	3	**219,320**	216,872
Cost of sales	3	**(15,752)**	(14,951)
Operating costs	3	**(134,168)**	(130,519)
Operating surplus	3	**69,400**	71,402
Net surplus from sales of housing fixed assets	7	**17,357**	2,389
Interest receivable and similar income	8	**1,990**	2,033
Interest payable and similar charges	9	**(45,279)**	(44,324)
Other finance income/(costs)		**110**	(371)
Surplus on ordinary activities before taxation		**43,578**	31,129
Tax on surplus on ordinary activities		**-**	-
Surplus for the year	30	**43,578**	31,129

Association statement of historical cost surpluses and deficits

For the year ended 31 March 2015

	Note	2015 £'000	2014 £'000
Reported surplus on ordinary activities before taxation		**43,578**	31,129
Realisation of property revaluation surpluses of previous years	30	**(6,999)**	3,071
Depreciation in respect of property revaluations	13	**6,550**	5,258
Historical cost surplus on ordinary activities before taxation		**43,129**	39,458
Historical cost surplus on ordinary activities after taxation		**43,129**	39,458

Association statement of total recognised surpluses and deficits

For the year ended 31 March 2015

	Note	2015 £'000	2014 £'000
Surplus for the year		**43,578**	31,129
Actuarial gains and losses recognised in pension schemes	27	**(3,743)**	4,635
Unrealised surplus on revaluation of properties	29	**70,230**	131,767
Total surpluses relating to the financial year		**110,065**	167,531

Group balance sheet

As at 31 March 2015

	Note	2015 £'000	2014 £'000
Fixed assets			
Housing properties at valuation	13	**2,478,962**	2,353,247
Homebuy loan	13	**12,018**	13,023
Homebuy grant	13	**(12,018)**	(13,023)
Other tangible assets	14	**28,538**	18,922
Investment properties	16	**85,809**	89,985
Investments	17	**19,936**	3,250
		2,613,245	2,465,404
Current assets			
Stocks	18	**7,929**	9,311
Debtors: amounts falling due after more than one year	19	**5,172**	3,380
Debtors: amounts falling due within one year	19	**8,184**	9,442
Investments	20	**30,354**	20,000
Cash at bank and in hand	21	**18,812**	15,737
		70,451	57,870
Creditors: amounts falling due within one year	22	**(56,422)**	(47,137)
Net current assets		**14,029**	10,733
Total assets less current liabilities		**2,627,274**	2,476,137
Creditors: amounts falling due after more than one year	23	**1,151,057**	1,116,476
Provisions	25	**171**	161
Pensions liability	27	**17,803**	14,568
Capital and reserves			
Called up share capital	28	**-**	-
Revaluation reserve	29	**931,950**	859,522
Income and expenditure account	30	**525,993**	485,031
Minority interest		**300**	379
Non equity members' funds		**2,627,274**	2,476,137

The financial statements were approved by the Board on 23 July 2015 and were signed on its behalf by

John Simpson, Member

Gordon Holdcroft, Member

Valerie Lynch, Secretary

Association balance sheet

As at 31 March 2015

	Note	2015 £'000	2014 £'000
Fixed assets			
Housing properties at valuation	13	**2,488,577**	2,365,826
Homebuy loan	13	**12,018**	13,023
Homebuy grant	13	**(12,018)**	(13,023)
Other tangible assets	14	**28,257**	18,602
Investment properties	16	**52,596**	58,028
Investments	17	**19,949**	3,263
		2,589,379	2,445,719
Current assets			
Stocks	18	**6,846**	9,087
Debtors: amounts falling due after more than one year	19	**33,767**	30,522
Debtors: amounts falling due within one year	19	**9,065**	9,587
Investments	20	**30,354**	20,000
Cash at bank and in hand	21	**16,800**	13,895
		96,832	83,091
Creditors: amounts falling due within one year	22	**(58,660)**	(46,925)
Net current assets		**38,172**	36,166
Total assets less current liabilities		**2,627,551**	2,481,885
Creditors: amounts falling due after more than one year	23	**1,137,856**	1,105,490
Provisions	25	**122**	122
Pensions liability	27	**17,803**	14,568
Capital and reserves			
Called up share capital	28	**-**	-
Revaluation reserve	29	**1,141,430**	1,070,751
Income and expenditure account	30	**330,340**	290,954
Non equity members' funds		**2,627,551**	2,481,885

The financial statements were approved by the Board on 23 July 2015 and were signed on its behalf by

John Simpson, Member

Gordon Holdcroft, Member

Valerie Lynch, Secretary

Group cash flow

For the year ended 31 March 2015

	Note	2015 £'000	2014 £'000
Net cash inflow from operating activities	33	**102,963**	102,578
Returns on investments and servicing of finance			
Interest received		**578**	384
Interest paid		**(48,404)**	(46,779)
Payment of minority interest		**(379)**	(360)
Net cash outflow from returns on investments and servicing of finance		**(48,205)**	(46,755)
Taxation		**(8)**	-
Capital expenditure and financial investment			
Payments to acquire and develop housing properties		**(147,499)**	(110,346)
Social housing grant received		**4,246**	18,269
Receipts from sales of housing properties		**81,720**	11,217
Payments to acquire other fixed assets		**(4,657)**	(14,755)
Collateral deposit movements		**(16,686)**	4,039
Net cash outflow from capital expenditure		**(82,876)**	(91,576)
Management of liquid resources			
Short term investments		**(10,354)**	(14,987)
Financing			
Housing loans received		**104,594**	61,000
Housing loans repaid		**(63,039)**	(17,195)
Net cash inflow from financing		**41,555**	43,805
Increase /(decrease) in cash in the year	35	**3,075**	(6,935)

Notes to the financial statements

For the year ended 31 March 2015

1. Legal status

The Association is registered and holds charitable status under the Co-operative and Community Benefit Societies Act 2014 and is a registered housing association.

2. Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom and in accordance with the Accounting Direction for Private Registered Providers of Social Housing 2012. The financial statements have also been prepared in compliance with the Statement of Recommended Practice 2010 issued by the National Housing Federation. A summary of the more important accounting policies that have been applied consistently, unless otherwise stated, is set out below.

(a) Basis of accounting

The consolidated financial statements are prepared on the historical cost basis of accounting modified by the annual revaluation of housing properties, investment properties and freehold properties.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Board Report. 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.

(b) Consolidation

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

(c) Turnover

Turnover represents rental and service charge income, fees and revenue based grants receivable from local authorities and from the HCA (or the Housing Corporation for receipts prior to 1 December 2008), and the proceeds of first tranche sales of shared ownership properties.

(d) Cyclical repairs and maintenance

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

(e) Major repairs

The capitalisation of major repairs follows the methodology of Component Accounting as laid out in the SORP 2010. 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.

(f) Provision for major repairs

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

(g) Pension costs

The Association participates in five multi-employer defined benefit pension schemes contracted out of the State scheme, all of which are now closed to new members. The Association also participates in defined contribution money purchase pension schemes, the details of which are given in note 27.

In respect of the defined contribution schemes, employers' contributions are charged to the Income and Expenditure Account in the year incurred.

Where the Association can identify their share of scheme assets and liabilities these are included in the Balance Sheet and the expected cost of pensions is charged to the Income and Expenditure Account so as to spread the cost of pensions over the service lives of the employees. Where the Association cannot identify its share of scheme assets and liabilities the pension charge represents the cost incurred in the year.

(h) Leased assets

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

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

(i) 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 amounts, whether carried at historical cost or at valuation.

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.

(j) First tranche shared ownership sales

Shared ownership sales are treated under the SORP 2008 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 and the sale proceeds 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.

(k) Depreciation

Freehold land is not depreciated. Depreciation is charged so as to write down the cost (net of social housing grant) 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	20 years
Bathrooms	30 years
Windows	25 years
Heating systems	40 years

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:	20% on cost
Computer equipment:	20% to 33.3% on cost
Motor vehicles:	25% on cost
Leasehold premises:	Over life of lease
Freehold offices:	2% on valuation

(l) Housing properties

Housing properties held for letting and completed shared ownership properties are shown in the financial statements at 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 capital grants received and depreciation. The aggregate surplus or deficit on revaluation is transferred to a revaluation reserve.

External desktop revaluations of existing properties take place each year which are adjusted by the results of physical inspections which cover a minimum of 2% of properties each year (10% of properties every five years). Additional housing properties will be the subject of a full valuation in the year they are completed. A rolling internal inspection programme is also carried out continuously such that all properties are physically inspected every five years.

The cost of properties is their purchase price together with incremental costs of acquisition and capitalised interest.

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 2008.

Housing properties in the course of construction excluding the proportion of costs related to first tranche sales of shared ownership property (see note 2(j) above) are stated at cost less social housing grant 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.

Impairment reviews are carried out for all properties in accordance with FRS 11.

(m) Investment properties

Investment properties are held at valuation. Valuations are performed annually by a professional valuer and are at open market value.

(n) Social housing grant

Where developments have been financed wholly or partly by social housing grant, the cost of those developments has been reduced by the amount of the grant received, prior to revaluing. 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. If social housing grant is received in advance of related expenditure on housing construction, it is shown as a current liability.

(o) Revaluation reserve

The revaluation reserve represents the difference between the valuation of housing properties at their Existing Use Value – Social Housing and the historic cost, net of social housing grant and depreciation, the difference between the valuation of investment properties at their market value and the historic cost, and the difference between the valuation of freehold offices at their market value and the historic cost, net of depreciation.

(p) 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 for clarity.

Properties developed for outright sale which have not been sold at 31 March are shown as current assets.

(q) 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	2015 Operating surplus £'000	2014 Operating surplus £'000
Income and expenditure from social housing lettings						
Housing accommodation		183,169	-	(123,443)	59,726	62,619
Shared ownership accommodation		10,700	-	(7,625)	3,075	3,209
	4	193,869	-	(131,068)	62,801	65,828
Other social housing income and expenditure						
External income generated from development services		313	-	(231)	82	1,130
Other		2,799	-	-	2,799	2,056
		3,112	-	(231)	2,881	3,186
Development for sale						
Shared ownership first tranche sales		17,581	(16,277)	-	1,304	1,330
Outright sales		1,001	(752)	-	249	1,594
		18,582	(17,029)	-	1,553	2,924
Total social housing activities		215,563	(17,029)	(131,299)	67,235	71,938
Non-social housing activities						
Market rented properties		7,960	-	(1,870)	6,090	6,724
Other		2	-	(951)	(949)	(6,514)
		7,962	-	(2,821)	5,141	210
Total		223,525	(17,029)	(134,120)	72,376	72,148

3. Turnover, operating costs and operating surplus by class of business (cont)

Association	Note	Turnover £'000	Cost of sales £'000	Operating costs £'000	2015 Operating surplus £'000	2014 Operating surplus £'000
Income and expenditure from social housing lettings						
Housing accommodation		183,149	-	(124,626)	58,523	61,565
Shared ownership accommodation		10,700	-	(7,616)	3,084	3,215
	4	193,849	-	(132,242)	61,607	64,780
Other social housing income and expenditure						
Gift aid		-	-	-	-	3,518
Income from Group undertakings		151	-	-	151	177
External income generated from development services		313	-	(231)	82	1,130
Other		1,923	-	-	1,923	2,029
		2,387	-	(231)	2,156	6,854
Development for sale						
Shared ownership first tranche sales		17,014	(15,752)	-	1,262	1,373
		17,014	(15,752)	-	1,262	1,373
Total social housing activities		213,250	(15,752)	(132,473)	65,025	73,007
Non-social housing activities						
Market rented properties		6,068	-	(1,219)	4,849	5,067
Other		2	-	(476)	(474)	(6,672)
		6,070	-	(1,695)	4,375	(1,605)
Total		219,320	(15,752)	(134,168)	69,400	71,402

No accrued gift aid income had been included in 2015. Profits from subsidiaries for 31 March 2015 will be paid to the Association prior to 31 December 2015 and included as income in the year ended 31 March 2016.

4. Income and expenditure from social housing lettings

Group	General needs £'000	Shared ownership £'000	Supported housing £'000	2015 Total £'000	2014 Total £'000
Rent receivable net of identifiable service charges	176,407	9,629	428	186,464	178,695
Service charges	5,253	1,071	212	6,536	6,621
Supporting people block subsidy	576	-	293	869	864
Turnover from social housing lettings	182,236	10,700	933	193,869	186,180
Management	(38,155)	(5,263)	(439)	(43,857)	(41,265)
Service costs	(7,272)	(1,003)	(84)	(8,359)	(8,704)
Routine maintenance	(24,665)	-	(249)	(24,914)	(25,712)
Planned maintenance	(11,350)	-	(115)	(11,465)	(11,820)
Major repairs expenditure	(16,913)	-	(171)	(17,084)	(10,616)
Bad debts	(335)	(46)	(4)	(385)	(1,203)
Depreciation of housing property	(21,355)	(1,313)	(229)	(22,897)	(18,927)
Other costs	(2,086)	-	(21)	(2,107)	(2,105)
Operating costs on social housing activities	(122,131)	(7,625)	(1,312)	(131,068)	(120,352)
Operating surplus on social housing activities	60,105	3,075	(379)	62,801	65,828
Rent receivable is net of void losses of:	1,367	26	11	1,404	1,755

4. Income and expenditure from social housing lettings (cont)

Association	General needs £'000	Shared ownership £'000	Supported housing £'000	2015 Total £'000	2014 Total £'000
Rent receivable net of identifiable service charges	176,387	9,629	428	186,444	178,660
Service charges	5,253	1,071	212	6,536	6,621
Supporting people block subsidy	576	-	293	869	864
Turnover from social housing lettings	182,216	10,700	933	193,849	186,145
Management	(38,094)	(5,254)	(438)	(43,786)	(41,215)
Service costs	(7,272)	(1,003)	(84)	(8,359)	(8,704)
Routine maintenance	(25,893)	-	(262)	(26,155)	(26,771)
Planned maintenance	(11,350)	-	(115)	(11,465)	(11,820)
Major repairs expenditure	(16,913)	-	(171)	(17,084)	(10,616)
Bad debts	(335)	(46)	(4)	(385)	(1,203)
Depreciation of housing property	(21,355)	(1,313)	(229)	(22,897)	(18,927)
Other costs	(2,090)	-	(21)	(2,111)	(2,109)
Operating costs on social housing activities	(123,302)	(7,616)	(1,324)	(132,242)	(121,365)
Operating surplus on social housing activities	58,914	3,084	(391)	61,607	64,780
Rent receivable is net of void losses of:	1,349	26	11	1,386	1,741

5. Number of units in management

	Group		Association	
	2015 units	2014 units	**2015 units**	2014 units
Owned and managed				
General needs	**27,446**	26,840	**27,443**	26,837
Shared ownership	**3,751**	3,591	**3,751**	3,591
Care homes	**39**	39	**39**	39
Housing for older people	**2,887**	2,966	**2,887**	2,966
Supported	**277**	270	**277**	270
Non-social	**1,183**	1,219	**1,085**	1,121
Other	**4**	4	**4**	4
Managed not owned				
Owned by an external company	**601**	885	**601**	885
Total in management	**36,188**	35,814	**36,087**	35,713
Owned and not managed				
Managed by third parties	**228**	490	**184**	446
Freehold/long leasehold (incl. Right to Buy leasehold)	**1,409**	1,284	**1,409**	1,284
Total owned not managed	**1,637**	1,774	**1,593**	1,730
Total owned or managed	**37,825**	37,588	**37,680**	37,443

6. Operating surplus

	Group		Association	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
Operating surplus is stated after charging/(crediting)				
Depreciation				
- housing properties	**21,633**	17,923	**21,630**	17,923
- other owned assets	**1,900**	1,827	**1,783**	1,744
Impairment				
- housing properties	**-**	246	**-**	246
- other owned assets	**135**	5,889	**(184)**	5,889
Rentals payable				
- plant, vehicles and machinery	**1,351**	1,129	**1,260**	1,129
- other assets	**250**	406	**217**	406
- operating leases	**168**	472	**168**	472
Auditor's remuneration				
- in their capacity as auditors	**122**	120	**90**	88
- in respect of tax advice	**26**	23	**13**	16

7. Income from sale of housing properties and other fixed assets

	Group		Association	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
Proceeds from house sales	**77,742**	10,723	**77,742**	10,723
Costs of sales	**(63,137)**	(8,360)	**(62,642)**	(8,360)
Depreciation	**2,632**	531	**2,632**	531
Selling expenses	**(375)**	(505)	**(375)**	(505)
Net surplus	**16,862**	2,389	**17,357**	2,389

8. Interest receivable and similar income

	Group		Association	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
On deposits	**614**	417	**577**	383
In respect of intra-group loans	**-**	-	**1,413**	1,650
	614	417	**1,990**	2,033

9. Interest payable and similar charges

	Group		Association	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
In respect of loans				
Repayable on bank loans due within 5 years	**(967)**	(370)	**(967)**	(370)
Repayable on bank loans due after 5 years	**(38,985)**	(37,894)	**(17,923)**	(17,057)
Interest credited to the recycled capital grant fund	**(84)**	(100)	**(84)**	(100)
On hedging arrangements	**(7,543)**	(7,577)	**(7,618)**	(7,577)
In respect of other Group undertakings	**-**	-	**(21,860)**	(21,709)
	(47,579)	(45,941)	**(48,452)**	(46,813)
Less interest capitalised	**3,178**	2,568	**3,173**	2,489
	(44,401)	(43,373)	**(45,279)**	(44,324)

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. 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.

There is a credit to corporation tax for the year of £2k arising from an over-provision in 2014 for non-charitable entities within the Group (2014: £11k charge).

10. Taxation (cont)

	Group		Association	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
UK Corporation tax				
Current tax on income for the period	**-**	2	**-**	-
Adjustment in respect of prior periods	**(2)**	9	**-**	-
Total current tax (credit)/charge	**(2)**	11	**-**	-
Tax on profit on ordinary activities	**(2)**	11	**-**	-

Factors affecting the tax charge for the current period

The current tax charge for the year is lower (2014: lower) than the standard rate of corporation tax in the UK of 20% (2014: 20%). The differences are explained below:

	Group		Association	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
Current tax reconciliation				
Profit on ordinary activities before tax	**45,452**	31,156	**43,578**	31,129
Current tax at 20% (2014: 20%)	**9,090**	6,231	**8,716**	6,226
Effects of:				
Group relief claimed	**-**	(23)	**-**	-
Items not allowable for tax purposes	**(9,090)**	(6,206)	**(8,716)**	(6,226)
Adjustments to tax charge in respect of previous periods	**(2)**	9	**-**	-
Total current tax charge (see above)	**(2)**	11	**-**	-

11. 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.

Alan Hickmore was a tenant of the Association until he passed away in April 2014. Matthew Sands and Verity Murricane are leaseholders and Robert Taylor is a resident, their tenancies are on normal commercial terms and they cannot use their position on the Board to their advantage.

Annual rates of pay

	2015	2014
Position held as at 31 March 2015	**£**	£
Chair[1]	**20,000**	18,000
Vice chair	**13,500**	12,500
Board member[1]	**11,000**	10,000
Independent committee member	**3,000**	3,000
Committee chair (in addition to Board member salary)	**2,500**	2,500
Subsidiary Board chair[2]	**-**	2,000
Subsidiary Board member[2]	**-**	1,500

[1] Increased as of 17 July 2014
[2] Payments ceased as of 30 September 2014

	2015	2014
	£	£
John Simpson	**19,417**	18,000
Steve Abbott	**10,709**	11,724
Barbara Anderson (appointed 17 July 2014)	**9,042**	-
Lee Bambridge	**13,208**	9,012
Gerard Boyle (resigned 25 September 2014)	**10,187**	11,500
Alan Hickmore (deceased 2 April 2014)	**81**	11,724
Christine Higgins (appointed 17 July 2014)	**10,329**	-
Gordon Holdcroft	**13,063**	15,150
Mark Judge (appointed 26 March 2015)	**167**	-
Stuart Laird (appointed 17 July 2014)	**9,041**	-
Simon Lindley (resigned 26 September 2013)	**-**	6,838
Ronald Manley	**13,208**	14,000
Verity Murricane	**10,709**	10,000
John Rees-Evans	**10,709**	10,000
Matthew Sands (resigned 29 January 2015)	**9,345**	11,500
Gill Sinkinson (resigned 18 January 2015)	**10,106**	14,000
Robert Taylor (appointed 12 December 2014)	**5,666**	-

Total expenses paid to Board members that are subject to income tax were £3,928 (2014: £7,088).

11. Board members and executive officers (cont)

Directors' emoluments

	2015 £'000	2014 £'000
Emoluments (including pension contributions and benefits in kind)	**1,230**	983
Total pension contributions to Executive Officers	**31**	78
Emoluments (excluding pension contributions and payments in lieu of pension contributions) include amounts paid to		
The highest paid director [2]	**240**	190
Expenses reimbursed to directors not chargeable to United Kingdom taxation	**16**	9

Ann Santry, Heather Bowman and Phil Stephens 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 27), and ordinary members of the SHPS defined contribution scheme. Martin Huckerby was a member of the Royal Berkshire Pension Fund and Lynn Hanford-Day was a member of the Scottish Widows defined contribution 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.

The level of emoluments to current members of the Executive Board during 2014/15 is shown below:

	Pay and compensation £	Pension contributions £	In lieu of pension £	Benefits in kind £	Accrued PRP 2014/15 £	**Remuneration 2014/15 £**	PRP 2013/14 £	**Total 2015 £**	Total 2014 £
Ann Santry	194,905	-	22,605	350	13,300	**231,160**	18,350	**249,510**	209,887
Steve Barford [1]	9,452	2,351	-	28	-	**11,831**	-	**11,831**	-
Heather Bowman	128,045	22,604	-	350	8,791	**159,790**	12,558	**172,348**	147,632
Jonathan Cowie [2]	226,970	-	14,736	322	-	**242,028**	13,125	**255,153**	155,804
Wendy Drinkwater	122,726	-	13,917	-	8,155	**144,798**	5,720	**150,518**	67,763
Lynn Hanford-Day	-	-	-	-	-	**-**	-	**-**	75,975
Mark Hattersley [3]	46,658	6,327	-	56	-	**53,041**	-	**53,041**	-
Martin Huckerby [4]	134,154	-	14,000	294	-	**148,448**	14,000	**162,448**	175,470
Phil Stephens	138,118	-	15,381	-	8,972	**162,471**	12,818	**175,289**	150,717
	1,001,028	31,282	80,639	1,400	39,218	**1,153,567**	76,571	**1,230,138**	983,248

[1] Appointed 1 March 2015
[2] Redundant with effect from 6 March 2015
- aggregate payment of redundancy and notice amounted to £94,816

[3] Appointed 6 January 2015
- includes relocation allowance of £11,563

[4] Retired 6 January 2015

The Executive Board performance related pay (PRP) is dependent on the financial and non-financial performance of Sovereign in the year. It is based on a percentage of basic pay increasing to a maximum of 15%. The four contributing performance measures are a financial measure of underlying margins, resident satisfaction levels, employee engagement and personal performance. The 2013/14 payment was not accrued in those financial statements as there was insufficient certainty that a payment would be made at the time the accounts were approved.

12. Employee information

Highest paid staff

Sovereign has the following numbers of staff, including Executive Board members, with remuneration (excluding pension contributions, payments in lieu of pension and severance payments) of £60,000 or more, shown in bands of £5,000.

Salary £1,000s	2015 Number	2014 Number
> 60 to 65	**16**	13
> 65 to 70	**7**	7
> 70 to 75	**4**	5
> 75 to 80	**8**	9
> 80 to 85	**6**	4
> 85 to 90	**6**	5
> 90 to 95	**1**	1
> 95 to 100	**4**	-
> 105 to 110	**-**	1
> 110 to 115	**1**	-
> 120 to 125	**-**	1
> 125 to 130	**-**	1
> 130 to 135	**-**	1
> 135 to 140	**1**	2
> 145 to 150	**3**	1
> 155 to 160	**1**	-
> 190 to 195	**-**	1
> 225 to 230	**1**	-

The average number of persons (including executives) employed during the year was:

	Group		Association	
Expressed in full time equivalents (FTE)	**2015 FTE**	2014 FTE	**2015 FTE**	2014 FTE
Central administrative services	**338**	266	**324**	266
Developing or selling housing stock	**81**	71	**81**	71
Managing or maintaining stock	**655**	595	**603**	544
Staff providing support	**56**	74	**56**	74
	1,130	1,006	**1,064**	955
Staff costs (for the above persons)	**£'000**	£'000	**£'000**	£'000
Wages and salaries	**39,277**	35,053	**37,468**	33,546
Social security costs	**3,938**	3,298	**3,758**	3,150
Pension costs	**2,889**	1,777	**2,889**	1,777
	46,104	40,128	**44,115**	38,473

13. Fixed assets - housing

Group	Housing properties held for letting £'000	Housing properties under construction £'000	Completed shared ownership properties £'000	Shared ownership properties under construction £'000	**2015 Total £'000**	2014 Total £'000
Cost or valuation net of social housing grant at 1 April	2,026,089	91,095	207,860	28,203	**2,353,247**	2,155,098
Reclassification of schemes	(1,940)	5,335	1,343	(4,738)	**-**	-
Schemes completed	48,174	(48,174)	14,843	(14,843)	**-**	-
Additions - new units	52,980	71,065	1,366	14,821	**140,232**	103,308
Additions - improvements to stock	10,445	-	-	-	**10,445**	9,606
Social housing grant received	(5,801)	(4,687)	(657)	(122)	**(11,267)**	(24,165)
Disposals	(49,669)	-	(5,852)	-	**(55,521)**	(8,587)
Impairment	-	-	-	-	**-**	(246)
Historic cost depreciation	(14,328)	-	(755)	-	**(15,083)**	(12,665)
Revaluation depreciation	(5,992)	-	(558)	-	**(6,550)**	(5,258)
Surplus on revaluation	63,023	-	436	-	**63,459**	136,156
At 31 March	2,122,981	114,634	218,026	23,321	**2,478,962**	2,353,247

Additions to housing properties under construction during the year include capitalised interest of £3,178,000 (2014: £2,568,000) and major repairs capitalised of £10,445,000 (2014: £9,606,000). Interest is capitalised on development schemes as set out in the accounting policy in note 2(l).

13. Fixed assets - housing (cont)

Group	Housing properties held for letting £'000	Housing properties under construction £'000	Completed shared ownership properties £'000	Shared ownership properties under construction £'000	**2015 Total £'000**	2014 Total £'000
Cost or valuation at 31 March is represented by						
Gross cost	1,889,886	123,807	208,729	24,954	**2,247,376**	2,183,364
Historic cost depreciation	(104,829)	-	(2,787)	-	**(107,616)**	(96,674)
Social housing grant	(515,460)	(9,173)	(56,347)	(1,633)	**(582,613)**	(591,088)
	1,269,597	114,634	149,595	23,321	**1,557,147**	1,495,602
Revaluation reserve	853,384	-	68,431	-	**921,815**	857,645
	2,122,981	114,634	218,026	23,321	**2,478,962**	2,353,247
Homebuy (not included in above)						
Homebuy loan	-	-	12,018	-	**12,018**	13,023
Social housing grant	-	-	(12,018)	-	**(12,018)**	(13,023)
	-	-	-	-	**-**	-

13. Fixed assets - housing (cont)

Association	Housing properties held for letting £'000	Housing properties under construction £'000	Completed shared ownership properties £'000	Shared ownership properties under construction £'000	**2015 Total £'000**	2014 Total £'000
Cost or valuation net of social housing grant at 1 April	2,039,153	93,035	206,778	26,860	**2,365,826**	2,155,718
Reclassification of schemes	-	3,395	-	(3,395)	**-**	-
Schemes completed	48,174	(48,174)	14,843	(14,843)	**-**	-
Additions - new units	54,721	69,225	1,366	12,127	**137,439**	115,267
Additions - improvements to stock	10,445	-	-	-	**10,445**	9,606
Social housing grant received	(5,801)	(4,687)	(657)	(122)	**(11,267)**	(24,165)
Disposals	(49,669)	-	(5,852)	-	**(55,521)**	(8,587)
Impairment	-	-	-	-	**-**	(246)
Historic cost depreciation	(14,325)	-	(755)	-	**(15,080)**	(12,665)
Revaluation depreciation	(5,992)	-	(558)	-	**(6,550)**	(5,258)
Surplus on revaluation	62,849	-	436	-	**63,285**	136,156
At 31 March	2,139,555	112,794	215,601	20,627	**2,488,577**	2,365,826

13. Fixed assets - housing (cont)

Association	Housing properties held for letting £'000	Housing properties under construction £'000	Completed shared ownership properties £'000	Shared ownership properties under construction £'000	**2015 Total £'000**	2014 Total £'000
Cost or valuation at 31 March is represented by						
Gross cost	1,718,362	121,967	201,557	22,260	**2,064,146**	2,003,129
Historic cost depreciation	(122,099)	-	(2,861)	-	**(124,960)**	(114,025)
Social housing grant	(517,273)	(9,173)	(56,347)	(1,633)	**(584,426)**	(593,099)
	1,078,990	112,794	142,349	20,627	**1,354,760**	1,296,005
Revaluation reserve	1,060,565	-	73,252	-	**1,133,817**	1,069,821
	2,139,555	112,794	215,601	20,627	**2,488,577**	2,365,826
Homebuy (not included in above)						
Homebuy loan	-	-	12,018	-	**12,018**	13,023
Social housing grant	-	-	(12,018)	-	**(12,018)**	(13,023)
	-	-	-	-	**-**	-

14. Fixed assets - other

Group	Freehold offices and shops £'000	Leasehold offices £'000	Furniture, equipment and motor vehicles £'000	Computer hardware and software £'000	**2015 Total £'000**	2014 Total £'000
Cost						
At 1 April	17,270	143	6,325	11,988	**35,726**	43,544
Additions	-	-	395	4,262	**4,657**	3,474
Disposals	-	-	-	-	**-**	(5,403)
Revaluation	2,538	-	-	-	**2,538**	-
Impairment reversal/(charge)	557	-	-	-	**557**	(5,889)
At 31 March	20,365	143	6,720	16,250	**43,478**	35,726
Depreciation						
At 1 April	3,501	122	4,336	8,845	**16,804**	20,139
Charge for year	263	20	583	1,034	**1,900**	1,827
Revaluation	(3,764)	-	-	-	**(3,764)**	-
On disposals	-	-	-	-	**-**	(5,162)
At 31 March	-	142	4,919	9,879	**14,940**	16,804
Net Book Value at 31 March 2015	20,365	1	1,801	6,371	**28,538**	
Net Book Value at 31 March 2014	13,769	21	1,989	3,143	**18,922**	

The impairment credit relates to a part reversal of a previous downward valuation of freehold office buildings.

Group	Freehold offices and shops £'000	Leasehold offices £'000	Furniture, equipment and motor vehicles £'000	Computer hardware and software £'000	**2015 Total £'000**	2014 Total £'000
Cost or valuation at 31 March is represented by:						
Net book value of assets held at valuation	20,365	-	-	-	**20,365**	13,769
Net book value of assets held at historic cost	-	1	1,801	6,371	**8,173**	5,153
	20,365	1	1,801	6,371	**28,538**	18,922

14. Fixed assets - other (cont)

Association	Freehold offices and shops £'000	Leasehold offices £'000	Furniture equipment and motor vehicles £'000	Computer hardware and software £'000	**2015 Total £'000**	2014 Total £'000
Cost or valuation						
At 1 April	17,270	143	5,806	11,974	**35,193**	43,341
Additions	-	-	317	4,262	**4,579**	3,144
Disposals	-	-	-	-	**-**	(5,403)
Revaluation	2,538	-	-	-	**2,538**	-
Impairment reversal/(charge)	557	-	-	-	**557**	(5,889)
At 31 March	20,365	143	6,123	16,236	**42,867**	35,193
Depreciation						
At 1 April	3,501	122	4,134	8,834	**16,591**	20,009
Charge for year	263	20	468	1,032	**1,783**	1,744
Revaluation	(3,764)	-	-	-	**(3,764)**	-
On disposals	-	-	-	-	**-**	(5,162)
At 31 March	-	142	4,602	9,866	**14,610**	16,591
Net book Value at 31 March 2015	20,365	1	1,521	6,370	**28,257**	
Net book Value at 31 March 2014	13,769	21	1,672	3,140	**18,602**	

The impairment credit relates to a part reversal of a previous downward valuation of freehold office buildings.

Association	Freehold offices and shops £'000	Leasehold offices £'000	Furniture, equipment and motor vehicles £'000	Computer hardware and software £'000	**2015 Total £'000**	2014 Total £'000
Cost or valuation at 31 March is represented by:						
Net book value of assets held at valuation	20,365	-	-	-	**20,365**	13,769
Net book value of assets held at historic cost	-	1	1,521	6,370	**7,892**	4,833
	20,365	1	1,521	6,370	**28,257**	18,602

15. Fixed assets – valuation methodology

Social housing properties were professionally valued by Jones Lang LaSalle on the basis of their Existing Use Value for Social Housing (EUV – SH) as at 31 March 2015. The valuation was undertaken in accordance with the RICS Appraisal and Valuation Manual. In determining this valuation, the valuers made use of discounted cash flow methodology and key assumptions were made concerning the level of future rents, including Government restrictions on the level of future rent increases, voids, the level of sales and the discount rate. The assumed real discount rate used by Jones Lang LaSalle was 6.25%. (2014: 6.25%). Open market rented properties were valued on the basis of market value.

Freehold offices were professionally valued by Richardson Commercial on the basis of open market value using a square foot capital value as at 31 March 2015. They have been prepared in accordance with the appropriate sections of the current Valuation Standard and United Kingdom Practice Statements in the RICS Appraisal and Valuation Standards. The valuer is neither an employee nor an officer of the Association.

Commercial properties were professionally valued by Ansells on the basis of open market value as at 31 March 2015 and in accordance with the RICS Appraisal and Valuation Standards. The valuer is neither an employee nor an officer of the Association.

16. Fixed assets – investment properties

	Group		Association	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
Cost or valuation net of social housing grant				
At 1 April	**89,985**	83,519	**58,028**	51,143
Additions new units	**-**	11,281	**-**	11,274
Disposals	**(5,702)**	-	**(5,702)**	-
Impairment/(deficit)	**(692)**	-	**(373)**	-
Surplus on revaluation	**2,218**	(4,815)	**643**	(4,389)
At 31 March	**85,809**	89,985	**52,596**	58,028
Cost or valuation at 31 March is represented by				
Gross cost	**82,099**	88,230	**51,285**	57,097
Social housing grant	**-**	-	**-**	-
	82,099	88,230	**51,285**	57,097
Revaluation reserve	**3,710**	1,755	**1,311**	931
	85,809	89,985	**52,596**	58,028

Investment properties are held at open market value.

17. Fixed assets - investments

	Group		Association	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
Cost or valuation				
UK Treasury gilts debt service reserve	**1,339**	1,339	**1,339**	1,339
Collateral deposits	**18,597**	1,911	**18,597**	1,911
Shares in subsidiary undertakings	**-**	-	**13**	13
	19,936	3,250	**19,949**	3,263

Collateral deposits represent amounts held by counterparties as a result of margin calls on out-of-the-money interest rate swaps.

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 and Pennyfarthing Building Services Limited are all non-charitable subsidiaries of Sovereign Housing Association Limited incorporated under the Companies Acts.

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.

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

	2015 £'000	2014 £'000
Payment of interest at commercial rates	**21,860**	21,708
Purchase of Design and Build Services at cost plus commercial mark-up	**83,806**	76,981
Repairs and maintenance service at costs agreed during competitive tender	**5,735**	5,302
Management charges on a cost sharing basis (income)	**(91)**	(89)
	111,310	103,902

18. Stock

	Group 2015 £'000	Group 2014 £'000	Association 2015 £'000	Association 2014 £'000
Properties in construction	**5,376**	5,547	**4,632**	5,022
Completed properties	**1,959**	3,286	**1,959**	3,811
Consumable stock	**594**	478	**255**	254
	7,929	9,311	**6,846**	9,087

Consumable stocks represent consumables.

19. Debtors

	Group 2015 £'000	Group 2014 £'000	Association 2015 £'000	Association 2014 £'000
Amounts falling due after more than one year				
Other loans	**4,378**	2,542	**3,728**	1,435
Other debtors	**794**	838	**694**	719
Group loans	**-**	-	**29,345**	28,368
	5,172	3,380	**33,767**	30,522
Amounts falling due within one year				
Rent arrears				
Gross	**5,490**	5,888	**5,429**	5,864
Less bad debt provision	**(2,470)**	(2,679)	**(2,459)**	(2,671)
Net arrears	**3,020**	3,209	**2,970**	3,193
Social housing grant receivable	**1,663**	897	**1,148**	897
Prepayments and accrued income	**1,295**	1,981	**3,448**	2,613
Due from other Group undertakings	**-**	-	**27**	1,128
Other debtors	**2,206**	3,355	**1,472**	1,756
	8,184	9,442	**9,065**	9,587

Loans from the Association to other members of the Group are charged at a market rate of interest between 5% and 6% (2014: 5% to 6%).

20. Current asset investments

	Group		Association	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
Short term deposits	**30,354**	20,000	**30,354**	20,000
	30,354	20,000	**30,354**	20,000

Short term investments comprise sterling notice deposits.

21. Cash at bank and in hand

	Group		Association	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
Cash at bank and in hand	**18,812**	15,737	**16,800**	13,895
	18,812	15,737	**16,800**	13,895

22. Creditors - amounts falling due within 1 year

		Group		Association	
	Note	**2015 £'000**	2014 £'000	**2015 £'000**	2014 £'000
Housing loans	24	**6,730**	39	**6,730**	39
Trade creditors		**8,919**	8,883	**8,108**	7,959
Social housing grant in advance		**3,813**	7,949	**3,813**	7,949
Due to Group undertakings		**-**	-	**14,172**	10,773
Taxation and social security		**1,082**	993	**1,037**	949
Recycled capital grant fund	26	**4,794**	1,127	**4,794**	1,127
Other creditors		**1,470**	1,758	**1,414**	1,547
Accruals and deferred income		**29,614**	26,388	**18,592**	16,582
		56,422	47,137	**58,660**	46,925

23. Creditors - amounts falling due after more than 1 year

		Group		Association	
	Note	**2015 £'000**	2014 £'000	**2015 £'000**	2014 £'000
Housing loans	24	**1,134,504**	1,100,483	**699,458**	664,594
Recycled capital grant fund	26	**12,096**	14,929	**12,096**	14,929
Disposal proceeds fund	26	**209**	11	**209**	11
Other		**4,248**	1,053	**1,093**	956
Long term Group creditors	24	**-**	-	**425,000**	425,000
		1,151,057	1,116,476	**1,137,856**	1,105,490

24. Housing loans

		Group		Association	
	Note	**2015 £'000**	2014 £'000	**2015 £'000**	2014 £'000
Repayable other than by instalments in more than five years	23	**425,000**	425,000	**425,000**	425,000
Repayable by instalments within one year	22	**6,730**	39	**6,730**	39
Repayable by instalments between two and five years	23	**89,037**	49,337	**85,037**	49,337
Repayable by instalments in more than five years	23	**620,467**	626,146	**614,421**	615,257
		1,141,234	1,100,522	**1,131,188**	1,089,633

The loan facilities are provided by seven funders and two bond issues, the predominant funders being Santander, Barclays, Bank of Scotland, Dexia and RBS NatWest. Loan interest rates range from 0.70% to 10.75% per annum (2014: 0.70% to 10.75%). The average rate achieved over the year was 4.25% (2014: 4.3%). Interest on housing loans is charged to the income and expenditure account 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 2015 were £144m (2014: £186m).

25. Provisions

	Group		Association	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
As at 1 April	**161**	228	**122**	199
Additions in year	**10**	17	**-**	7
Utilised during the year	**-**	(84)	**-**	(84)
As at 31 March	**171**	161	**122**	122

Provisions represent the disclosure of onerous leases under the requirements of Financial Reporting Standard 12.

26. Recycled capital grant fund and disposal proceeds fund

		Group		Association	
	Note	**2015 £'000**	2014 £'000	**2015 £'000**	2014 £'000
RCGF					
As at 1 April		**16,056**	15,299	**16,056**	15,299
Grants recycled		**3,635**	2,981	**3,635**	2,981
Interest accrued		**84**	79	**84**	79
New build		**(2,885)**	(2,303)	**(2,885)**	(2,303)
As at 31 March	22, 23	**16,890**	16,056	**16,890**	16,056
DPF					
As at 1 April		**11**	237	**11**	237
Grants recycled		**273**	-	**273**	-
Interest accrued		**-**	1	**-**	1
New build		**(75)**	(227)	**(75)**	(227)
As at 31 March	23	**209**	11	**209**	11

27. 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, due to the nature of the plan, the accounting charge for the period under Financial Reporting Standard 17 (FRS 17) represents the employer contribution payable.

The last formal valuation of the scheme was performed as at 30 September 2011 by a professionally qualified actuary using the projected unit method. The market value of the Scheme's assets at the valuation date was £2,062m (2008 valuation £1,527m). The valuation revealed a shortfall of assets compared with the value of liabilities of £1,035m (2008 valuation £663m), equivalent to a past service funding level of 67% (2008 valuation 70%). The next full actuarial valuation will be carried out as at 30 September 2014 and is currenly only available in draft. The full report is yet to be published.

The SHPS defined benefit scheme was closed at the beginning of the financial year however £137,685 (2014: £127,650) shortfall payments were made each month for the shortfall on the 2011 valuation. The shortfall payments are programmed for a further 12 years increasing by 4.2% per annum to clear the deficit by 2026. In addition an expense charge was levied for £6,460 per month (2014: £nil).

The scheme was closed in the year, no contributions were made by Sovereign Housing Association (2014: 9.7% and 11.7% depending on their age).

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 £2,086k (2014: £nil).

Major assumptions for 2011 valuation

	%
Investment return pre retirement	7.0
Investment return non pensioner post retirement	4.2
Investment return pensioner post retirement	4.2
Rate of pensionable earnings growth	2.5
Rate of price inflation - RPI	2.9
Rate of price inflation - CPI	2.4
Rate of pension increases	
- Post 88 GMP	2.8
- Excess over GMP	3.0

	£million
Value as at 30 September 2011 valuation	
Assets	2,062
Liabilities	(3,097)
Net pension liability	(1,035)

(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 2010 and was updated for FRS 17 purposes to 31 March 2015 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 2015 (2014: 19.7%). An additional allowance is payable each year in respect of past service deficits. The allowance for the year ended 31 March 2015 was £367k (2014: £204k).

(c) Local Government Pension Scheme administered by Dorset County Council (Dorset)

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 2010 and was updated for FRS 17 purposes to 31 March 2015 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 2014 (2014: 49%). A one off payment of £315k was made 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 2010 and was updated for FRS 17 purposes to 31 March 2015 by a qualified independent actuary.

An employer contribution rate of 19% of pensionable pay applied for the year ended 31 March 2015 (2014: 21.1%). There were no past service deficit payments. The scheme was closed on 31 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 2010 and was updated for FRS 17 purposes to 31 March 2015 by a qualified independent actuary.

An employer contribution rate of 15.6% of pensionable pay applied for the year ended 31 March 2015 (2014: 15.6%). An additional allowance is payable each year in respect of past service deficits. The allowance for the year ended 31 March 2015 was £12,700 (2014: £8,800).

Future pension increases have been assumed to be at CPI.

(f) 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.

27. Pension arrangements (cont)

	2015				2014			
	% per annum				% per annum			
	Berks	**Dorset**	**Oxford**	**Hants**	Berks	Dorset	Oxford	Hants
Major assumptions								
Price increases RPI	**3.0**	**3.2**	**3.2**	**2.9**	3.4	3.6	3.5	3.3
Price increases CPI	**2.2**	**2.4**	**2.4**	**1.8**	2.6	2.8	2.7	2.3
Pension increases	**2.2**	**2.4**	**2.4**	**1.8**	2.6	2.8	2.7	2.3
Pension accounts revaluation rate	**-**	**-**	**-**	**1.8**	-	-	-	-
Discount rate	**3.0**	**3.3**	**3.3**	**3.2**	4.2	4.4	4.4	4.2
Salary increase	**4.0**	**3.9**	**4.2**	**3.3**	4.4	4.3	4.5	3.8
Return assumptions								
Equities	**-**	**-**	**-**	**7.6**	7.0	7.2	7.0	7.6
Gilts	**-**	**-**	**-**	**3.4**	3.6	3.6	3.6	3.4
Other bonds	**-**	**-**	**-**	**4.0**	4.2	4.2	4.2	4.0
Property	**-**	**-**	**-**	**6.9**	5.8	5.9	6.1	6.9
Cash	**-**	**-**	**-**	**0.9**	3.4	3.4	3.4	0.9
Alternative assets	**-**	**-**	**-**	**7.6**	-	7.2	-	7.6
Asset portfolio	**6.3**	**6.2**	**6.2**	**-**				

The disclosed return on assets in 2014/15 for Berkshire, Dorset and Oxfordshire is quoted as one figure for the entire range of assets held. This is a departure from previous disclosures received within the FRS17 reports.

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

	Berks	Dorset	Oxford	Hants
Retiring today				
Males	22.8	22.8	23.3	24.5
Females	26.1	25.2	25.7	26.6
Retiring in 20 years				
Males	25.1	25.1	25.5	26.3
Females	28.4	27.6	28.0	28.6

27. Pension arrangements (cont)

(g) Historic data

Berkshire	**2015 £'000**	2014 £'000	2013 £'000	2012 £'000	2011 £'000
Assets and liabilities value as at					
Present value of funded obligation	**(18,137)**	(16,783)	(18,710)	(16,353)	(14,663)
Fair value of scheme assets (bid value)	**8,321**	8,337	8,646	8,204	8,597
Net liability	**(9,816)**	(8,446)	(10,064)	(8,149)	(6,066)
Experience adjustments					
Experience adjustments on scheme assets	**235**	(467)	411	(525)	112
Experience adjustments on scheme liabilities	**-**	(171)	-	-	322

Dorset	**2015 £'000**	2014 £'000	2013 £'000	2012 £'000	2011 £'000
Assets and liabilities value as at					
Present value of funded obligation	**(9,706)**	(8,466)	(7,950)	(7,173)	(6,306)
Fair value of scheme assets (bid value)	**4,808**	4,465	4,112	3,647	3,621
Net liability	**(4,898)**	(4,001)	(3,838)	(3,526)	(2,685)
Present value of unfunded obligation	**(31)**	(29)	(29)	(27)	(25)
Net liability (including unfunded obligations)	**(4,929)**	(4,030)	(3,867)	(3,553)	(2,710)
Experience adjustments					
Experience adjustments on scheme assets	**176**	313	340	14	45
Experience adjustments on scheme liabilities	**-**	(52)	(1)	-	759

In the above two schemes the actuaries have shown the assets at bid price (for consistency estimated as necessary) for the periods prior to March 2013.

27. Pension arrangements (cont)

(g) Historic data (continued)

Oxfordshire

	2015 £'000	2014 £'000	2013 £'000	2012 £'000	2011 £'000
Assets and liabilities value as at					
Present value of funded obligation	**(24,242)**	(21,346)	(20,845)	(18,881)	(15,492)
Fair value of scheme assets (bid value)	**23,864**	21,744	18,799	15,672	15,374
Net liability	**(378)**	398	(2,046)	(3,209)	(118)
Experience adjustments					
Experience adjustments on scheme assets	**1,635**	2,350	2,402	(872)	172
Experience adjustments on scheme liabilities	**469**	1,185	-	-	1,672

The assets for the current period and previous three periods are measured at current bid price.

Hampshire

	2015 £'000	2014 £'000	2013 £'000	2012 £'000	2011 £'000
Assets and liabilities value as at					
Present value of funded obligation	**(8,350)**	(7,640)	(8,120)	(7,320)	(6,577)
Fair value of scheme assets (bid value)	**5,670**	5,150	4,940	4,490	4,477
Net liability	**(2,680)**	(2,490)	(3,180)	(2,830)	(2,100)
Experience adjustments					
Experience adjustments on scheme assets	**410**	120	380	(97)	(17)
Experience adjustments on scheme liabilities	**60**	240	20	(93)	47

27. Pension arrangements (cont)

(g) Historic data (continued)

Consolidated

	2015 £'000	2014 £'000	2013 £'000	2012 £'000	2011 £'000
Assets and liabilities value as at					
Present value of funded obligation	**(60,435)**	(54,235)	(55,625)	(49,727)	(43,038)
Fair value of scheme assets (bid value)	**42,663**	39,696	36,497	32,013	32,069
Net liability	**(17,772)**	(14,539)	(19,128)	(17,714)	(10,969)
Present value of unfunded obligation	**(31)**	(29)	(29)	(27)	(25)
Net liability (including unfunded obligations)	**(17,803)**	(14,568)	(19,157)	(17,741)	(10,994)

(h) Analysis of pension costs in the income and expenditure account

	2015 £'000	2014 £'000
Charged to operating costs		
Current service cost	**263**	529
Past service cost	**-**	-
Losses on settlements or curtailments	**-**	-
Total charged to operating costs	**263**	529
(Credit)/charge to other finance income		
Expected return on pension fund assets	**(2,403)**	(1,929)
Interest on pension scheme liabilities	**2,293**	2,300
Net (credit)/charge to other finance income	**(110)**	371

27. Pension arrangements (cont)

(i) Asset and liability obligation reconciliations

Benefit obligation	2015 £'000	2014 £'000
Defined benefit obligation at the beginning of the year	54,264	55,654
Service cost	263	529
Interest cost	2,293	2,224
Actuarial losses/(gains)	6,199	(2,319)
Losses on curtailments	-	76
Estimated benefits paid (net of transfers in)	(2,609)	(2,024)
Past service cost	-	-
Contributions by scheme participants	58	126
Unfunded pension payments	(2)	(2)
Defined benefit obligation at the end of the year	60,466	54,264

Asset reconciliation	2015 £'000	2014 £'000
Fair value of scheme assets at the beginning of the year	39,696	36,497
Expected return on scheme assets	2,403	1,929
Actuarial gains	2,456	2,316
Contributions by employer	661	854
Contributions by scheme participants	68	126
Estimated benefits paid (net of transfers in)	(2,621)	(2,026)
Fair value of scheme assets at the end of the year	42,663	39,696

28. Called up share capital

Each shareholder of the Parent holds a non-equity share of £1 in the Parent. All Board members are shareholders.

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.

	2015 £	2014 £
Allotted issued and fully paid		
As at 1 April	116	125
Issued in the year	6	4
Cancelled during the year	(6)	(13)
At 31 March	116	116

Under Financial Reporting Standard 4, the Association's share capital falls under the description 'non equity'.

29. Revaluation reserve

	Group		Association	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
As at 1 April	859,522	736,510	1,070,751	947,313
Revaluation	71,979	131,341	70,230	131,767
Transfer to/from income and expenditure account on				
- Sales of revalued properties	6,999	(3,071)	6,999	(3,071)
- Depreciation of revalued properties	(6,550)	(5,258)	(6,550)	(5,258)
As at 31 March	931,950	859,522	1,141,430	1,070,751

30. Revenue reserves

	Group		Association	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
As at 1 April	**485,031**	441,301	**290,954**	246,861
Surplus for the year	**45,154**	30,766	**43,578**	31,129
Transfer (to)/from revaluation reserve on				
- Sales of revalued properties	**(6,999)**	3,071	**(6,999)**	3,071
- Depreciation of revalued properties	**6,550**	5,258	**6,550**	5,258
Actuarial (loss)/gain recognised in the pension scheme	**(3,743)**	4,635	**(3,743)**	4,635
As at 31 March	**525,993**	485,031	**330,340**	290,954

31. Capital commitments

	Group		Association	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	**131,748**	159,292	**124,299**	153,063
Capital expenditure that has been authorised by the Executive Board but has not yet been contracted for	**42,758**	51,545	**34,217**	51,545

32. Operating leases

The Group and Association hold office premises and equipment, and vehicles under non-cancellable operating leases. At 31 March 2015 the Group and Association had annual commitments under these leases as follows

	Group		Association	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
Land and buildings Leases expiring				
- within one year	**50**	44	**50**	-
- between two and five years	**32**	48	**-**	48
- in over five years	**171**	323	**171**	323
Temporary social housing initiatives Leases expiring				
- within one year	**1**	38	**1**	38
- between two and five years	**-**	7	**-**	7
- in over five years	**33**	33	**33**	33
Other Leases expiring				
- within one year	**580**	847	488	741
- between two and five years	**583**	903	583	903
- in over five years	**25**	23	25	23
	1,475	2,266	**1,351**	2,116

33. Reconciliation of operating surplus to net cash flow from operating activities

	Note	2015 £'000	2014 £'000
Operating surplus		**72,376**	72,148
Pension liability provision	27	**(398)**	(325)
Depreciation	6	**23,533**	19,750
Impairment		**135**	6,135
Decrease/(increase) in stocks		**1,382**	(643)
(Increase)/decrease in debtors		**(534)**	4,020
Increase in creditors		**6,459**	1,560
Increase/(decrease) in provisions		**10**	(67)
Net cash flow from operating activities		**102,963**	102,578

34. Reconciliation of the change in cash to the movement in net debt

	2015 £'000	2014 £'000
Increase/(decrease) in cash in the year	**3,075**	(6,935)
Cash inflow from increase in debt and lease financing	**(41,555)**	(43,905)
Fair value loan amortisation	**843**	939
Cash outflow from increase in liquid resources	**10,354**	14,987
Movement in net debt in the year	**(27,283)**	(34,914)
Net debt at 1 April	**(1,064,785)**	(1,029,871)
Net debt at 31 March	**(1,092,068)**	(1,064,785)

35. Analysis of changes in net debt during the year

	1 April 2014 £'000	Fair value loan amortisation £'000	Cash flows £'000	31 March 2015 £'000
Cash at bank and in hand	15,737	-	3,075	**18,812**
Housing loans due within one year	(39)	-	(6,691)	**(6,730)**
Housing loans due in more than one year	(1,100,483)	843	(34,864)	**(1,134,504)**
Short term investments	20,000	-	10,354	**30,354**
	(1,064,785)	843	(28,126)	**(1,092,068)**

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.

The Group has utilised the exemption under Financial Reporting Standard 8, not to disclose related party transactions where the Parent company financial statements are presented together with the Group financial statements.

sovereign

Sovereign Housing Association Limited

Woodlands
90 Bartholomew Street
Newbury RG14 5EE

T 01635 572220
W sovereign.org.uk

Homes and Communities Agency
Registration Number: L3865

Co-operative and Community Benefit Society
Registration Number: 26480R

Sovereign Housing Association Limited is charitable

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