Annual Report
and financial statements

2015/16

A safe and affordable home is the foundation of everyone's life and without one, it's difficult for people to achieve their aspirations.

That's why we invest in providing quality, affordable homes for those in housing need.

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WE'RE A STRONG AND EFFECTIVE ORGANISATION

- A £45m surplus for the year, up from £36m in 2015
- £111m operating cashflow funds our growth plans
- We're becoming more efficient, reducing our operating costs per social home from £3,260 to £3,116
- We've reduced underlying operating costs by £3.8m, while increasing stock under management by 432 homes
- Despite the sector downgrade following the European Union referendum, we still hold sector-leading ratings from Moody's and Standard and Poor's as well as top ratings from the Homes and Communities Agency

WE INVEST IN GREAT HOMES AND COMMUNITIES

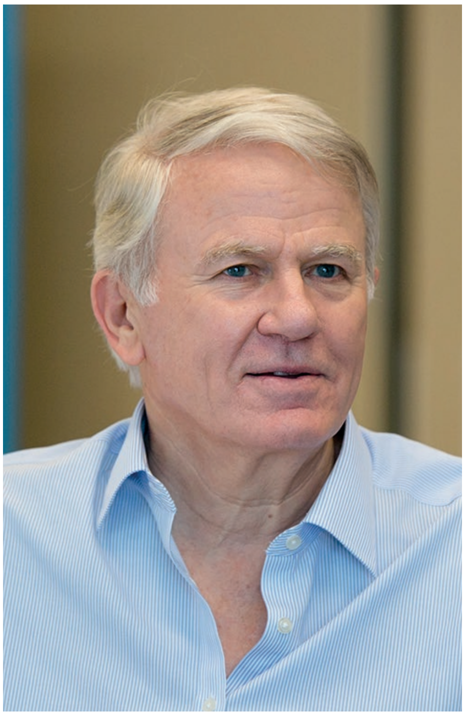
- 96% of residents are happy with their new home
- 130,146 repairs completed
- 4,315 new kitchens, bathrooms, doors, windows and heating systems installed
- A record-low 1.7% Current Tenant Arrears among social housing residents
- Relet times for social rented homes reduced to 17 days

WE'RE GROWING STEADILY TO ACHIEVE MORE

- We own or manage 38,373 homes, for more than 90,000 residents
- We invested £103m in our development programme and built 937 new homes
- Built 93 new homes for private rent, taking our portfolio to over 500 homes

WE HAVE TALENTED PEOPLE WORKING TOGETHER

- Held the gold standard in Investors in People since 2013
- A 73% employee engagement score
- Our award-winning apprenticeship and graduate programme has created more than 40 job opportunities to date



Chair's statement

It's been a year of significant challenge as changing government policy has increased both the risk and the importance of housing associations' social objective: providing affordable homes for those in housing need.

Through what has been a turbulent time, Sovereign's ability to adapt to change has delivered a strong financial and operational performance, as well as continuing to build the homes our communities need.

We have continued to modernise our services, not just for financial benefits, but because we want to make it easy for our customers to do business with us.

Meanwhile we're progressing a merger opportunity in partnership with Spectrum Housing Group, a housing association with similar geography, values and objectives. We believe that together we can be more resilient and efficient while retaining our local focus.

Unprecedented challenge

In July 2015, Chancellor George Osborne set out significant housing and welfare policy changes as he sought to reduce the benefit bill by £12bn while supporting the delivery of one million new homes by 2020. The benefit cap reduction will hit households in the south east particularly hard, however it was the annual 1% rent reduction for the next four years that will most impact our finances and ability to invest in new homes.

However, Sovereign's strategy has been to build our independence and resilience from economic and political shocks. So while we had to make difficult decisions, on staffing and services, we were already in a strong position to manage the impact on our finances.

We have also been involved in shaping new policy for the benefit of our sector and the communities in which we work. This included piloting the Voluntary Right to Buy in Oxfordshire and working with government and the National Housing Federation on the detail of the national scheme.

European Union referendum

We will have to deal with the issues arising from the referendum vote to leave the EU. While the details of how and when this will be done are unknown at present, it will add to the challenges we face, given the likely economic consequences. It could impact on the risk of development and the availability and pricing of new borrowing.

Fit for the future

Sovereign's growth over the last few years, and the associated financial strength this gives us, allows us to achieve even more in the communities where we work.

Our surplus for the year of £45m demonstrates our strength to lenders, and underpinned our ability to invest £103m and build 937 new homes last year to meet local housing need. We plan to build many more in the years ahead.

As part of our focus on efficiency we have been in merger talks with Spectrum, based in Dorset. We believe the new combined organisation will be a stronger social business generating greater economies of scale, enabling us to build more homes to help tackle the housing crisis.

After a thorough due diligence process, the Boards agreed in June to progress the merger, subject to approval from shareholders and the Homes and Communities Agency. The aim is for the new organisation to start operating towards the end of 2016.

Continuing success

Later this year I will stand down after six years as Sovereign's chair, handing over to a new independent chair and a new combined Board. It has been a privilege to lead Sovereign through substantial organisational growth, building large numbers of homes and making a difference to peoples' daily lives.

I believe strongly that more consolidation within the sector is needed and while merger can mean making difficult decisions, it is up to Boards to take the lead. I would like to express thanks to my Board colleagues for their strategic and commercial approach, underpinned by strong social values.

I would also like to thank Ann Santry – who will be taking the new organisation forward as Chief Executive – the Executive team, Simon Byng and the Residents' Council and panel colleagues, as well as all our employees for their hard work and commitment. I know Sovereign is well placed for continued success, and the proposed merger will allow the combined organisation to do even more for our communities in the future.

John Simpson, Chair

Chief Executive Officer's statement

Around 90,000 people call a Sovereign property home. And across the south, demand is growing as people on or below average incomes struggle to find an affordable home on the open market.

So the actions we've taken, and will continue to take, are based on the principle that we need to build and provide more affordable homes for people with a range of housing needs.

This means maintaining our financial resilience and strong surplus. It means continuing to grow within a tight geographic area, through development and merger, as well as modernising services.

As the world in which we operate becomes more difficult, we'll also need new collaborative partnerships. Working with developers, national and local government and other partners, we can do more for current residents and the growing numbers who need a housing association home.

Strong and effective

For many years we've been focusing on efficiency, particularly through rationalising our geography, while maximising income.

This year we've reduced operating costs and worked in new ways to achieve record-low rent arrears of 1.7%. Meanwhile we generated a £2.7m surplus from shared ownership sales and continued to grow our private rent portfolio, which helps us achieve our social purpose. We've also sought opportunities for focused and sustainable growth, releasing capacity to build homes and maintain services.

This strength also makes us better able to withstand political and economic uncertainty, which will continue to be important in a rapidly changing world.

The housing challenge

Where we work, high house prices and rents can be less affordable than London as wages and benefit levels are lower. So while we support a policy focus on homeownership, we're also concerned about those unable to buy.

As a major developer with a track record of providing affordable homes to rent and to buy, we'll continue to play our part in meeting growing housing need. Over the next five years we aim to build around 6,000 new homes, across tenures.

A modern housing association

We want it to be easy to do business with us. So we're continuing to modernise our services, taking advantage of technology and introducing more digital ways to interact with us. We're fortunate to have a dedicated Residents' Council and panels, providing the insight and feedback to help us plan this journey most effectively.

The result has been 88% customer satisfaction in ease of doing business with us. However, we know there's more to do on anti-social behaviour and complaints and we'll keep a strong focus here.

Looking to the future, it's clear that we need to prepare for more uncertainty. This includes political and economic change, while ongoing welfare reform and rent uncertainty post-2020 are concerns we'll need to manage.

Part of the solution to the growing financial pressure is for associations to seek merger opportunities to create greater efficiency and capacity. The proposed merger with Spectrum will give us the combined strength to do more for our residents and communities. The new Sovereign will be the largest housing association in the south west, building more homes than many regional housebuilders.

And finally

We are only successful because of our talented and committed employees. We need to continue to attract and develop the best people with the right skills. Our approach has been recognised by high engagement and Investors in People gold.

I've been impressed by our employees' commitment this year, despite the uncertain environment. Looking ahead there is more change on the horizon, but I believe that evolution is essential so that we remain able to meet our objective of creating more homes for people in need.

Finally I would like to express our thanks to Sovereign's Chair, John Simpson, who will stand down when the merger with Spectrum completes. During arguably the most challenging period in our sector's history, John has maintained a clear strategic focus for Sovereign, and both his support and challenge have been of huge benefit to the business. On behalf of everyone at Sovereign we wish him all the very best for the future.

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 that 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) and Affordable Rent (up to 80% of market rates). We offer the chance to own a home, through shared ownership. We are also building a portfolio of private rent (100% of market rates) and some outright sale homes, which meets housing need and cross-subsidises our affordable products. We take care to maintain and repair our homes, and, for those residents who need them, we offer a range of support services to help them achieve their aspirations.

We are an independent social business. We use our organisational strength, stability and resources, along with funding from government, banking and capital markets, to maintain and grow our business, delivering more homes and improved services to those in need.

Of our 38,373 homes, 82% are provided at rents below the open market rate, 15% support people into home ownership and 3% are available at private rent.

New homes for private rent at Jenner House in Cheltenham.

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 with the aim of delivering more homes.

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, which is regularly reflected in our high levels of employee engagement.

Our commitment to investing in our employees' learning and development has been recognised by the Investors in People's gold standard.

We know a diverse and inclusive culture contributes to the success of an organisation. We continue to work to create equal opportunities, integrating equality and diversity into business thinking and creating a 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.

70% SOCIAL RENT

15% HOME OWNERSHIP

8% HOUSING FOR OLDER PEOPLE

4% AFFORDABLE RENT

3% PRIVATE RENT

Local focus, national influence

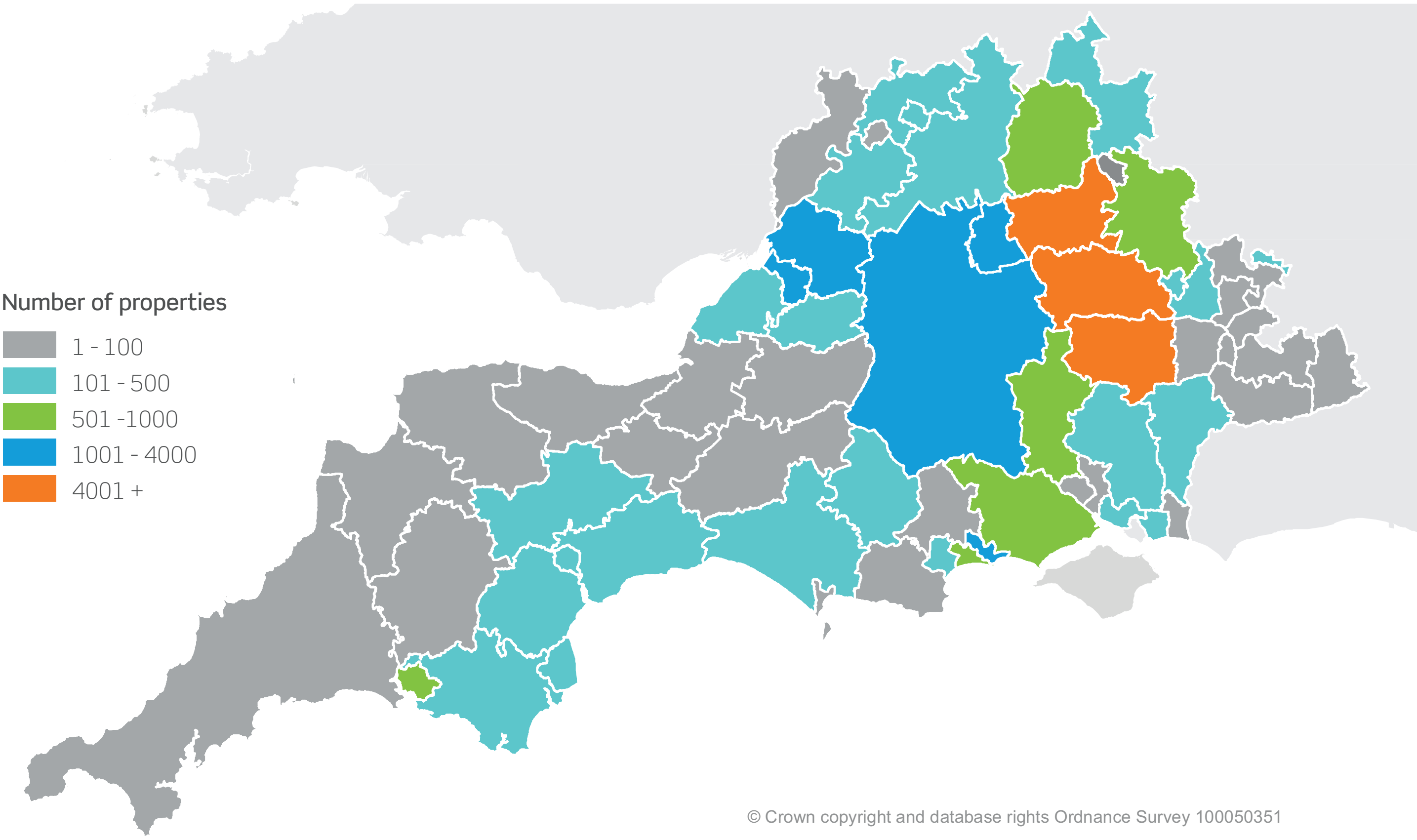
We work in the south and south west of England, where demand for homes far exceeds supply. House prices and rents have increased sharply in this area, continuing to make the affordability of quality accommodation a challenge for many, despite rising incomes.

To make a lasting difference to our residents and communities, we recognise the need to build long-term relationships with a range of partners. We have effective partnerships with national and local government, 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 local and national influence on our residents' behalf, on issues that affect them such as welfare reform and building new affordable homes.

This year we were one of five housing associations to pilot the Voluntary Right to Buy; giving us the chance to influence policy and shape operational delivery.

Our operating area



Our strategy for the future

Sovereign's size and geographic focus make us a leading housing association nationally and across the south and south west.

We recognise that responsibility for our business and for our residents' homes rests with us, and we take this responsibility very seriously. At the same time, we have a strong leadership role within the housing sector, which means that we step up to new challenges.

Sovereign is a social business, dedicated to providing good quality rented homes to people in need. To do this effectively we'll need to build even stronger relationships with key stakeholders, particularly local councils. The past year has tested our strategic approach, and we have made some adjustments to our plans, but the direction of travel remains the same.

Our stock rationalisation programme continues as we focus on a tighter geographical footprint. We're building more productive relationships with fewer than 30 local authorities, rather than the 60 where we currently work. Over the last two years we've disposed of or acquired more than 1,100 homes, while we continue to receive strong interest from other associations. We're keeping residents who are directly affected fully informed as our plans progress.

Plans for the rationalisation of stock in Devon have been placed on hold pending the outcome of our merger plans.

Delivery of our strategy is supported by a detailed plan, and a suite of focused performance measures, with progress reported to each Board meeting.

The key elements of the strategy are:

Great homes and communities

Great homes and communities remain at the heart of what we do, and social rented homes are vital in supporting people on low incomes to flourish. We will retain a focus on the affordability of our 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 will continue to grow.

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 continue to invest 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

The political landscape

The government has pledged to reduce the annual benefit bill by £12bn. This intent was clearly demonstrated in the July 2015 budget, which set out extensive welfare reform measures that will considerably change the landscape in which the housing sector operates.

The key changes include:

- A reduction in social housing rents of 1% a year, for four years
- Freezing working-age benefits for four years from 2016/17 and limiting Child Tax Credit. Balanced against this is the minimum wage increase
- The Housing Benefit cap reduced from £26,000 to £20,000 (£23,000 in London)
- For new or renewed tenancies from April 2016, Housing Benefit will be capped at the relevant Local Housing Allowance rate, with effect from April 2018.

These changes are significant and, alongside the Voluntary Right to Buy scheme, provide an uncertain and challenging environment for housing associations and their residents.

A joint venture with David Wilson Homes has transformed Kersey Crescent, Newbury, providing homes for social rent and shared ownership.

What this means for our residents

As with most government policy changes, there will be winners and losers. It's a complicated blend of reforms that will be introduced at different times.

- Those on the minimum wage will benefit from the increase but may lose out in terms of benefits received.
- The Voluntary Right to Buy proposal will give some residents the opportunity to own their own home.
- The rent reduction is positive for all social tenants who are not receiving housing benefit, but those who are could still lose out given other benefit changes.
- The benefit cap will impact a greater proportion of our residents. Most of these will be larger families who could face a considerable squeeze in their income.

What this means for the housing sector

The overall impact of these policy changes is uncertain, with details yet to be finalised.

What we do have clarity on is the 1% rent reduction, and the sector has been evaluating the impact of the rent loss on its business plans. Although the reductions did not come into effect until April 2016, the announcement prompted work across the sector to improve efficiency and reduce costs to mitigate the impact of the future rent loss.

Continuing to build the homes we need

The combined impact of all of these policy changes will put considerable strain on the financial resources of all housing associations. However, despite this challenge Sovereign remains committed to building more homes. We aim to build around 6,000 homes over the next five years across a range of tenures.

We will do this by making the best use of our resources; the vast majority of our development is self-funded by our operating surpluses and borrowing from banks and the bond markets.

In order to build homes and remain a financially secure organisation, it's vital that we maintain a strong operating surplus. This allows us to invest profits into building homes and also gives our lenders confidence in our financial strength, which means that when we need to borrow money to build homes, we continue to do so at competitive rates.

European Union referendum

In June 2016, Britain voted to leave the European Union. While the impact is not yet clear, operating risks are likely to increase and there is potential for falling house prices and reduced housing development in the short term. However, Sovereign is a strong and resilient organisation and well positioned to deal with the inevitable political and economic uncertainty.

Merger

During the past two years, we've been seeking to rationalise our geography in order to make efficiencies and build more homes.

We were focused on a tighter geographical footprint and committed to growing to 50,000 homes by 2018.

In exploring opportunities to exchange stock with Spectrum Housing Group, we recognised that we shared a similar geography, ways of working and values, and that there could be wider benefits to both organisations and our residents in merging.

Joining together will make the new organisation even stronger, more efficient, and creates scale and resilience for the future, so that we're in a better position to tackle the high levels of housing need in our areas. It also leaves us better prepared to tackle a very challenging policy environment in the housing association sector.

In June, both the Sovereign and Spectrum Boards approved the merger subject to receiving appropriate consents from regulators, funders, pension schemes and shareholders. Provided these consents are achieved, the new organisation will be the largest housing provider in the south and south west, responsible for around 56,000 properties.

The decision to merge was not made lightly. It followed months of planning and due diligence as both organisations compared their similarities and differences, and identified any risks or issues we needed to think about to help in making a decision on the merger. This included consulting with our residents and employees.

In April we announced the new merged organisation would operate as Sovereign, with maintenance services continuing under the successful Spectrum Property Care brand.

Leading the new organisation

Ann Santry, Sovereign's current Chief Executive Officer, will lead the new organisation, with Spectrum's current Chief Executive Officer taking up the Deputy position. As both the current chairs are reaching the end of their tenures, we've appointed a new independent chair to take the new organisation forward. In the interim period until the new chair takes over, Richard Organ, the current chair of Spectrum, will chair the Shadow Board.

A strong Shadow Board, as well as a new Executive Team, has also been appointed.

Timeline of merger

Now that we have approval from the Homes and Communities Agency (HCA), our next steps are to finalise negotiations with our lenders and pension schemes and seek approval from our shareholders, who will vote on the merger at Special General Meetings in September.

We expect the new organisation to be operational by the end of the calendar year.

Ash Sood and his son Rajveer at their new home in Bewley Park, Reading.

Our performance

A new accounting standard

The annual report and financial statements have been prepared in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS102) as issued in August 2014. This is the first year of adoption of the new accounting standard and has meant significant changes in methodology in preparation of the financial statements. 2015 figures have been restated under the new standard.

Key accounting policies are included in note 2 of the financial statements but there are additional estimates and judgements that have an influence on the published figures.

Discount rates are used to calculate the net present value of pension liabilities. The rates are based on good quality corporate bond yields and applied to future cash flows, and have been provided by qualified actuaries in each case. Rental arrears payment plans are discounted at a rate that management believes is appropriate for the level of risk in the recovery of the debt.

Property valuations are based on the rental yield of each property on the open market. There are recognised differences in market conditions depending on the location.

Current assets include stock of the first tranche sale element of shared ownership properties yet to be sold. The values within stock are based on scheme appraisals and the progress of the scheme at the reporting date.

The transition to FRS102 means there is a new requirement to show the fair value of financial derivatives, for example stand-alone swaps, on the balance sheet. Hedge accounting is permitted under FRS102 and allows the Association to off-set some of the movement from year to year in this fair value through a reserve rather than impacting the results before surplus for the year.

Summary

We have taken significant steps to ensure we continue to meet our strategic objectives despite the challenging policy environment in which we are operating. By increasing efficiencies, improving the way we work and continuing to grow our rental stream through development, we have achieved a very strong surplus in 2016.

Our operating surplus at £81.1m is a 10.5% (£7.7m) increase on 2015 (£73.4m), and has been achieved as a result of increased turnover and stable costs. Our surplus for the year at £45.3m is a 24.5% (£8.9m) increase on 2015 (£36.4m). Our EBITDA (Earnings Before Interest Taxation Depreciation and Amortisation) percentage has increased from 43.4% to 43.9%.

These strong surpluses continue to support our ambitious development programme with expenditure of £103m in the year.

A year of progress

Measure	2016	2015
Operating surplus £m	81.1	73.4
Operating margin %	34.6	32.8
Overall surplus £m	45.3	36.4
EBITDA £m	93.4	88.7
EBITDA %	43.9	43.4

The Group statement of financial position, formerly known as the balance sheet, reflects the strong operating performance in the year with net assets increasing by £37m to £1.32bn (2015: £1.29bn). The continued strength of Sovereign's financial position allows for further investment in new affordable homes in order to fulfil the long-term aims of meeting the social housing needs of the regions in which we operate.

Turnover

Turnover increased by £11.2m to £234.7m. Rental income from social housing increased from £196.4m to £204.1m. The growth was a combination of rent increases and new properties being let.

£m	2016	2015	Change
Social property rent	204.1	196.4	3.9%
Private rent	6.1	5.4	13%
Shared ownership first tranche sales	21.4	17.6	21.6%
Open market sales	0.0	1.0	
Other activities	3.1	3.1	0%
Total	**234.7**	**223.5**	**5.0%**

Income received from first tranche shared ownership sales increased by £2.8m from £17.6m to £21.4m as a result of both an increase in the number of sales from 219 to 242, and a slightly higher sales price given the buoyant housing market. There were no direct open market sales in the year with this activity being undertaken through joint ventures with housebuilders.

Operating costs

Operating costs were £134.9m, an increase of £1.8m on last year (2015: £133.1m). This includes a one-off pension adjustment of £4.6m (reflecting the latest pension scheme valuation), while further investment into our assets has led to an increase in our depreciation of £1.0m. Excluding these changes, the underlying position is a £3.8m reduction in costs. This reduction is mainly due to efficiency savings across our core business, with management costs down by £2.4m and maintenance costs by £1.8m.

Other costs and activities

Interest payments are £44.7m for the year, a £0.1m reduction on 2015. The surplus from sales of housing assets (disposal of plant, property and equipment) fell by £12.3m to £4.6m (2015: £16.9m). This is mainly due to reduced stock rationalisation activity as we work through the implications of the government changes on our stock profile.

The Group statement of financial position

The Group statement of financial position has continued to strengthen, reflecting our strong performance during the year and the ongoing investment programme. This strength remains a key part of the business strategy ensuring resilience in the current policy environment.

At March 2016, fixed assets totalled £2,660m (2015: £2,585m), an increase of £75m on the previous year. The key elements of this increase include £103m investment in new developments, £12m on acquisitions of housing stock from other housing associations, £11m of capitalised improvements on existing properties and revaluation gains of £3m on investment, commercial and office properties. These increases are partially offset by depreciation (£24m) and disposals (£14m). Current assets also include a £12m reduction, reflecting cash returned to the business as margin calls on the Group's portfolio of interest rate swaps reduced.

Cash and short-term investments remain at £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 £28m of bank funding taking the year-end debt position to £1,169m.

Total reserves strengthened to £1,323m, an increase of £37m.

£m	2016	2015	Change
Management costs [1]	38.8	41.2	5.8%
Maintenance costs [1]	50.8	52.6	3.4%
Depreciation	24.5	23.5	-4.3%
Other costs	15.5	15.1	-2.6%
Pension adjustment	5.3	0.7	-657.1%
Operating costs	134.9	133.1	-1.4%

[1] Management and Property costs relate to social housing lettings only, as per note 4 to the accounts

Cash flow

There was a £0.2m decrease in cash in the year against an increase of £3.1m in the previous year. The operating cash flow has improved to £111.3m, an increase of £8.7m, reflecting the improved financial performance. The main movements in the Group's cash flow are shown below:

	2016 £'000	2015 £'000
Net cash generated from operating activities (see below)	111,256	102,576
Cash flow from investing activities		
Purchase of tangible fixed assets	(127,628)	(152,156)
Proceeds from sale of tangible fixed assets	17,347	81,720
Grants received	3,674	4,246
Interest received	858	578
Net cash from investing activities	**(105,749)**	(65,612)
Cash flow from financing activities		
Interest paid	(46,273)	(48,404)
Investments in collateral deposits	12,185	(16,686)
New secured loans	72,618	104,594
Repayment of borrowings	(43,758)	(63,039)
Withdrawal from deposits	(460)	(10,354)
Net cash used in financing activities	**(5,688)**	(33,889)
Net change in cash and cash equivalents	(181)	3,075

The lower investment in tangible fixed assets is due to a significantly reduced programme of stock swaps with other housing associations. In 2015 large stock swaps were included in the purchases and proceeds from sale of tangible fixed assets, inflating both measures. The net cash outflow from investing activities has increased to £106m in 2016, including significant investment in new housing properties. Social housing grant receipts continue to be low compared to historic levels. Interest paid has reduced as new loans are taken at a lower interest rate than those being redeemed. Other key aspects are the return of £12m of cash deposited to cover collateral calls on interest rate swaps and an increase in borrowing of £28m.

Development

We continue to grow our business across our core operating area, and have delivered 937 homes in 2015/16 across a range of tenures. This is a strong performance in a difficult market constrained by land and labour availability. In line with our strategy to expand our shared ownership portfolio, the proportion of our new homes that are for shared ownership has increased to 27% (2015: 21%).

The majority of Sovereign's development is self-funded, through reinvestment of surpluses and borrowing. Just £3.7m of investment grant came from the government's Affordable Homes Programme. Our strong operating performance enables us to maintain an ambitious development programme despite the difficult policy environment.

Number of properties completed	2016	2015	2014
Social rent	268	438	569
Affordable Rent	302	339	168
Intermediate market rent	-	-	23
Shared ownership	254	202	257
Market rent	93	1	70
Open market sale	20	2	26
Total programme	937	982	1,113

Open market sales in 2016 were delivered through a joint venture with David Wilson Homes.

Future programme

We have revised our development strategy as a result of government policy changes, in particular the new planning legislation and the Starter Homes initiative, which places uncertainty around our traditional route to acquiring good value-for-money homes through Section 106 planning agreements.

The principles of our 2015-18 strategy are sound, but we recognise the need to be flexible in our approach in order to continue to meet our development aspirations. This includes increasing the volume of homes we are building for shared ownership and outright sale, in line with the government's aspiration of more home ownership.
We are still aiming to build around 1,000 homes a year for the next five years; in addition to this we will be building homes to replace Voluntary Right to Buy sales. We expect this to be 300 homes a year from 2018.

Stock rationalisation

Part of our 2015-18 strategy was to concentrate activity in a tighter geographic area, with the intention of swapping or disposing of 10% of our stock in outlying areas. We took the decision to slow this activity in 2016 across some of our geography, given the uncertainty surrounding all of the policy changes, and the proposed merger with Spectrum. Through stock rationalisation in 2016 we disposed of 67 homes, (2015: 665) and acquired 75 (2015: 294).

Investing in our homes

Investment in our homes is a key part of Sovereign's strategy and fundamental to maintaining asset value. During the year, £38.0m was spent on improving our homes, of which £11.0m was spent on existing homes for capital investments such as new kitchens, bathrooms, doors, windows and heating systems. The largest expenditure was kitchens (£4.3m) with 915 homes benefiting from a new kitchen. We know that fuel poverty remains important to our residents and we installed 576 full heating systems at a cost of £2.5m; this is in addition to £2.8m of revenue spent upgrading 928 boilers.

In addition to the ongoing investment plan, we spent £2.3m on our modernisation programme. This is targeted where additional investment is required to maximise both short and long-term asset value and mitigate risk.

Modernising our services, we want to make it easy for residents to do business with us.

Treasury management

Treasury and funding are key to ensuring that sufficient facilities are in place to support our 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. The Board delegates 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 and 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. The enforced rent reductions over the next four years will reduce the security value of those properties. Additional properties have been put into charge to ensure that all the facilities remain fully secured, and to allow for an element of properties to be released from charge for sales under the new Voluntary Right to Buy scheme without any requirement for immediate replacement.

At 31 March 2016, there were more than 13,000 additional properties available to be pledged as security for additional borrowings, with an existing use value in excess of £800m. This ensures that secured borrowing capacity remains available to support ongoing investments.

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

Covenants

Sovereign's bonds and bank debt include various covenants and undertakings. The financial covenants are primarily in respect of interest cover, gearing and asset cover. Compliance with financial covenants is monitored on an ongoing basis and confirmed quarterly to the Treasury Committee. Discussions are on-going with lenders to adjust covenant definitions so as to achieve a broadly neutral position following the introduction of FRS102. Future compliance is considered as part of the business planning process. Interest cover and gearing are 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.

Despite the government's introduction of a rent reduction regime, which has adversely affected existing use property values and therefore our valuation-based gearing covenants, our business plan has considerable headroom in relation to all financial covenants.

Liquidity

Sovereign has a minimum liquidity policy that requires cash and confirmed finance facilities to be in place to cover the expected financing requirements for at least 18 months. At 31 March 2016, Sovereign's undrawn loans totalled £109m. We also held £49m in cash, including cash on notice deposit (reflected as current asset investments in the Group statement of financial position). We remain well placed to capitalise on development and stock acquisition opportunities, as well as to protect against any unexpected eventualities arising from economic, political or regulatory challenges.

Sovereign's finance facilities have a weighted average term of 18 years with only £115m of Sovereign's total £1,269m 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.

There has been no requirement to raise further funding during the year, due to strong operating cash flows and proceeds from property disposals. Credit approval for new facilities has however been received from Affordable Housing Finance and the European Investment Bank. If these facilities complete they will provide competitively priced additional funding of up to £250m, to be drawn over the next three years.

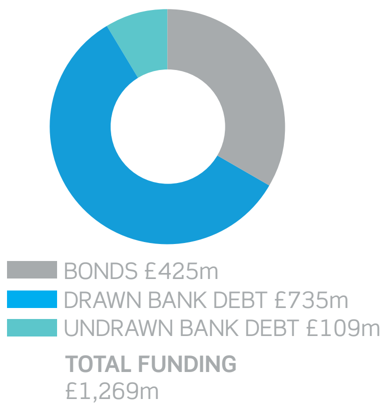
Interest rates

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 interest rate movements. The interest rate hedging strategy is adjusted as required. At 31 March 2016, 80% of drawn debt was at fixed rates or at rates fixed through the use of derivative financial instruments. This proportion is reducing as undrawn bank debt is drawn down to fund development.

Under FRS102 the value of standalone interest rate derivatives is reflected on the balance sheet. At 31 March 2016, the aggregate value of these derivatives was £105m negative (2015: £94m negative). This increase (notwithstanding payments made during the year) reflects market expectations of lower average interest rates over the remaining lives of the derivatives.

Total facilities



Operational performance and customer service

The service we provide to our residents and partners is a key measure of success. We invest a great deal of time, money and effort in getting it right.

Here's our performance dashboard from last year including real-time customer satisfaction captured via telephone surveys.

WE INVESTED...	WE DELIVERED...	OUR CUSTOMERS SAID...	NEXT YEAR WE WILL...
£23.9m on routine maintenance, down from **£26.2m** in 2015	**105,596** REPAIRS COMPLETED **96%** COMPLETED WITHIN TARGET	**88%** OF RESIDENTS **SATISFIED** WITH RESPONSIVE REPAIRS **91%** OF RESIDENTS **FOUND IT EASY** TO GET A REPAIR COMPLETED	• Embed new ways of working and technology to support more effective and efficient scheduling. • Further increase our in-house resources to align our service offering.
£38.0m on planned maintenance, up from **£36.9m** in 2015	**915** KITCHENS **417** BATHROOMS **1,748** DOORS & WINDOWS **1,235** NEW BOILERS OR HEATING SYSTEMS	**89%** OF RESIDENTS **SATISFIED** WITH QUALITY OF THEIR HOME	• Implement 'smart surveys' to maintain stock condition information on all homes. • Continue to invest more in planned, rather than responsive, maintenance.
in streamlining our voids and lettings processes and introduced any day tenancy start dates	**595** MUTUAL EXCHANGES **2,595** NEW LETS AND RELETS AVERAGE RELET TIME REDUCED FROM **21 TO 17 DAYS**	**96%** OF RESIDENTS **SATISFIED** WITH MOVING INTO THEIR NEW HOME **91%** OF RESIDENTS **SATISFIED** WITH MUTUAL EXCHANGES	• Introduce a new functional service delivery model to reduce the cost of managing our lettings service. • Introduce texting and online information for new residents to reduce postage costs and modernise our service offering.
in improving customer experience in our contact centres (Connect)	**20%** increase in Grade of Service **44%** reduction in average sick days lost per employee **3.9%** reduction in employee turnover	**81%** CONNECT ADVISOR **CALL QUALITY** SCORE	• Expand automated rent payments and improve our ability to diagnose repairs through the roll out of SPINE, to reduce call volumes and shorten call handling times. • Rationalise the number of telephone numbers and email addresses to reduce the cost of line rental and improve customer contact channels.

Listening and taking action

Customer feedback lets us know how we're doing, shapes our future services and helps us prioritise where to invest.

We carry out a Survey of Tenants and Residents (STAR) every two years to delve deeper into what matters to residents and to benchmark ourselves against other social housing businesses.

In December 2015, 13,000 residents were invited to take part with a record 36% response rate.

The results, in addition to the feedback we collect from a range of other methods, give us lots of information about what our residents think and where we need to focus our efforts.

Survey of Tenants and Residents

	2015 result	2013 result	Change over time
Satisfaction overall	**80%**	78%	↑
Quality of home	**82%**	79%	↑
Value for money of rent	**77%**	71%	↑
Value for money of service charge	**61%**	62%	↓
Listens and acts on views	**64%**	59%	↑
Repairs and maintenance overall	**73%**	74%	↓
Neighbourhood as a place to live	**85%**	83%	↑

New homes for Affordable Rent and shared ownership in Chainhill Road, Wantage.

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 changes in government policy, the economy and wider society.

Sovereign takes a long-term and responsible approach to risk management, proactively identifying and managing risks and opportunities that may impact on our 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 a risk register to identify and monitor strategic risks and score each one for impact and probability, considering both the inherent and residual risk, 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 linked to the strategic objectives and considered and reviewed quarterly by the Executive Board and ARC, with more frequent reviews if considered necessary. The ownership of each risk lies with an Executive Board member. The register is maintained as a live system, updated as risks change. Each risk is underpinned by a series of key controls or other sources of assurance, which are owned by the control owner and assessed for their effectiveness. Risks and controls are accessible to all relevant employees and both risks and controls can be linked to assist interdepartmental working, cascading and sharing. Additionally there are a variety of operational risk maps, used to control specific risk areas in more detail including health and safety.


Jacky and David Watts live in one of our homes for the over 55s in Basingstoke.

Another key part of risk management is environmental 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 and applying them to Sovereign, such as those reported in the Homes and Communities Agency's regulatory judgements.

The internal risk management process is supported by the Business Assurance team, which coordinates the risk register and manages the programme ensuring the programme focuses on those areas considered higher risk. The programme is agreed by ARC and delivered by the in-house Internal Audit team, supplemented by independent specialist auditors where necessary. In 2016 we also introduced control self-assessments where the control owners check the effectiveness of their controls, consider whether they are sufficient for the function and the extent of operational compliance.

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 the Board is mindful of the combinations of factors that could cause financial distress, and the contingent mitigation strategies.

The recent European Union referendum vote has the potential to impact the business in a number of areas, for example development supply and demand, funding cost and availability and potential changes to government policy. These areas are already covered in the risk register but will be subject to further review as the risks and implications become clearer.

Top strategic risks and response - as at March 2016

The risk	Response/comment
Insufficient liquidity to support business activity and/or our strategic objectives	Key controls include Financial Standards, monitoring covenant compliance, security headroom with lenders, short-term cash flow forecasts and daily monitoring. This is supported by sensitivity tests and scenario analyses with options for recovering from adverse changes.
Detrimental impact on income streams due to welfare benefit reform	We are committed to understanding the full impact of the government's welfare reforms, helping residents access advice, maximise income through employment and training while focusing on ways to pay and income collection.
Detrimental impact on rental streams due to the changed rent policy environment	The reversal of the 10-year rent agreement brings uncertainty to longer term rent setting policy. Sovereign is maintaining its financial strength through income opportunities, cost management strategies and reviewing the viability and benefits of service offerings. This ensures we are well positioned to respond to future rent policy.
Issues and liabilities arising from pension schemes	Key risks include increased pension costs arising from low investment returns and increasing longevity along with deficit crystallisation risks in closed schemes. Mitigation is through closure of schemes to new members and future accrual, long term business planning and negotiations over longer term funding requirements.
Failure to deliver and maintain business applications, systems and IT working practices that meet the needs of the business	Significant investment in core IT infrastructure to deliver a robust platform including disaster recovery and business continuity planning is now being leveraged to ensure employees are equipped with the tools to work effectively and residents can be served both face to face and electronically.
Short-term impact of Voluntary Right to Buy on stock numbers, income and the Business Plan	Participation in the Voluntary Right to Buy pilot enables us to understand the risk first-hand, influence policy and shape operational delivery. This learning has been incorporated into our processes to ensure the effective roll out of the national scheme, including planning and procuring replacement properties.
Leaders and managers fail to effectively manage their teams and people, placing Sovereign's organisational resilience at risk	There is a focus on change management and ensuring clarity of organisational goals and expected behaviours, alongside regular performance monitoring and feedback. This includes measuring employee engagement, responding to issues raised through employee forums and promoting wellbeing.
Board and Executive fail to lead and manage the organisation with appropriate skill, competence and foresight	The Board and Executives' performance is assessed annually along with 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	The Executive Board 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.
The 2015 regulatory framework mandates new requirements such as stress testing, compiling an asset and liability register and confirming legal compliance	Sovereign has a strong focus on regulatory compliance and was already undertaking many of the new requirements. Key controls include clear and accessible terms of reference, standing orders and financial regulations with Board and Committee papers and minutes providing a robust audit trail.
Failure to procure development opportunities to support long term growth or overpayment for such opportunities	Relationships with developers and local authorities supports access to new opportunities. The business planning process ensures the business can respond to changing market opportunities and a robust scrutiny and viability assessment process is in place for all new schemes.
Risks relating to the proposed merger between Sovereign and Spectrum Housing Group	Risk mitigation includes independent review of the due diligence process, a specific merger risk register and a joint merger steering group taking oversight of the project. An implementation plan has been developed and is being refined as the merger progresses.

A value for money business

Delivering value for money is a key focus of Sovereign's Board and Executive as we continue to build the organisation's strength and resilience.

They have set ambitious efficiency targets over the next five years and have challenged the business to consider social, resident and financial value through all of our activities.

With the changing policy environment, the delivery of value for money is more critical than ever. Delivering our social purpose is fundamental to our strategy and to do this we need to make the most of the finite resources we have. Our investment decisions need to be made with a sound understanding of the potential costs and benefits to Sovereign, our residents and the wider society.

By doing this, we are making sure we continue to have a positive impact on our communities, build new homes for those in need, help our residents become more financially independent, and provide them with great services.

A balanced view

As a social landlord, we have a responsibility to take a broad view of value for money; our activities have an impact on residents, wider society and the economy, as well as the environment, and we have a duty to consider all of these impacts when making decisions.

In doing so, we are giving balance to our investment choices: spend in one area may not give the same financial return as the equivalent spend in another area, but when the social and resident value is factored in it may offer more value for money overall.

Our approach to value for money means we look at performance through three lenses:

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

We understand there will be trade-offs between these values, but by considering the opportunity costs we are making more informed decisions.

Developing new homes

We believe strongly every new home we deliver generates significant value for money, and development is central to our strategy.

We know that the income of our existing social rented homes will fall over the next four years. The challenge for us as an organisation is to ensure we do everything we can to mitigate against this income reduction while still delivering our social purpose. Developing homes is fundamental to this.

- New homes increase our income potential and our asset value.
- Building homes also generates social value; the capital investment stimulates the economy by providing jobs. New homes are generally more energy efficient and provide environmental benefits. We provide homes at subsidised rents, which reduces pressure on the Housing Benefit bill.
- There is also significant resident value. At Sovereign, we measure the 'price advantage' a resident has from living in a social home rather than a market home. There are also benefits that are less easy to quantify; for example, the wellbeing of having a new home to live in, providing security for the family, and the benefits of a more energy efficient home.

In 2016 we delivered 937 new homes in a difficult market constrained by land and labour unavailability.

Of these 937 homes, 570 were at sub-market rents and 254 were for shared ownership, which demonstrates Sovereign's commitment to delivering affordable homes to people across a range of incomes.

20 of these homes were delivered in a joint venture with David Wilson Homes, collaborating to share expertise and risk.

Looking forward, we are committed to building around 1,000 homes a year for the next five years, in addition to building homes to replace Voluntary Right to Buy sales, expected to be 300 homes a year from 2018.

Following significant research into the value of our different products to Sovereign, society and our residents we are increasing the proportion of new homes we make available for shared ownership. Shared ownership provides a high-demand subsidised product which meets the government's aspiration for increased home ownership, with returns that allow us to reinvest into building more affordable homes.

Competition for new schemes is strong and we have a development appraisal model to ensure that we only acquire new schemes that fit our rigorous scrutiny requirements and deliver value for money on our new acquisitions. This is demonstrated by our Return on Investment performance, which is calculated by dividing Sovereign's surplus for the year by its retained surpluses.

New homes at Trafalgar Court, Theale, for Affordable Rent and shared ownership for older people.

	2015/16	2014/15
Return on Sovereign's investment	4.6%	3.9%

2014/15 restated for FRS102

Making the most of our assets

Achieving value for money for Sovereign and our residents means making the most of our assets. We have an extensive and valuable asset base of around 38,000 homes worth £2.7bn (at Existing Use Value as Social Housing). This valuation is calculated assuming that the homes will continue to be used for social housing, with rents set below market levels. Optimising these assets is vital to ensure value for money. Our assets are more than just our homes; our employees are a fundamental asset to Sovereign and we would not be able to achieve our strategic objectives without dedicated employees working towards the same goals. Our infrastructure, which can be described as the tools our employees use every day, is also a critical asset, and making sure we have the right infrastructure in place is vital for an effective and efficient organisation.

Our homes

We take a strategic approach to managing our assets and have a detailed methodology to ensure a consistent approach to asset appraisal. The basis of this methodology is having a sound understanding of the performance of our assets from a financial, resident and social perspective, and using this information to make the right investment choice to improve the overall value of our assets. The methodology is applied by a Strategic Asset Management team who use the following tools and criteria:

- Data from a stock profiler tool, which calculates the net present value of each of our properties; this enables us to identify underperforming properties or groups of properties.
- Housing demand in the area; is there a specific need for affordable housing in the community? Or would different tenures be more appropriate and generate funds to enable investment in areas with greater need for affordable homes?
- The geography of the site; is it in our new core area?
- Other relevant local evidence; we make each asset investment decision on merit.

Our people

Growing our own

We have recruited a number of apprentices to work across the organisation and have received many awards in recognition of our approach. For example, for the last three years we have won West Berkshire Training Consortium's (WBTC) Certificate of Excellence Award. And we recently won WBTC's Large Employer of the Year. Our apprentices have also won awards for their achievements too.

We recruited nine apprentices in 2016 taking the total to 41 apprentices and graduates who have joined over the last three years.

We are steadily increasing the number of young people working at Sovereign, with 9% of our workforce now under the age of 25.

Recruitment

Early in 2015 we decided to move away from our outsourced recruitment provider to help control costs, improve quality and put a greater focus on internal mobility and resource planning. In August we successfully transitioned to an in-house recruitment service. Six months in, outcomes of the in-house model include:

- 95% of roles directly filled, significantly reducing our reliance on agencies.
- Tailored recruitment approaches for difficult to fill roles, such as using social media.
- Hiring managers have greater influence over recruitment decisions.
- As part of our commitment to creating opportunities for women to join our trades teams, we worked with South Gloucestershire and Stroud College to recruit two female trainees to our Property Services teams in Bristol.

Employee development

In the second half of 2015, we focused on designing our new approach to learning and development. This includes learning in three key areas – My Knowledge (core training), My Growth (personal development) and Leadership Strength (development for our senior leaders). Key differences will include less classroom training, greater use of technology, more bespoke development activity, and delivery of training will primarily be delivered by our internal team. This approach will help us be more cost-effective, improve the quality of development and increase focus on the return on investment.

Our infrastructure

We continue to invest in our infrastructure and in key business projects that we believe will deliver significant long-term efficiencies:

- SPINE is our new property services system that was launched in June 2016. Ahead of the SPINE implementation, the roll out of Windows mobile phones has resulted in better communication with our operatives. The phones are used to access email, our intranet, and to share information when out on a job. This results in a more efficient and consistent service to our residents and in turn this supports our value for money commitment.
- Project Unity brought the management of tenancies and properties on to a single housing management system. This has resulted in a more efficient way of working, with common processes now in place across sites and employees no longer having to learn multiple housing systems with different functionality.
- Sovereign's Skylight project has resulted in a modern PC estate across the business. All computers are now less than three years old, providing faster, more reliable machines and reduced login times.
- As part of our Smarter Working initiative, new Multi-Functional Devices, Follow Me Printing and new print rules have now been successfully implemented across our offices, resulting in much more efficient and economical print habits across the organisation. In 2015/16, these changes have delivered a cost saving of £108k and an expected saving on the contract of £509k.

Operational excellence

We monitor our performance closely to make sure we're improving and are aware where performance is not at the level we would expect. We have strategic performance reports that are scrutinised at Board and Executive level, and more detailed operational management information that track our performance and spend over time.

With the reduction in rent starting in April 2016, it is vital that we minimise income lost through residents not paying their rent, or when our homes are empty. In 2016 we continued our excellent performance reducing rent arrears and shortening relet times.

We have made efficiency savings on both our management and maintenance cost per home.

Key measures	Sovereign 2016	Sovereign 2015	Peer group 2015	Sector benchmark 2015
Operating margin	35.7%	32.0%	33.9%	28.3%
Social housing operating margin	39.4%	35.6%	36.0%	31.0%
Units managed	35,590	34,998	35,570	-
Social housing costs per unit	3,116	3,260	3,676	3,550
Management and service charge cost per unit	1,090	1,173	1,028	950
Service charge cost per unit	244	239	515	360
Maintenance cost per unit	951	1,051	1,203	980
Major repairs cost per unit	814	787	723	800
Other social housing cost per unit	18	11	208	200
Current rent arrears	1.71%	1.99%	-	-
Void loss	0.70%	0.71%	1.35%	1.7%
Relet time (average days)	17	21	-	-

Association numbers are used to enable comparison with the Homes and Communities Agency's Global Accounts benchmarking data.

Our peer group is made up of 10 Housing Associations with similar characteristics, such as size, operating area and rating agency profiles. These are A2Dominion, Affinity Sutton, Amicus Horizon, Family Mosaic, London & Quadrant, Metropolitan, Midland Heart, Notting Hill, Sanctuary and Southern.

Management

Our cost per unit for management has reduced by £83 from £1,173 to £1,090, resulting in an overall saving of £3.0m. This is a result of a number of efficiencies to both our frontline and back office teams, including the following savings:

- Reducing our housing management senior structure and starting the journey of redesigning our frontline service delivery models have saved more than £700k compared to 2015.
- Our new approach to training and recruitment has saved more than £800k compared to 2015.
- Changing our communications structure and approach has reduced spend by £675k.

Maintenance

Our cost per unit for maintenance has fallen by £100 from £1,051 to £951, resulting in an overall saving of £3.6m. This is a result of our 'optimisation' programme resulting in a number of operational efficiencies across our maintenance teams:

- Greater accountability and empowerment over local delivery has driven an increased use of our in-house maintenance teams, which enables us to deliver a consistent service to our residents and save money by reducing the use of contractors and therefore saving on VAT.
- Through better scheduling, more flexible structures and increasing the skills of our operatives so they can carry out a wider range of repairs, we have reduced the spend on temporary staff and overtime by £721k compared to 2015.
- Savings in purchases of materials; by working in partnership with our supply chain we have been able to bring the average cost of repairs down.

Community Investment

Sovereign is committed to working with existing and new communities to ensure they are places where residents feel safe, supported and able to maximise their potential. Our dedicated Community Investment team works with residents, groups and partners, delivering key operational objectives, but also contributing to the value for money agenda.

The team has had another year of positive impact, including:

- leveraging £405k of match funding to help support our local communities
- supporting 135 residents into work (a 16% rise on the previous year)
- engaging 600 residents with the employment and training service
- supporting 1,183 residents with specialist debt advice, working with money partners
- supporting 1,018 residents to increase their skills, confidence or resilience.

We have measured the social value of key community investment activities using the Wellbeing Valuation approach published and endorsed by the Housing Associations' Charitable Trust (HACT). The social value of our employment and training impact is £1.1m. This shows the increase in wellbeing (the social value) that we've provided to those participants in our projects and programmes recorded in a monetary value.

Environmental impact

Increasing energy efficiency

During the year we improved the energy efficiency of many of our homes, reducing the energy costs for residents and the carbon emissions associated with heat and hot water and enabling residents to have warmer and more comfortable homes.

In total we:

- installed 39 renewable air source heat pumps, replacing old electrical heating or solid fuel heating systems
- replaced 928 boilers with new efficient boilers
- upgraded 110 homes by replacing old electric storage heaters
- improved the insulation at 150 homes
- installed new energy efficient windows at 731 homes.

In addition, at our offices we installed low-energy LED light panels to replace less efficient lighting systems. These systems will reduce energy costs, bulb replacement costs and carbon emissions.

Income generation from renewable energy

Over 2015/16 we received more than £60k of renewable heat incentive (RHI) income from government and earned £12k from our solar panels.

During the year we registered a further 19 solar panel installations for Feed-In Tariff and 68 air source heat pumps for RHI.

We expect our current renewable installations to receive over £500k of income spread across the next five years.

Next year we'll continue reviewing the energy efficiency of a number of our higher energy using homes, seeking to reduce energy costs, improve comfort levels and reduce associated carbon emissions. We will also continue to update key stock components such as windows and heating systems to lower energy use for our residents and reduce carbon emissions.

Next steps

Many of the plans implemented this year will continue to bring further improvement over the coming years. And we will continue to take action to provide an effective, value for money service to our residents.

This includes a new Customer Service Strategy that will utilise technology to improve our customers' experience in a more cost-efficient way. We've designed this using digital as the primary communications channel where appropriate, and we have identified 12 new ways of working that will deliver both resident and financial value. As part of the process we have established eight metrics we can use to measure the success of the strategy: three relating to customers, two to employees and three measuring the efficiency savings.

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

The Board's report

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

The Board presents its report and audited financial statements for the year ended 31 March 2016.

Board and Committee members, membership and attendance activity

	Board (inc. away days)	Audit and Risk Committee	Treasury Committee	Remuneration Committee	Link to resident panel
John Simpson (Chair)	8 out of 8		4 out of 4		
Gordon Holdcroft (Vice Chair)	8 out of 8			4 out of 4	Yes
Steve Abbott	8 out of 8	4 out of 4	4 out of 4		
Barbara Anderson[1]	8 out of 8		3 out of 4	4 out of 4	
Lee Bambridge	8 out of 8	4 out of 4	4 out of 4		
Al Dankis		3 out of 4			
John Rees-Evans	7 out of 8			4 out of 4	Yes
Christine Higgins	8 out of 8	4 out of 4			Yes
Mark Judge	8 out of 8			4 out of 4	
Stuart Laird	8 out of 8	4 out of 4			Yes
Ronald Manley OBE [2]	5 out of 5			2 out of 2	
Verity Murricane	8 out of 8			4 out of 4	Yes
Matthew Sands		4 out of 4			
Robert Taylor	8 out of 8				Yes
Bill Champion [3]			2 out 2		
Alisa Firth [4]				2 out of 2	

[1] Barbara Anderson was appointed the Chair of the Remuneration Committee on 17 September 2015

[2] Ronald Manley OBE retired from Board and its committees on 17 September 2015

[3] Bill Champion retired in October 2015 from the Treasury Committee

[4] Alisa Firth resigned on 21 January 2016 from the Remuneration Committee

Ann Santry CBE is an executive co-optee to the Board and has attended all Board meetings

Jennifer Dykes has been appointed as a co-optee Director on 12 May 2016

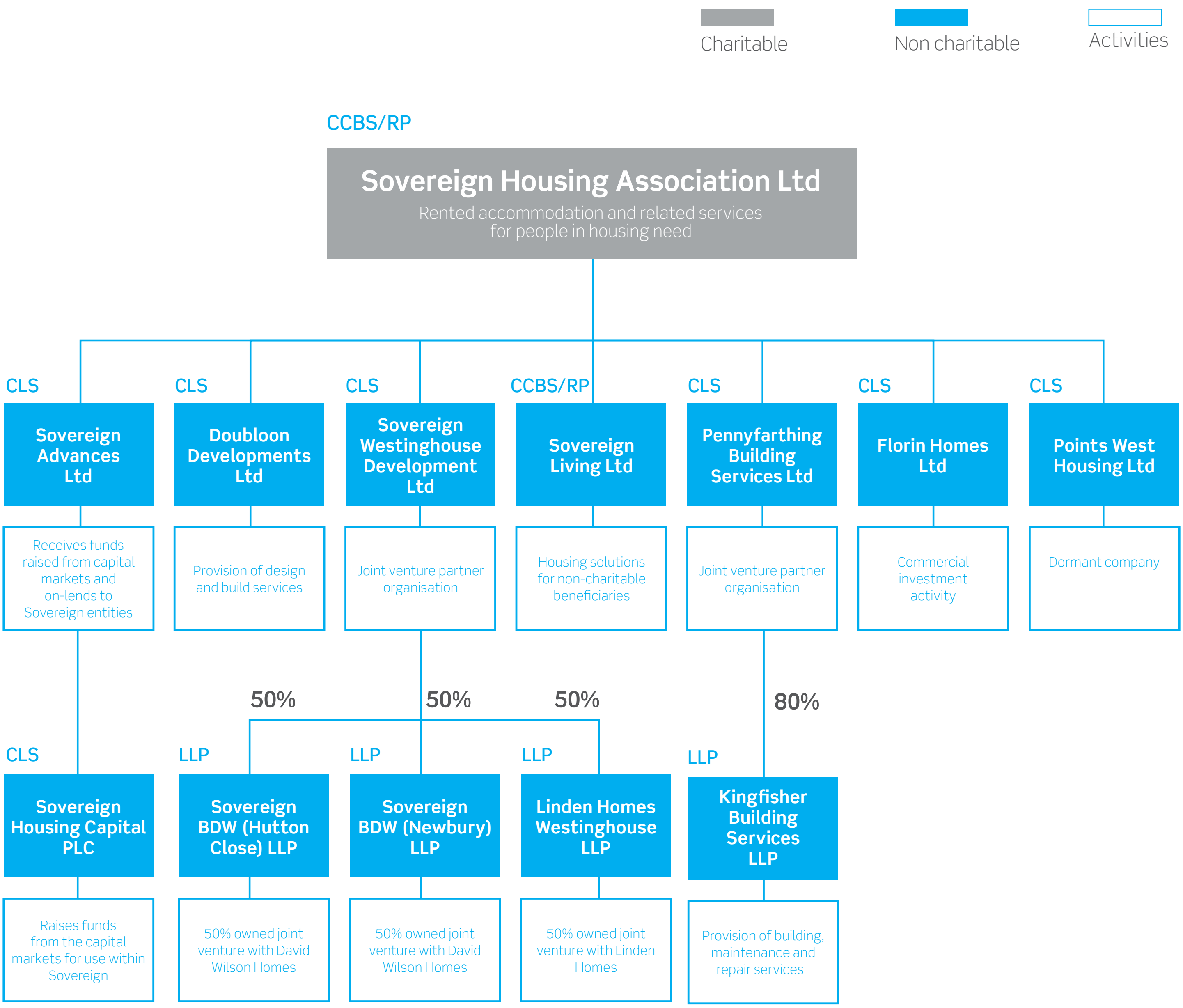
Mark Hattersley is an executive co-optee to the Treasury Committee and has attended all its meetings

Group structure

Sovereign has streamlined its Group structure in recent years, which 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 2016:



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

Interim Secretary
Shane Egan
Registered office
Woodlands
90 Bartholomew Street
Newbury
Berkshire
RG14 5EE

Auditor (external)
KPMG LLP
Tollgate
Chandler's Ford
Eastleigh
Hampshire
SO53 3TG

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.

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

Christine Higgins
Joined 2014
Chartered accountant and experienced non-executive director with a background in banking and finance. Christine is also a non-executive director on the boards of the Buckinghamshire Building Society and the Civil Service Motoring Association (CSMA).

Mark Judge
Joined 2015
A member of the Royal Institution of Chartered Surveyors with more than 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 in September 2015)
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 more than 20 years. Verity is also a trustee of a mental health charity and a governor of Berkshire NHS Foundation Trust.

John Rees-Evans
Joined 2007
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 (Chief Executive Officer)
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 to 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 panels, as well as a supporting committee structure.

The Council and panels bring challenges 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 that 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. This governance structure is supported by a comprehensive internal audit function and a comprehensive regulatory framework process.

The Executive Board is responsible for the day-to-day implementation of Sovereign's strategy.

A strong and effective organisation

The Board's focus in 2015/16 has been preparing for and assessing the potential merger while continuing to oversee the operational and organisational transformation of Sovereign. 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, the introduction of Universal Credit, the introduction of a rent cap, and low inflation. This supports the need for a responsive and experienced Board that is committed to continuous development.

The Board undertakes annual performance reviews, with reviews in 2015/16 held at both an individual and collective level. These reviews were carried out internally and by an external consultant, Central Consultancy and Training. The collective review concluded that there were a few areas of improvement required: dedicating more time to strategic thinking and reporting arrangements, and changes have now been adopted by the Board.

The five new Board members who were appointed in the previous year have demonstrated their strategic contribution as well as meeting residents, employees and senior management. We recognise as some of our most experienced members reach the end of their terms, Sovereign needs to constantly review the skills and expertise required for the future with new and existing members, including bringing a broad range of commercial and sector knowledge to bear.

The appointment of all new Board members is conducted 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. New members are 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 for a period of time to manage succession. The Board was at 12 members from September 2015, when Ron Manley OBE retired.

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

The Board has overseen governance arrangements to ensure Sovereign Housing Association has taken reasonable measures to adhere to all relevant law, and has complied with its governing documents and all regulatory requirements.

In addition, Sovereign has achieved a number of governance landmarks, including adopting the NHF Merger Code, and developing a new regulatory framework compliance system.

We review our performance with our shareholders each year at the Annual General Meeting. This year the meeting will be held at Regency Park Hotel in Bowling Green Road, Thatcham at 6pm on 15 September 2016.

Equality and diversity

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

We constantly review our approach to equality and diversity, and are in the second year of implementing a dedicated action plan, which is on target. This action plan has 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 track record and strive to create a working environment that's safe and comfortable, and protects our employees, visitors, contractors, residents and members of the public from harm. There are robust controls and systems in place, including accredited training for employees and management, as well as a culture of learning. Our approach has been recognised with a Gold and Silver Award by the Royal Society for Prevention of Accidents for both fleet and health and safety.

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

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

Accident rates

During 2015/16 we improved the way we report health and safety, focusing on the number of lost working days to the business and the severity of accidents. This better reporting method gives us both a clearer accident rate and the insight to manage health and safety more effectively.

Employee accidents	2015/16	2014/15
Reported accidents	105	113
Incident rate (per employee)	0.1	0.1

Resident accidents	2015/16	2014/15
Reported accidents	352	330
Incident rate (per resident)	0.004	0.004

Appointment of the external auditor

It's Sovereign's policy to retender the external audit every seven years. The current external auditor KPMG LLP won the competitive tender process in 2010 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.

In the current financial year, the review carried out by the Audit and Risk Committee concluded that our current external audit programme should continue to be delivered by KPMG for this, the last year in the current contract. 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 2016 Annual General Meeting.

We're improving customer experience in our contact centres.

The committees

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

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

This year, given the potential merger with Spectrum, all the committees supported the ongoing due diligence.

Audit and Risk Committee

The Audit and Risk Committee (ARC) reviews the annual report as well as the Value for Money Statement, and recommends them to the Board.

The committee sets the internal audit programme and also reviews the system of internal control and risk management processes, ensuring they're operating effectively and are consistent with the Board's risk appetite.

ARC met regularly with members of the Executive team as well as the internal and external auditors. The committee also adhered to good practice by meeting privately before each meeting and with the external auditors without Executives twice during the year.

It reported key issues to the Board after each meeting; the Board also receives the minutes of all ARC meetings.

Our year in review

“In addition to the standard items the committee reviewed Sovereign's approach to the new HCA regulatory requirements (effective April 2015), in relation to stress and scenario testing and asset and liability registers.

“ARC considered the impact of key decisions available on transition to the new accounting standard (FRS102) and made recommendations to the Board where there were accounting options available.

“The annual review of risk management was undertaken, which has led to further refinements to the risk identification and scoring process. This has strengthened Sovereign's approach to risk management.”

Christine Higgins, Chair

Treasury Committee

The Treasury Committee oversees Sovereign's treasury and funding activities, ensuring sufficient facilities are available to support the agreed strategy, and providing challenge and scrutiny of the treasury strategy and level and nature of risks. The committee consists of four non-Executive Directors as well as the Chief Financial Officer and is supported by independent treasury consultants.

The committee met regularly during the year and reported key issues to the Board after each meeting; the Board also received the minutes of each meeting.

Our year in review

"Sovereign continues to enjoy a strong financial position, while also being a leading developer of new homes. As a result of the recent downgrade in the UK government rating, our Standard and Poor's rating has been downgraded to AA-, with a stable outlook; our Moody's rating has, however, been affirmed at A1, although now with a negative outlook.

"Our liquidity position remained strong as a result of our available facilities, which meant there was no need to put new funding in place during the year, although preparations were made so that new facilities would be available in 2016/17.

"We have an approved annual treasury plan, which covers the key treasury risk areas of liquidity, interest rate, covenant compliance, security levels, counterparty and re-financing risk and provides assurance to the Board.

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

Lee Bambridge, Chair

Remuneration Committee

The Remuneration 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.

This year the committee has evolved to include Mark Judge, while Barbara Anderson took over from Ron Manley as Chair. Both are existing Board members and bring significant compensation, project and people management experience. Independent member Ailsa Firth resigned in early 2016; the committee would like to thank her for her service.

To facilitate high-quality decisions, the committee will consult appropriate experts as and if required.

Our year in review

"In line with company-wide objectives, the committee has made particular effort this year to operate both more efficiently and flexibly, and also more strategically. This involved reducing its membership, making use of technology to reduce travel where practical, and amending agendas to include debate on the broader issues at stake.

"The committee also revised its approach and terms of reference to include a formal schedule for review of all policies and procedures, including those not requiring formal review every year. Under this schedule, the committee has agreed to maintain the existing Executive pay policy and the Executive incentive scheme with some minor modifications. A formal anti-slavery policy has also been adopted."

Barbara Anderson, Chair

The Executive Board

Sovereign's leadership and management structures provide the expertise and framework to achieve our strategic objectives. 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 Operational Leadership Group and the Strategic Leadership Group, made up of the senior managers from across the business.

There have been no changes to the Executive Board membership or roles in the financial year.

Ann Santry CBE
Chief Executive Officer

Ann has worked in housing for more than 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, a co-optee on the Sovereign Board, and a Board member of Sovereign Living Ltd. Ann is also a Director of Florin Homes Ltd and Sovereign Housing Capital PLC.

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 and a Board member of Kingfisher Building Services LLP.

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 a member of both the National Housing Federation's South East Standing Board and the Voluntary Right to Buy Sounding Board.

Heather is lead officer for the Residents' Council and a Director of Doubloon Developments Ltd.

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 at Birmingham Airport and 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. He's Director of Doubloon Developments Ltd, Florin Homes Ltd, Sovereign Advances Ltd, Sovereign Housing Capital PLC, Sovereign Westinghouse Development Ltd, and Points West Housing Ltd. Mark is also a Board member of Sovereign Living Ltd and Sovereign BDW (Newbury) LLP.

Phil Stephens
Executive Director
Development and Commercial

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

Phil is a Director of Florin Homes Ltd and Sovereign Westinghouse Development Ltd, and a Board member of Pennyfarthing Building Services Ltd, Sovereign Living Ltd, and Sovereign BDW (Newbury) LLP. Phil is also on the Executive Committee of Linden Homes Westinghouse LLP.

Financial statements

New homes on the way at the iconic Newbury Racecourse.

Contents

Statement of Board's responsibilities

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

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

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

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
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the association will continue in business.

The Board is responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. The Board has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Board is responsible for the maintenance and integrity of the corporate and financial information included on the association's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to the auditor

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

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

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 Group 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 key risks. This process is coordinated through a regular reporting framework to ARC and the Board. The Group's Executive Board regularly considers reports on 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. Supported by the Internal Audit team, 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 reviews the HR strategy and related policies that could pose a business risk; and the Treasury Committee, which oversees Sovereign's treasury and funding activities, ensuring sufficient facilities are available to support 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 strategic report and statement of Board's responsibilities were approved on 14 July 2016 and signed on its behalf by order of the Board.

Shane Egan, Interim Company Secretary

Independent auditor's report

To the members of Sovereign Housing Association

We have audited the financial statements of Sovereign Housing Association for the year ended 31 March 2016 set out on pages 36 to 85. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the Association in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014 and section 128 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to the Association those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Board and auditor

As more fully explained in the Statement of Board's Responsibilities set out on page 33, the Association's Board is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the Group and the Association as at 31 March 2016 and of the income and expenditure of the Group and the Association for the year then ended
- comply with the requirements of the Co-operative and Community Benefit Societies Act 2014
- have been properly prepared in accordance with the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Matters on which we are required to report by exception

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

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

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

22 July 2016

Consolidated Statement of Total Comprehensive Income

For year ended 31 March 2016

	Note	2016 £'000	2015 £'000
Turnover	3	234,724	223,532
Cost of sales	3	(18,699)	(17,029)
Operating expenditure	3	(134,922)	(133,075)
Operating surplus	3	**81,103**	73,428
Gain on disposal of property, plant and equipment	7	4,557	16,862
Share of operating surplus/(deficit) in joint ventures		1,392	(109)
Interest receivable and similar income	8	881	597
Interest and financing costs	9	(44,682)	(44,789)
Movement in fair value of financial instruments		(713)	(11,337)
Movement in fair value of investment properties	10	3,184	1,525
(Decrease)/reversal of previous decrease in valuation of property, plant and equipment	15	(178)	557
Surplus before tax		**45,544**	36,734
Taxation	11	-	2
Non-controlling interest		(292)	(300)
Surplus for the year		**45,252**	36,436
Unrealised (deficit)/surplus on revaluation of freehold offices and commercial buildings	15	(566)	6,302
Actuarial gain/(loss) in respect of pension schemes	30	2,472	(3,743)
Change in fair value of hedged financial instruments		(10,287)	(35,838)
Total comprehensive income for the year		**36,871**	3,157

All the amounts above relate to continuing activities.

Association Statement of Total Comprehensive Income

For year ended 31 March 2016

	Note	**2016 £'000**	2015 £'000
Turnover	3	238,046	219,325
Cost of sales	3	(18,127)	(15,752)
Operating expenditure	3	(134,947)	(133,441)
Operating surplus	3	**84,972**	70,132
Gain on disposal of property, plant and equipment	7	4,419	17,357
Interest receivable	8	2,405	1,973
Interest and financing costs	9	(45,517)	(45,667)
Movement in fair value of financial instruments		(713)	(11,337)
Movement in fair value of investment properties	10	1,691	270
(Decrease)/reversal of previous decrease in valuation of property, plant and equipment	15	(178)	557
Surplus before tax		**47,079**	33,285
Taxation	11	-	-
Surplus for the year		**47,079**	33,285
Unrealised (deficit)/surplus on revaluation of freehold offices and commercial buildings	15	(566)	6,302
Actuarial gain/(loss) in respect of pension schemes	30	2,472	(3,743)
Change in fair value of hedged financial instruments		(10,287)	(35,838)
Total comprehensive income for the year		**38,698**	6

Consolidated Statement of Financial Position

For year ended 31 March 2016

	Note	2016 £'000	2015 £'000
Fixed assets			
Property, plant and equipment – housing	14	2,500,756	2,438,941
Property, plant and equipment – other	15	29,211	28,538
Investment properties	17	111,078	85,809
Investments – HomeBuy loans receivable	18	11,309	12,018
Financial assets	19	7,717	19,919
		2,660,071	2,585,225
Current assets			
Stock	21	11,810	7,929
Debtors	22	8,965	13,128
Financial assets (short term)	23	30,814	30,354
Cash and cash equivalents	24	18,631	18,812
		70,220	70,223
Creditors: amounts falling due within one year	25	(58,730)	(58,175)
Net current assets		**11,490**	12,048
Creditors: amounts falling due after more than one year	26	(1,331,615)	(1,292,707)
Provisions for liabilities			
- Pension	30	(15,488)	(17,803)
- Other	28	(1,003)	(171)
Total net assets		**1,323,455**	1,286,592
Capital and reserves			
Called up share capital	32	-	-
Income and expenditure reserve		994,056	940,741
Revaluation reserve		377,898	384,055
Hedging reserve		(48,791)	(38,504)
Non-controlling interest		292	300
Total reserves		**1,323,455**	1,286,592

The financial statements were approved by the Board on 14 July 2016 and were signed on its behalf by:

John Simpson — Member

Gordon Holdcroft — Member

Shane Egan — Secretary

Association Statement of Financial Position

For year ended 31 March 2016

	Note	2016 £'000	2015 £'000
Fixed assets			
Property, plant and equipment - housing	14	2,515,707	2,448,534
Property, plant and equipment - other	15	28,959	28,257
Investment properties	17	70,806	52,596
Investments - HomeBuy loans receivable	18	11,309	12,018
Financial assets	19	7,730	19,932
		2,634,511	2,561,337
Current assets			
Stocks	21	10,705	6,846
Debtors	22	43,194	42,604
Financial assets (short term)	23	30,814	30,354
Cash and cash equivalents	24	16,864	16,800
		101,577	96,604
Creditors: amounts falling due within one year	25	(58,132)	(60,407)
Net current assets		**43,445**	36,197
Creditors: amounts falling due after more than one year	26	(1,322,723)	(1,279,506)
Provisions for liabilities			
- Pension	30	(15,488)	(17,803)
- Other	28	(944)	(122)
Total net assets		**1,338,801**	1,300,103
Capital and reserves			
Called up share capital	32	-	-
Income and expenditure reserve		797,970	742,828
Revaluation reserve		589,622	595,779
Hedging reserve		(48,791)	(38,504)
Total reserves		**1,338,801**	1,300,103

The financial statements were approved by the Board on 14 July 2016 and were signed on its behalf by:

John Simpson — Member

Gordon Holdcroft — Member

Shane Egan — Secretary

Consolidated Statement of Changes in Reserves

For year ended 31 March 2016

	Income and expenditure reserve £'000	Revaluation reserve £'000	Hedging reserve £'000	Total excluding non-controlling interest £'000	Non controlling interest £'000	Total including non-controlling interest £'000
As originally stated	525,993	931,950	-	1,457,943	300	1,458,243
Effects of adoption of FRS 102 (see note 38)	414,748	(547,895)	(38,504)	(171,651)	-	(171,651)
As at 1 April 2015 (restated)	940,741	384,055	(38,504)	1,286,292	300	1,286,592
Surplus from statement of comprehensive income	45,252	-	-	45,252	292	45,544
Transfer from revaluation reserve to income and expenditure reserve						
- on sale of revalued properties	1,029	(1,029)	-	-	-	-
- Depreciation of revalued properties	4,562	(4,562)	-	-	-	-
Actuarial gain/(loss) in respect of pension schemes	2,472	-	-	2,472	-	2,472
Revaluation	-	(566)	-	(566)	-	(566)
Movement in fair value of financial derivatives	-	-	(10,287)	(10,287)	-	(10,287)
Distribution of non-controlling interest reserves in the year	-	-	-	-	(300)	(300)
As at 31 March 2016	**994,056**	**377,898**	**(48,791)**	**1,323,163**	**292**	**1,323,455**

Association Statement of Changes in Reserves

For year ended 31 March 2016

	Income and expenditure reserve £'000	Revaluation reserve £'000	Hedging reserve £'000	Total excluding non-controlling interest £'000	Non controlling interest £'000	Total including non-controlling interest £'000
As originally stated	330,340	1,141,430	-	1,471,770	-	1,471,770
Effects of adoption of FRS 102 (see note 38)	412,488	(545,651)	(38,504)	(171,667)	-	(171,667)
As at 1 April 2015 (restated)	742,828	595,779	(38,504)	1,300,103	-	1,300,103
Surplus from statement of comprehensive income	47,079	-	-	47,079	-	47,079
Transfer from revaluation reserve to income and expenditure reserve						
- on sale of revalued properties	1,029	(1,029)	-	-	-	-
- Depreciation of revalued properties	4,562	(4,562)	-	-	-	-
Actuarial gain/(loss) in respect of pension schemes	2,472	-	-	2,472	-	2,472
Revaluation	-	(566)	-	(566)	-	(566)
Movement in fair value of financial derivatives	-	-	(10,287)	(10,287)	-	(10,287)
Distribution of non-controlling interest reserves in the year	-	-	-	-	-	-
As at 31 March 2016	**797,970**	**589,622**	**(48,791)**	**1,338,801**	**-**	**1,338,801**

Consolidated Statement of Cash Flows

For year ended 31 March 2016

	Note	2016 £'000	2015 £'000
Net cash generated from operating activities (see below)		111,256	102,576
Cash flow from investing activities			
Purchase of tangible fixed assets		(127,628)	(152,156)
Proceeds from sale of tangible fixed assets		17,347	81,720
Grants received		3,674	4,246
Interest received		858	578
Net cash from investing activities		**(105,749)**	(65,612)
Cash flow from financing activities			
Interest paid		(46,273)	(48,404)
Investments in collateral deposits		12,185	(16,686)
New secured loans		72,618	104,594
Repayment of borrowings		(43,758)	(63,039)
Withdrawal from deposits		(460)	(10,354)
Net cash used in financing activities		**(5,688)**	(33,889)

Net change in cash and cash equivalents		(181)	3,075
Cash and cash equivalents at beginning of the year	24	**18,812**	15,737
Cash and cash equivalents at the end of the year	24	**18,631**	18,812

Cash flow from operating activities			
Surplus for the year		45,252	36,436
Adjustments for non-cash items:			
Depreciation of tangible fixed assets		24,470	23,533
(increase)/decrease/in stock		(3,881)	1,382
Decrease/(increase) in trade and other debtors		2,631	(455)
Increase in trade and other creditors		1,319	19,143
Increase in provisions		832	10
Pension costs less contributions payable		(384)	(398)
Carrying amount of tangible fixed asset disposals		16,177	62,652
Impairment		178	(557)
Fair value movements in Investment Properties	17	(3,184)	(1,525)
Share of operating surplus/(deficit) in associate		1,392	(109)
Adjustments for investing or financing activities:			
Proceeds from the sale of tangible fixed assets		(17,347)	(81,720)
Interest payable	9	44,682	44,789
Interest receivable	8	(881)	(597)
Cash from operations		**111,256**	102,584
Corporation tax		-	(8)

Net cash generated from operating activities		**111,256**	102,576

Notes to the Financial Statements

For the year ended 31 March 2016

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. The Association is a public benefit entity, an entity whose primary purpose is to provide services for the general public, community or social benefit and where any equity is provided with a view to supporting this objective rather than with a view to providing financial return.

2. Principal Accounting Policies

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

(a) First Time Adoption of FRS 102

On transition to FRS 102, the Group has chosen to apply measurement adjustments as set out in FRS 102 section 35.10(c) by using fair value as deemed cost on its housing properties to reflect a cost basis that is in line with their existing use value for social housing. Any uplift from historic cost to fair value deemed cost has been allocated to land and structure on the basis that the lifecycle replacements of depreciable components of properties effectively updates the book value of those components closer to their fair values unlike land which has remained at its original cost. On the balance of evidence available for the apportionment of fair values of properties between land and depreciable components, the comprehensive number of components including structure per property, and the age of the items of housing properties to which the fair value uplift applies, the uplift has been practically applied to land. Leasehold interest properties with no freehold land component have not been revalued. The fair value used as deemed cost are the existing use values for social housing (EUV-SH) valuation calculated on discounted cash flows to 1 April 2014, as obtained independently from a qualified RICS Chartered Surveyor.

In accordance with Section 11 Basic Financial Instruments and Section 12 Other Financial Instruments of FRS 102 that deal with recognising, derecognising, measuring and disclosing financial instruments, the Group has chosen to apply the requirements of FRS 102 Sections 11 and 12 and the presentation requirements, as appropriate, of 11.38A or 12.25B as permitted by paragraph 11.2(b) and 12.2(b).

Where the Group has entered into a hedging relationship as described in FRS 102 in the period between the date of transition and the reporting date for the first financial statements that comply with FRS 102, it has elected to apply hedge accounting prospectively from the date all qualifying conditions for hedge accounting are met. An explanation of how the transition to FRS 102 has affected the financial position of financial performance of the Group is provided in note 38.

(b) Basis of Accounting

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

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

This is the first year in which the financial statements have been prepared under FRS 102. Refer to note 38 for an explanation of the transition.

(c) Going Concern

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

(d) Consolidation

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

(e) Turnover

Turnover represents rental and service charge income, fees and revenue based grants receivable from local authorities and from the Homes and Communities Agency (the "HCA"), and the proceeds of first tranche sales of shared ownership properties.

(f) Cyclical Repairs and Maintenance

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

(g) Major Repairs

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

(h) Provision for Major Repairs

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

(i) Pension Costs

The Association participates in 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 30.

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 and the scheme is in deficit, the liability is included in the balance sheet as the discounted cash flow of future deficit catch up payments.

(j) 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.

(k) Sale of Housing Properties

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

Sales of properties originally transferred from local authorities and sold under the right to buy legislation, and sales of shared ownership properties other than the initial tranche, are classified in the Income and Expenditure Account as sales of fixed assets – housing properties. Due to the nature of the transfer agreements with local authorities it is not possible to identify precisely the historical cost of individual transferred properties. Management's estimate of cost is used to determine the historical cost surplus on sales of these properties.

(l) First Tranche Shared Ownership Sales

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

- Shared ownership properties are split proportionally between current and fixed assets based on the first tranche proportion;
- First tranche proportions are shown in current assets 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.

(m) Depreciation

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

Housing properties	120 years
Kitchens	25 years
Bathrooms	30 years
Windows	25 years
Heating systems	40 years

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

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

Office furniture and equipment	20% on cost
Computer equipment	33.3% on cost
Motor vehicles	over life of hire purchase contract
Leasehold premises	over life of lease
Freehold offices	2% on cost

(n) Property, Plant and Equipment

On transition to FRS 102, the valuation of housing properties as at 1 April 2014 was taken as a new deemed cost. This is a one-off and irreversible option taken at the date of transition.

The valuation as at 31 March 2014 on which the carrying values of housing properties was taken was based on Existing Use Value – Social Housing. The aggregate surplus or deficit on revaluation is the difference between the valuation and the costs of the property less depreciation. The aggregate surplus or deficit on revaluation is included in a revaluation reserve.

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 2014.

Housing properties in the course of construction excluding the proportion of costs related to first tranche sales of shared ownership property (see note 2(k) above) are stated at cost and are transferred into housing properties when completed. Development costs include the cost of acquiring land and buildings, the valuation of contracted works to date, and acquisition and development costs including directly attributable internal costs. Interest payable is capitalised by applying the Association's cost of borrowing to expenditure during the construction of the property up to the date of practical completion. Recoverability of properties constructed for outright sale is measured by reviewing the current net present value against the original appraisal. Allocation of costs for mixed tenure developments are based on a metre square calculation of the entire scheme for the different tenure types.

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

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

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

(o) Impairment

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

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

Impairment reviews are carried out for all properties where the scheme appraisal has worsened since approved by the Board in accordance with the SORP 2014. The Association determines the tenure within an individual scheme to be the cash generating unit for impairment review purposes.

(p) Investment Properties

The Association holds properties for the purpose of investment gains with a view to a future sale rather than pure rental returns and categorises these as investment properties. Investment properties are initially recognised at cost and subsequently held at valuation. Valuations are performed annually by a professional valuer and are at open market value. Any gains or losses arising from changes in the fair value are recognised in profit or loss in the period in which they arise.

(q) HomeBuy Loans and Grants

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

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

(r) Social Housing Grant

Social Housing Grant received up to the date of transition is accounted for using the performance method of accounting for government grant and is included in the reserves of the Association in accordance with FRS 102 and the SORP 2014. On transition to FRS 102 Social Housing Grant is accounted for using the accrual method of accounting for government grant and any new grant received or receivable is included in creditors. The grant is amortised in line with the depreciation policy for Housing Properties. If Social Housing Grant is received in advance of related expenditure on housing construction, it is also shown as a current liability. Social Housing Grant on sold property is usually transferred to the Recycled Capital Grant Fund to be used to finance future development. Social Housing Grant is repayable under certain circumstances.

(s) Revaluation Reserve

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

(t) Current Assets

Stocks of consumables are stated at the lower of cost and net realisable value.

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

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

(u) Basic Financial Instruments

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument. Rental arrears payment plans are determined as financing arrangements and are discounted at a rate management believes is appropriate for the level of risk involved in recovery of tenant arrears.

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

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

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

(v) Other Financial Instruments

Financial instruments not considered to be basic financial instruments are defined as other financial instruments. Other financial instruments are recognised initially at fair value. Subsequent to initial recognition these are measured at fair value with changes recognised in the surplus or deficit in the year except hedging instruments in a designated hedging relationship shall be recognised as set out below:

Derivative financial instruments and hedging

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

Cash flow hedges

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

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

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

(w) 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	2016 Operating surplus £'000	2015 Operating surplus £'000
Income and expenditure from social housing lettings						
Housing accommodation		192,511	-	(114,524)	77,987	67,877
Shared ownership accommodation		11,541	-	(8,250)	3,291	3,075
	4	**204,052**	**-**	**(122,774)**	**81,278**	70,952
Other social housing income and expenditure						
External income generated from development services		232	-	(239)	(7)	82
Other		2,931	-	(1,632)	1,299	1,111
		3,163	**-**	**(1,871)**	**1,292**	1,193
Development for sale						
Shared ownership first tranche sales		21,404	(18,699)	-	2,705	1,304
Outright sales		-	-	-	-	249
		21,404	**(18,699)**	**-**	**2,705**	1,553
Total social housing activities		**228,619**	**(18,699)**	**(124,645)**	**85,275**	73,698
Non-social housing acitivities						
Market rented properties		6,104	-	(3,163)	2,941	2,130
Other		1	-	(7,114)	(7,113)	(2,400)
		6,105	**-**	**(10,277)**	**(4,172)**	(270)
Total		**234,724**	**(18,699)**	**(134,922)**	**81,103**	73,428

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

Association

	Note	Turnover £'000	Cost of sales £'000	Operating costs £'000	2016 Operating surplus £'000	2015 Operating surplus £'000
Income and expenditure from social housing lettings						
Housing accommodation		192,490	-	(115,433)	77,057	66,548
Shared ownership accommodation		11,541	-	(8,244)	3,297	3,280
	4	**204,031**	**-**	**(123,677)**	**80,354**	69,828
Other social housing income and expenditure						
Gift aid		7,184	-	-	7,184	-
Income from Group undertakings		125	-	-	125	151
External income generated from development services		232	-	(239)	(7)	82
Other		1,766	-	(1,632)	134	235
		9,307	**-**	**(1,871)**	**7,436**	468
Development for sale						
Shared ownership first tranche sales		20,582	(18,127)	-	2,455	1,262
		20,582	**(18,127)**	**-**	**2,455**	1,262
Total social housing activities		233,920	(18,127)	(125,548)	90,245	71,558
Non-social housing activities						
Market rented properties		4,125	-	(2,745)	1,380	503
Other		1	-	(6,654)	(6,653)	(1,929)
		4,126	**-**	**(9,399)**	**(5,273)**	(1,426)
Total		238,046	(18,127)	(134,947)	84,972	70,132

4. Income and Expenditure from Social Housing Lettings

Group	General needs £'000	Shared ownership £'000	Supported housing £'000	2016 Total £'000	2015 Total £'000
Rent receivable net of identifiable service charges	186,363	10,215	247	196,825	188,964
Service charges	5,118	1,314	168	6,600	6,547
Supporting people block subsidy	376	-	148	524	869
Amortised government grant	91	12	-	103	-
Turnover from social housing lettings	**191,948**	**11,541**	**563**	**204,052**	196,380
Management	(33,651)	(4,774)	(398)	(38,823)	(41,211)
Service costs	(7,541)	(1,040)	(87)	(8,668)	(8,359)
Routine maintenance	(23,621)	-	(245)	(23,866)	(26,150)
Planned maintenance	(8,917)	-	(90)	(9,007)	(9,354)
Major repairs expenditure	(17,788)	-	(180)	(17,968)	(17,084)
Bad debts	(566)	(80)	(7)	(653)	(374)
Depreciation of housing property	(21,188)	(2,356)	(238)	(23,782)	(22,900)
Other costs	(7)	-	-	(7)	4
Operating costs on social housing activities	**(113,279)**	**(8,250)**	**(1,245)**	**(122,774)**	(125,428)
Operating surplus on social housing activities	**78,669**	**3,291**	**(682)**	**81,278**	70,952
Rent receivable is net of void losses of:	1,371	15	46	1,432	1,404

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

Association	General needs £'000	Shared ownership £'000	Supported housing £'000	2016 Total £'000	2015 Total £'000
Rent receivable net of identifiable service charges	186,342	10,215	247	196,804	188,954
Service charges	5,118	1,314	168	6,600	6,547
Supporting people block subsidy	376	-	148	524	869
Amortised government grant	91	12	-	103	-
Turnover from social housing lettings	**191,927**	**11,541**	**563**	**204,031**	196,370
Management	(33,613)	(4,768)	(397)	(38,778)	(41,049)
Service costs	(7,541)	(1,040)	(87)	(8,668)	(8,359)
Routine maintenance	(24,570)	-	(255)	(24,825)	(27,424)
Planned maintenance	(8,917)	-	(90)	(9,007)	(9,354)
Major repairs expenditure	(17,788)	-	(180)	(17,968)	(17,084)
Bad debts	(566)	(80)	(7)	(653)	(375)
Depreciation of housing property	(21,184)	(2,356)	(238)	(23,778)	(22,897)
Other costs	-	-	-	-	-
Operating costs on social housing activities	**(114,179)**	**(8,244)**	**(1,254)**	**(123,677)**	(126,542)
Operating surplus on social housing lettings	**77,748**	**3,297**	**(691)**	**80,354**	69,828
Rent receivable is net of void losses of:	1,371	15	46	1,432	1,386

5. Number of Units in Management

	Group 2016 Units	2015 Units	Association 2016 Units	2015 Units
Owned and managed:				
General needs	28,187	27,446	28,184	27,443
Shared ownership	3,896	3,751	3,896	3,751
Care homes	-	39	-	39
Housing for older people	2,818	2,887	2,818	2,887
Supported	308	277	308	277
Non-social	999	1,183	867	1,085
Other	28	4	28	4
Managed not owned:				
Owned by an external company	384	601	384	601
Total in management:	**36,620**	36,188	**36,485**	36,087
Owned and not managed:				
Managed by third parties	161	228	151	184
Freehold/Long leasehold (incl. Right to Buy leasehold)	1,592	1,409	1,592	1,409
Total owned not managed	**1,753**	1,637	**1,743**	1,593
Total owned or managed	**38,373**	37,825	**38,228**	37,680

6. Operating Surplus

Operating surplus is stated after charging/(crediting):	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Depreciation				
- housing properties	22,485	21,633	22,481	21,630
- other owned assets	1,985	1,900	1,879	1,783
Impairment				
- other owned assets	178	135	178	(184)
Rentals payable				
- plant, vehicles and machinery	1,099	1,351	1,054	1,260
- other assets	259	250	227	217
- operating leases	36	168	36	168
Auditor's remuneration				
- in their capacity as auditors	122	122	90	90
- in respect of tax advice	37	26	23	13
- in respect of other work	32	-	32	-

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

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Proceeds from house sales	18,953	77,742	19,498	77,742
Cost of sales	(15,339)	(63,703)	(16,090)	(63,208)
Depreciation	1,140	3,198	1,208	3,198
Selling expenses	(197)	(375)	(197)	(375)
Net surplus	**4,557**	16,862	**4,419**	17,357

8. Interest Receivable and Similar Income

	Group 2016 £'000	2015 £'000	Association 2016 £'000	2015 £'000
On investments	89	106	89	106
On deposits	809	508	768	471
In respect of intra-group loans	-	-	1,565	1,413
Interest receivable	**898**	614	**2,422**	1,990
Amortisation of investment to nominal value	(17)	(17)	(17)	(17)
Interest receivable and similar income	**881**	597	**2,405**	1,973

9. Interest and Financing Costs

In respect of loans	Group 2016 £'000	2015 £'000	Association 2016 £'000	2015 £'000
Repayable on bank loans due within 5 years	(876)	(967)	(876)	(967)
Repayable on bank loans due after 5 years	(37,805)	(38,985)	(16,528)	(17,923)
Interest credited to the recycled capital grant fund	(93)	(84)	(93)	(84)
On hedging arrangements	(8,055)	(7,543)	(8,055)	(7,618)
In respect of other Group undertakings	-	-	(21,936)	(21,860)
	(46,829)	(47,579)	**(47,488)**	(48,452)
Less interest capitalised	3,088	3,178	2,912	3,173
	(43,741)	(44,401)	**(44,576)**	(45,279)
Unwind discounted cash flows	(400)	(498)	(400)	(498)
Other finance income/(costs) on pensions	(541)	110	(541)	110
Interest and financing costs	**(44,682)**	(44,789)	**(45,517)**	(45,667)

Interest is capitalised on active development schemes at 5% (2015: 5%).

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

10. Movement in Fair Value of Investment Properties

	Note	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Fair value increase in investment properties	17	3,184	1,525	1,691	270
Fair value adjustments		**3,184**	1,525	**1,691**	270

11. Taxation

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

There is no corporation tax charge for the year (2015: £2k credit).

11. Taxation (continued)

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
UK Corporation tax				
Current tax on income for the period	-	-	-	-
Adjustment in respect of prior periods	-	(2)	-	-
Total current tax	-	(2)	-	-
Tax on profit on ordinary activities	-	(2)	-	-

Factors affecting the tax charge for the current period

The current tax charge for the year is lower (2015: lower) than the standard rate of corporation tax in the UK of 20% (2015: 20%). The differences are explained below:

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Current tax reconciliation				
Profit on ordinary activities before tax	45,544	36,734	47,079	33,285
Profit chargeable to corporation tax	45,544	36,734	47,099	33,285
Current tax at 20% (2015: 20%)	9,109	7,347	9,416	6,657
Effects of:				
Items not allowable for tax purposes	(9,107)	(7,347)	(9,416)	(6,657)
Adjustments to tax charge in respect of previous periods	(2)	(2)	-	-
Total current tax charge (see above)	-	(2)	-	-

12. Board Members and Executive Officers

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

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

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:

Position held as at 31 March 2015	2016 £	2015 £
Chair	22,000	20,000
Vice chair	13,500	13,500
Board member	11,000	11,000
Independent committee member	3,000	3,000
Committee chair (in addition to Board member salary)	2,500	2,500

	2016 £	2015 £
John Simpson	21,384	19,417
Steve Abbott	11,000	10,709
Barbara Anderson (appointed 17 July 2014)	12,345	9,042
Lee Bambridge	13,500	13,208
Gerard Boyle (resigned 25 September 2014)	-	10,187
Alan Hickmore (deceased 2 April 2014)	-	81
Christine Higgins (appointed 17 July 2014)	13,500	10,329
Gordon Holdcroft	13,500	13,063
Mark Judge (appointed 26 March 2015)	11,000	167
Stuart Laird (appointed 17 July 2014)	11,000	9,041
Ronald Manley (resigned 17 September 2015)	6,290	13,208
Verity Murricane	11,000	10,709
John Rees-Evans	11,000	10,709
Matthew Sands (resigned 29 January 2015)	-	9,345
Gill Sinkinson (resigned 18 January 2015)	-	10,106
Robert Taylor (appointed 12 December 2014)	11,000	5,666

Total expenses paid to Board members that are subject to income tax were £8,198 (2015: £3,928).

12. Board Members and Executive Officers (continued)

Directors' Emoluments:

	2016 £'000	2015 £'000
Emoluments (including pension contributions and benefits in kind)	1,102	1,230
Total pension contributions to Executive Officers	82	31
Emoluments (excluding pension contributions and payments in lieu of pension contributions) include amounts paid to:		
The highest paid director	221	240
Expenses reimbursed to directors not chargeable to United Kingdom taxation	8	16

Pension contributions to the highest paid director were £nil (2015: £nil).

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 30) and ordinary members of the SHPS defined contributions scheme. Martin Huckerby was a member of the Royal Berkshire Pension Fund. 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 2015/16 is shown below:

	Taxable pay £	Pension contributions £	In lieu of pension £	Benefits in kind £	Accrued PRP 2015/16 £	**Total 2016 £**	Total 2015 £
Ann Santry	195,000	-	23,400	337	26,000	244,737	249,510
Steve Barford	126,106	30,266	-	377	14,498	171,247	11,831
Heather Bowman	130,580	23,505	-	377	14,914	169,376	172,348
Jonathan Cowie	-	-	-	-	-	-	255,153
Wendy Drinkwater	121,500	-	14,580	-	13,915	149,995	150,518
Mark Hattersley	155,417	27,975	-	337	17,600	201,329	53,041
Martin Huckerby	-	-	-	-	-	-	162,448
Phil Stephens	133,716	-	15,981	-	15,199	164,896	175,289
	862,319	81,746	53,961	1,428	102,126	**1,101,580**	1,230,138

The Executive Board's performance related pay 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 total payment for 2014/15 includes performance related pay for both 2013/14 and 2014/2015.

No pension contributions are accruing to former executives (2015: nil)

13. 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 £10,000.

Salary £1,000s	2016 Number	2015 Number
>60 to 70	24	23
>70 to 80	10	12
>80 to 90	7	12
>90 to 100	6	5
>120 to 130	1	1
>130 to 140	1	1
>140 to 150	3	3
>150 to 160	-	1
>170 to 180	1	-
>220 to 230	1	1

13. Employee information (continued)

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

	Group		Association	
	2016 FTE	2015 FTE	**2016 FTE**	2015 FTE
Expressed in full time equivalents (FTE):				
Central administrative services	319	338	304	324
Developing or selling housing stock	59	81	59	81
Managing or maintaining stock	669	655	628	603
Staff providing support	59	56	59	56
	1,106	1,130	**1,050**	1,064
Staff costs (for the above persons):	**£'000**	£'000	**£'000**	£'000
Wages and salaries	38,135	39,277	36,315	37,468
Social security costs	3,748	3,938	3,587	3,758
Pension costs	2,947	2,889	2,920	2,889
	44,830	46,104	**42,822**	44,115

14. Property, Plant and Equipment - Housing

Group

	Housing properties held for letting £'000	Housing properties under construction £'000	Completed shared ownership properties £'000	Shared ownership properties under construction £'000	2016 Total £'000	2015 Total £'000
Deemed cost						
At 1 April	2,226,104	123,806	225,223	24,954	2,600,087	2,509,997
Reclassification of schemes	-	(5,414)	-	5,414	-	-
Transfer to investment properties	-	(12,105)	-	-	(12,105)	-
Schemes completed	76,454	(76,454)	27,048	(27,048)	-	-
Additions - new units	34,472	49,291	1,187	14,659	99,609	140,231
Additions - improvements to stock	10,995	-	-	-	10,995	10,445
Disposals	(9,551)	-	(7,780)	-	(17,331)	(60,586)
At 31 March	**2,338,474**	**79,124**	**245,678**	**17,979**	**2,681,255**	2,600,087
Depreciation						
At 1 April	155,544	-	5,602	-	161,146	143,150
Charge for year	20,129	-	2,356	-	22,485	21,633
On disposals	(2,746)	-	(386)	-	(3,132)	(3,637)
At 31 March	**172,927**	**-**	**7,572**	**-**	**180,499**	161,146
Net book value at 31 March 2016	**2,165,547**	**79,124**	**238,106**	**17,979**	**2,500,756**	
Net book value at 31 March 2015	2,070,560	123,806	219,621	24,954	2,438,941	

Additions to housing properties under construction during the year include capitalised interest of £3,088k (2015: £3,178k) and major repairs capitalised of £10,995k (2015: £10,445k). Interest is capitalised on development schemes as set out in the accounting policy in note 2(l).

In the current year the Association entered into transactions with other social landlords. Housing properties with a fair value of £12,404k were purchased in cash (2015: £15,021k in exchange for housing properties with a fair value of £57,451k and a £42,460k cash receipt). The value includes original government grant funding of £810k (2015: £8,358k) which has an obligation to be recycled in accordance with original grant funding terms and conditions. The Association is responsible for the recycling of grant in the event of the housing properties being disposed.

Following purchases of housing properties from other Housing Associations in previous years, the Association has a contingent liability of £76.6m (2015: £75.8m) for social housing grant which requires recycling into new social housing development on sale of the poproperties originally purchased.

A detailed impairment review was carried out in the year following the government policy announcement of rent decreases for social housing tenancies. No impairment charge was required.

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

Group

	Housing properties held for letting £'000	Housing properties under construction £'000	Completed shared ownership properties £'000	Shared ownership properties under construction £'000	2016 Total £'000	2015 Total £'000
Cost or valuation at 31 March is represented by:						
Gross cost	1,969,549	79,124	220,530	17,979	2,287,182	2,246,084
Historic cost depreciation	(152,288)	-	(6,301)	-	(158,589)	(143,192)
	1,817,261	**79,124**	**214,229**	**17,979**	**2,128,593**	2,102,292
Revaluation reserve	348,286	-	23,877	-	372,163	336,648
	2,165,547	**79,124**	**238,106**	**17,979**	**2,500,756**	2,438,940
Existing use value and properties under construction	1,898,908	79,124	223,264	17,979	2,219,275	2,504,286

Association

	Housing properties held for letting £'000	Housing properties under construction £'000	Completed shared ownership properties £'000	Shared ownership properties under construction £'000	2016 Total £'000	2015 Total £'000
Deemed cost						
At 1 April	2,242,646	121,967	222,798	22,260	2,609,671	2,522,373
Reclassification of schemes	-	(5,414)	-	5,414	-	-
Transfer to investment properties	-	(10,322)	-	-	(10,322)	-
Schemes completed	76,454	(76,454)	27,048	(27,048)	-	-
Additions - new units	35,457	48,101	3,062	16,560	103,180	137,439
Additions - improvements to stock	10,995	-	-	-	10,995	10,445
Disposals	(9,551)	-	(7,780)	-	(17,331)	(60,586)
At 31 March	**2,356,001**	**77,878**	**245,128**	**17,186**	**2,696,193**	2,609,671
Depreciation						
At 1 April	155,535	-	5,602	-	161,137	143,144
Charge for year	20,125	-	2,356	-	22,481	21,630
On disposals	(2,746)	-	(386)	-	(3,132)	(3,637)
At 31 March	**172,914**	**-**	**7,572**	**-**	**180,486**	161,137
Net book value at 31 March 2016	**2,183,087**	**77,878**	**237,556**	**17,186**	**2,515,707**	
Net book value at 31 March 2015	2,087,111	121,967	217,196	22,260	2,448,534	

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

Association

Cost or valuation at 31 March is represented by:	Housing properties held for letting £'000	Housing properties under construction £'000	Completed shared ownership properties £'000	Shared ownership properties under construction £'000	2016 Total £'000	2015 Total £'000
Gross cost	1,792,702	77,878	219,980	17,186	2,107,746	2,062,854
Historic cost depreciation	(169,625)	-	(6,301)	-	(175,926)	(161,136)
	1,623,077	**77,878**	**213,679**	**17,186**	**1,931,820**	1,901,718
Revaluation reserve	560,010	-	23,877	-	583,887	546,816
	2,183,087	**77,878**	**237,556**	**17,186**	**2,515,707**	2,448,534
Existing use value and properties under construction	1,898,538	77,878	223,264	17,186	2,216,866	2,499,383

15. Property, Plant and Equipment - Other

Group	Freehold offices and shops £'000	Leasehold offices £'000	Furniture, equipment and motor vehicles £'000	Computer hardware and software £'000	2016 Total £'000	2015 Total £'000
Cost or valuation						
At 1 April	20,365	143	6,720	16,250	43,478	35,726
Additions	-	-	373	3,039	3,412	4,657
Disposals	(14)	-	(63)	-	(77)	-
Revaluation	(847)	-	-	-	(847)	2,538
Impairment reversal/(charge)	(178)	-	-	-	(178)	557
As at 31 March	**19,326**	**143**	**7,030**	**19,289**	**45,788**	43,478
Depreciation						
At 1 April	-	142	4,919	9,879	14,940	16,804
Charge for year	285	1	589	1,110	1,985	1,900
Revaluation	(281)	-	-	-	(281)	(3,764)
On disposals	(4)	-	(63)	-	(67)	-
At 31 March	**-**	**143**	**5,445**	**10,989**	**16,577**	14,940
Net book value as 31 March 2016	**19,326**	**-**	**1,585**	**8,300**	**29,211**	
Net book value as 31 March 2015	20,365	1	1,801	6,371	28,538	

Freehold offices and shops are held at valuation and have a historic cost of £13,591k. All other fixed assets included in this note are held at historic cost.

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

Group

	Freehold offices and shops £'000	Leasehold offices £'000	Furniture, equipment and motor vehicles £'000	Computer hardware and software £'000	2016 Total £'000	2015 Total £'000
Cost or valuation at 31 March is represented by:						
Net book value of assets held at valuation	19,326	-	-	-	19,326	20,365
Net book value of assets held at historic cost	-	-	1,585	8,300	9,885	8,173
	19,326	**-**	**1,585**	**8,300**	**29,211**	28,538

Association

	Freehold offices and shops £'000	Leasehold offices £'000	Furniture, equipment and motor vehicles £'000	Computer hardware and software £'000	2016 Total £'000	2015 Total £'000
Cost or valuation						
At 1 April	20,365	143	6,123	16,236	42,867	35,193
Additions	-	-	301	3,034	3,335	4,579
Disposals	(14)	-	-	-	(14)	-
Revaluation	(847)	-	-	-	(847)	2,538
Impairment reversal/(charge)	(178)	-	-	-	(178)	557
As at 31 March	**19,326**	**143**	**6,424**	**19,270**	**45,163**	42,867
Depreciation						
At 1 April	-	142	4,602	9,866	14,610	16,591
Charge for year	285	1	485	1,108	1,879	1,783
On disposals	(4)	-	-	-	(4)	-
Revaluation	(281)	-	-	-	(281)	(3,764)
At 31 March	**-**	**143**	**5,087**	**10,974**	**16,204**	14,610
Net book value as 31 March 2016	**19,326**	**-**	**1,337**	**8,296**	**28,959**	
Net book value as 31 March 2015	20,365	1	1,521	6,370	28,257	

Freehold offices and shops are held at valuation and have a historic cost of £13,591k. All other fixed assets included in this note are held at historic cost.

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

Association	Freehold offices and shops £'000	Leasehold offices £'000	Furniture, equipment and motor vehicles £'000	Computer hardware and software £'000	2016 Total £'000	2015 Total £'000
Cost or valuation at 31 March is represented by:						
Net book value of assets held at valuation	19,326	-	-	-	19,326	20,365
Net book value of assets held at historic cost	-	-	1,337	8,296	9,633	7,892
	19,326	**-**	**1,337**	**8,296**	**28,959**	28,257

16. Property, Plant and Equipment - Valuation Methodology

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 2016. 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 Jones Lang LaSalle on the basis of open market value as at 31 March 2016 and in accordance with the RICS Appraisal and Valuation Standards. The valuer is neither an employee nor an officer of the Association.

17. Investment Properties

	Group 2016 £'000	2015 £'000	Association 2016 £'000	2015 £'000
Cost or valuation net of social housing grant				
At 1 April	85,809	89,986	52,596	58,028
Additions new units	24,053	-	18,487	-
Disposals	(1,968)	(5,702)	(1,968)	(5,702)
Fair value increase	3,184	1,525	1,691	270
At 31 March	**111,078**	85,809	**70,806**	52,596
Historic cost net book value	104,969	82,099	67,835	51,285

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

18. Investments - HomeBuy Loans Receivable

	Group 2016 £'000	2015 £'000	Association 2016 £'000	2015 £'000
At 1 April	12,018	13,023	12,018	13,023
Loans repaid	(709)	(1,005)	(709)	(1,005)
At 31 March	**11,309**	12,018	**11,309**	12,018

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

19. Financial Assets

	Group 2016 £'000	2015 £'000	Association 2016 £'000	2015 £'000
Cost or valuation				
UK treasury gilts debt service reserve	1,305	1,322	1,305	1,322
Collateral deposits	6,412	18,597	6,412	18,597
Shares in subsidiary undertakings	-	-	13	13
	7,717	19,919	**7,730**	19,932

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

20. Group Company information

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.

	2016 £'000	2015 £'000
Payment of interest at commercial rates	21,935	21,860
Purchase of Design and Build Services at cost plus commercial mark-up	74,200	83,806
Repairs and maintenance service at costs agreed during competitive tender	5,379	5,735
Management charges on a cost sharing basis (income)	(84)	(91)
	101,430	111,310

21. Stock

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Properties in construction	2,265	4,632	1,520	4,632
Completed properties	8,622	1,959	8,622	1,959
Consumable stock	923	1,338	563	255
	11,810	7,929	**10,705**	6,846

22. Debtors

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Rental income due				
Gross	5,785	5,490	5,649	5,429
Discounted repayment schedules	(369)	(228)	(369)	(228)
Less bad debt provision	(2,870)	(2,470)	(2,848)	(2,459)
Net rental income due	**2,546**	2,792	**2,432**	2,742
Social housing grant receivable	187	1,663	187	1,148
Prepayments and accrued income	1,988	2,089	2,478	4,142
Due from other Group undertakings	-	-	34,991	29,372
Other loans	1,668	4,378	986	3,728
Other debtors	2,576	2,206	2,120	1,472
	8,965	13,128	**43,194**	42,604
Amounts falling due within one year:	6,652	7,956	10,169	8,837
Amounts falling due after more than one year:	2,313	5,172	33,025	33,767
	8,965	13,128	**43,194**	42,604

Loans from the Association to other members of the Group are charged at a market rate of interest of between 5% and 6% (2015: 5% to 6%).

23. Current Asset Investments

	Group 2016 £'000	2015 £'000	Association 2016 £'000	2015 £'000
Short term deposits	30,814	30,354	30,814	30,354
	30,814	30,354	**30,814**	30,354

Short term investments comprise sterling notice deposits.

24. Cash and cash equivalents

	Group 2016 £'000	2015 £'000	Association 2016 £'000	2015 £'000
Cash and cash equivalents	18,631	18,812	16,864	16,800
	18,631	18,812	**16,864**	16,800

25. Creditors - Amounts falling due within 1 year

	Note	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Housing loans	27	11,011	6,730	11,011	6,730
Trade creditors		7,699	8,919	7,304	8,108
Social housing grant in advance		309	3,813	309	3,813
Social housing grant - properties		216	103	216	103
Due to Group undertakings		-	-	8,344	14,172
Other loans		890	-	890	-
Taxation and social security		953	1,082	920	1,037
SHPS pension deficit contributions		2,213	1,652	2,213	1,652
Recycled capital grant fund	29	5,589	4,794	5,589	4,794
Rent received in advance		5,163	4,493	5,124	4,454
Other creditors		1,206	1,468	1,251	1,417
Accruals and deferred income		23,481	25,121	14,961	14,127
		58,730	58,175	**58,132**	60,407

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

	Note	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Housing loans	27	1,158,430	1,134,504	724,034	699,458
Derivative financial instruments		104,836	93,835	104,836	93,835
SHPS pension deficit contributions		15,972	12,659	15,972	12,659
Social housing grant - properties		27,117	23,139	27,117	23,139
Deferred income		11,309	12,018	11,309	12,018
Recycled capital grant fund	29	13,004	12,096	13,004	12,096
Disposal proceeds fund	29	540	209	540	209
Other		407	4,247	911	1,092
Long term Group creditors	27	-	-	425,000	425,000
		1,331,615	1,292,707	**1,322,723**	1,279,506

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

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

	On demand	Less than 12 months	1 to 5 years	More than 5 years	Total
	£'000	£'000	£'000	£'000	£'000
March 2016					
Amounts due to 2009 bond investors	-	9,986	39,944	409,138	459,068
Amounts due to 2012 bond investors	-	11,920	47,680	573,865	633,465
	-	**21,906**	**87,624**	**983,003**	**1,092,533**

	On demand	Less than 12 months	1 to 5 years	More than 5 years	Total
	£'000	£'000	£'000	£'000	£'000
March 2015					
Amounts due to 2009 bond investors	-	9,986	39,944	419,124	469,054
Amounts due to 2012 bond investors	-	11,920	47,680	585,785	645,385
	-	**21,906**	**87,624**	**1,004,909**	**1,114,439**

27. Housing Loans

		Group		Association	
	Note	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000
Repayable other than by instalments in more than five years	26	425,000	425,000	425,000	425,000
Repayable by instalments within one year	25	11,011	6,730	11,011	6,730
Repayable by instalments between two and five years	26	104,157	89,037	104,157	85,037
Repayable by instalments in more than five years	26	629,273	620,467	619,877	614,421
		1,169,441	1,141,234	**1,160,045**	1,131,188

All loans are held at amortised cost.

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 (2015: 0.70% to 10.75%). The average rate achieved over the year was 4.09% (2015: 4.25%). 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 2016 were £109m (2015: £144m).

28. Provisions

	Group 2016 £'000	2015 £'000	Association 2016 £'000	2015 £'000
As at 1 April	171	161	122	122
Additions in year	848	10	838	-
Utilised during the year	(16)	-	(16)	-
As at 31 March	**1,003**	171	**944**	122

29. Recycled Capital Grant Fund and Disposal Proceeds Fund

	Note	Group 2016 £'000	2015 £'000	Association 2016 £'000	2015 £'000
RCGF					
As at 1 April		16,890	16,056	16,890	16,056
Grants recycled		4,699	3,635	4,699	3,635
Interest accrued		91	84	91	84
New build		(3,087)	(2,885)	(3,087)	(2,885)
As at 31 March	26,25	**18,593**	16,890	**18,593**	16,890
DPF					
As at 1 April		209	11	209	11
Grants recycled		329	273	329	273
Interest accrued		2	-	2	-
New build		-	(75)	-	(75)
As at 31 March	26	**540**	209	**540**	209
Amounts 3 years old or older where repayment may be required		-	-	-	-

30. Pension arrangements

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

(a) Social Housing Pension Scheme (SHPS)

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

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

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

The last formal valuation of the scheme was performed as at 30 September 2014 by a professionally qualified actuary using the projected unit method. The market value of the Scheme's assets at the valuation date was £3,123m (2011 valuation £1,527m). The valuation revealed a shortfall of assets compared with the value of liabilities of £1,323m (2011 valuation £1,035m), equivalent to a past service funding level of 70% (2011 valuation 67%).

The Association closed its SHPS defined benefit scheme at the beginning of the previous financial year however £137,685 (2015: £132,136) shortfall payments were made each month for the shortfall on the 2011 valuation. Payments relating to the 2014 valuation begin in the following financial year. The shortfall payments are programmed for a further 11 years to clear the deficit by 2027, peaking at £207k per month in 2020 and dropping to £110k per month by 2027. In addition an expense charge was levied for £6,460 per month (2015: £6,460).

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

The Association paid employer's contributions up to 12% for the SHPS defined contribution scheme. The rate is variable dependent on the contributions rate selected by the employee. Total contributions amounted to £2,054k (2015: £2,086k).

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

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

SHPS Deferred Benefit

	Note	2016 £'000	2015 £'000
As at 1 April		14,311	14,805
Unwinding of the discount factor		259	421
Deficit contribution paid		(1,652)	(1,586)
Remeasurements - impact in changes in assumptions		(110)	671
Remeasurements - increase in total contributions due		5,377	-
As at 31 March	25,26	**18,185**	14,311

30. Pension arrangements

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

(b) Royal Berkshire Pension Fund (Berkshire)

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

The last full actuarial valuation was carried out as at 31 March 2010 and was updated to 31 March 2016 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 2016 (2015: 21.9%). An additional allowance is payable each year in respect of past service deficits. The allowance for the year ended 31 March 2016 was £377k (2015: £367k).

(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 to 31 March 2016 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 2015 (2015: 16.5%). A one off payment of £315k was made in 2015 to lock in lower employer contributions. There were no past service deficit payments.

(d) Local Government Pension Scheme administered by Oxfordshire County Council (Oxford)

The last full actuarial valuation was carried out at 31 March 2010 and was updated to 31 March 2016 by a qualified independent actuary.

An employer contribution rate of 19% of pensionable pay applied for the year ended 31 March 2016 (2015: 19%). There were no past service deficit payments. The scheme was closed on 31st August 2014.

Future pension increases have been assumed to be at CPI.

(e) Local Government Pension Scheme administered by Hampshire County Council (Hants)

The last full actuarial valuation was carried out at 31 March 2010 and was updated to 31 March 2016 by a qualified independent actuary.

An employer contribution rate of 15.6% of pensionable pay applied for the year ended 31 March 2016 (2015: 15.6%). An additional allowance is payable each year in respect of past service deficits. The allowance for the year ended 31 March 2016 was £12,700 (2015: £12,700).

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.

30. Pension arrangements (continued)

	2016 % per annum				2015 % per annum			
	Berks	Dorset	Oxford	Hants	Berks	Dorset	Oxford	Hants
Major assumptions								
Price increases RPI	2.9	3.2	3.3	2.8	3.0	3.2	3.2	2.9
Price increases CPI	2.0	2.3	2.4	1.7	2.2	2.4	2.4	1.8
Pension increases	2.0	2.3	2.4	1.7	2.2	2.4	2.4	1.8
Pension accounts revaluation rate	-	-	-	1.7	-	-	-	1.8
Discount rate	3.3	3.6	3.7	3.4	3.0	3.3	3.3	3.2
Salary increase	3.8	3.8	4.2	3.2	4.0	3.9	4.2	3.3
Return assumptions								
Equities	-	-	-	-	-	-	-	7.6
Gilts	-	-	-	-	-	-	-	3.4
Other bonds	-	-	-	-	-	-	-	4.0
Property	-	-	-	-	-	-	-	6.9
Cash	-	-	-	-	-	-	-	0.9
Alternative assets	-	-	-	-	-	-	-	7.6
Asset portfolio	3.3	3.6	3.7	3.4	6.3	6.2	6.2	-

The return on assets in 2014-15 for Berkshire, Dorset and Oxfordshire is quoted as one figure for the entire range of assets held. The return on assets for 2015-2016 is quoted as the same value as the discount rate in each of the actuarial reports.

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

	Berks	Dorset	Oxford	Hants
Retiring today				
Males	22.9	22.9	23.3	24.6
Females	26.2	25.3	25.8	26.4
Retiring in 20 years				
Males	25.2	25.2	25.6	26.7
Females	28.6	27.7	28.1	28.7

30. Pension Arrangements (continued)

(g) Historic Data

Berkshire

	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Assets and liabilities value as at:					
Present value of funded obligation	(16,871)	(18,137)	(16,783)	(18,710)	(16,353)
Fair value of Scheme Assets (bid value)	7,844	8,321	8,337	8,646	8,204
Net liability	**(9,027)**	(9,816)	(8,446)	(10,064)	(8,149)
Experience adjustments					
Experience adjustments on scheme assets	-	235	(467)	411	(525)
Experience adjustments on scheme liabilities	-	-	(171)	-	-

Dorset

	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Assets and liabilities value as at:					
Present value of funded obligation	(9,210)	(9,706)	(8,466)	(7,950)	(7,173)
Fair value of Scheme Assets (bid value)	4,665	4,808	4,465	4,112	3,647
Net liability	**(4,545)**	(4,898)	(4,001)	(3,838)	(3,526)
Present value of unfunded obligation	(29)	(31)	(29)	(29)	(27)
Net liability (including unfunded obligations)	**(4,574)**	(4,929)	(4,030)	(3,867)	(3,553)
Experience adjustments					
Experience adjustments on scheme assets	-	176	313	340	14
Experience adjustments on scheme liabilities	-	-	(52)	(1)	-

30. Pension Arrangements (continued)

(g) Historic Data (continued)

Oxfordshire

Assets and liabilities value as at:	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Present value of funded obligation	(22,624)	(24,242)	(21,346)	(20,845)	(18,881)
Fair value of Scheme Assets (bid value)	23,127	23,864	21,744	18,799	15,672
Net asset/(liability)	**503**	(378)	398	(2,046)	(3,209)
Experience adjustments					
Experience adjustments on scheme assets	-	1,635	2,350	(2,402)	(872)
Experience adjustments on scheme liabilities	-	469	1,185	-	-

Hampshire

Assets and liabilities value as at:	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Present value of funded obligation	(7,850)	(8,350)	(7,640)	(8,120)	(7,320)
Fair value of Scheme Assets (bid value)	5,460	5,670	5,150	4,940	4,490
Net liability	**(2,390)**	(2,680)	(2,490)	(3,180)	(2,830)
Experience adjustments					
Experience adjustments on scheme assets	-	410	120	380	(97)
Experience adjustments on scheme liabilities	-	60	240	20	(93)

30. Pension Arrangements (continued)

Consolidated

Assets and liabilities value as at:	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Present value of funded obligation	(56,555)	(60,435)	(54,235)	(55,625)	(49,727)
Fair value of Scheme Assets (bid value)	41,096	42,663	39,696	36,497	32,013
Net liability	**(15,459)**	(17,772)	(14,539)	(19,128)	(17,714)
Present value of unfunded obligation	(29)	(31)	(29)	(29)	(27)
Net liability (including unfunded obligations)	**(15,488)**	(17,803)	(14,568)	(19,157)	(17,741)

(h) Analysis of Pension Costs in the Income Statement

	2016 £'000	2015 £'000
Charged to operating costs		
Current service cost	191	263
Administration cost	23	31
Losses on settlements or curtailments	-	-
Total charged to operating costs	**214**	294
(Credit)/charge to other finance income		
Expected return on pension fund assets	(1,358)	(2,088)
Interest on pension scheme liabilities	1,899	2,293
Net charge to other finance income	**541**	205

30. Pension Arrangements (continued)

(i) Asset and Liability Obligation Reconciliations

Benefit Obligation	2016 £'000	2015 £'000
Defined benefit obligation at the beginning of the year	60,466	54,264
Service cost	191	263
Interest cost	1,899	2,293
Change in financial assumptions	(3,946)	6,668
Experience gains	-	(469)
Losses on curtailments	-	-
Estimated benefits paid (net of transfers in)	(2,067)	(2,619)
Past service cost	-	-
Contributions by scheme participants	43	68
Unfunded pension payments	(2)	(2)
Defined benefit obligation at the end of the year	**56,584**	60,466

Asset Reconciliation	2016 £'000	2015 £'000
Fair value of scheme assets at the beginning of the year	42,663	39,696
Expected return on scheme assets	-	-
Interest on assets	1,358	2,088
Return on assets less interest	(1,374)	1,841
Other acuarial gains	(100)	961
Administration expenses	(23)	(31)
Contributions by employer	598	661
Contributions by scheme participants	43	68
Estimated benefits paid (net of transfers in)	(2,069)	(2,621)
Fair value of scheme assets at the end of the year	**41,096**	(42,663)

31. Financial Instruments

(a) The carrying amounts of the financial assets and liabilities include:

	2016 £'000	2015 £'000
Assets measured at amortised cost	**7,717**	19,919
Liabilities measured at fair value through income statment (derivatives)	**104,836**	93,835
Liabilities measured at amortised cost (housing loans)	**1,169,441**	1,141,234
	1,281,994	1,254,988

(b) Financial Instruments measured at fair value

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

(c) Hedge Accounting

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

Interest rate swaps

	2016						2015					
	Carrying amounts £'000	**Expected cash flows £'000**	**1 year or less £'000**	**1 to <2 years £'000**	**1 to <5 years £'000**	**5 years and over £'000**	Carrying amounts £'000	Expected cash flows £'000	1 year or less £'000	1 to <2 years £'000	1 to <5 years £'000	5 years and over £'000
Liabilities	104,836	122,146	8,062	7,797	21,176	85,111	93,835	113,951	7,837	7,572	18,922	79,620
	104,836	**122,146**	**8,062**	**7,797**	**21,176**	**85,111**	93,835	113,951	7,837	7,572	18,922	79,620

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

Change in fair value	2016 £'000	2015 £'000
Recognised through other comprehensive income	(10,287)	(35,838)
Recognised through the income statement	(713)	(11,337)
Decrease in fair value	**(11,000)**	(47,175)

(d) Fair values

The amounts for all financial assets and financial liabilities carried at fair values are as follows:

	2016 £'000	2015 £'000
Hedging instruments	104,836	93,835
	104,836	93,835

32. 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.

	2016 £	2015 £
Allotted issued and fully paid		
At 1 April	116	116
Issued in the year	-	6
Cancelled during the year	-	(6)
At 31 March	**116**	116

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

33. Reserves

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

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

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

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

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

34. Capital Commitments

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	115,022	131,748	113,331	124,299
Capital expenditure that has been authorised by the Executive Board but has not yet been contracted for	82,541	42,758	82,541	34,217

The Association has headroom in its current loan facilities of £109m and £48m in cash and short term deposits, which along with cash generated from operating activities is expected to fund the above capital expenditure.

35. Operating Leases

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

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Land and buildings				
- within one year	265	253	211	221
- between two and five years	514	578	514	514
- in over five years	741	913	741	913
Temporary social housing initiatives				
- within one year	33	34	33	34
- between two and five years	99	99	99	99
- in over five years	66	99	66	99
Other				
- within one year	1,099	1,188	1,075	1,096
- between two and five years	2,164	863	2,164	863
- in over five years	9	25	9	25
	4,990	4,052	**4,912**	3,864

36. Related Party Transactions

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

Sovereign Housing Association holds 100% of the share capital in the following subsidiaries:

Doubloon Developments Limited
Florin Homes Limited
Sovereign Living Limited (registered provider)
Pennyfarthing Building Services Limited
Sovereign Advances Limited
Sovereign Westinghouse Development Limited

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

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

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

37. Accounting Estimates and Judgements

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

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

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

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

Office properties are valued on a square footage basis in relation to the prices being achieved on similar sales in the appropriate geographical area.

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

38. Transition to FRS 102

The Group has adopted FRS 102 for the year ended 2016 and has restated the comparative prior year amounts.

Transition to FRS 102 – reconciliations
Restated consolidated statement of non-equity members' funds

	Explanations	31 March 2015 £'000
Original reserves	-	1,458,243
Financial assets	1	(17)
Discounted rent payment agreements	2	(228)
Social housing grant – housing properties	3	199
Reverse revaluation in 2015	4	(63,459)
Derivative financial instruments	7	(93,835)
SHPS pension deficit contributions	5	(14,311)
Restated reserves		**1,286,592**

Restated Association statement of non-equity members' funds

	Explanations	31 March 2015 £'000
Original reserves	-	1,471,770
Financial assets	1	(17)
Discounted rent payment agreements	2	(228)
Reverse revaluation in 2015	4	(63,276)
Derivative financial instruments	7	(93,835)
SHPS pension deficit contributions	5	(14,311)
Restated reserves		**1,300,103**

38. Transition to FRS 102 (continued)

Restated consolidated surplus for the year ended 31 March 2015

	Explanations	31 March 2015 £'000
Original surplus for the year		45,154
Multi-employer pension deficit payments	5	1,585
Change in assumptions of SHPS liability	5	(670)
Revaluation of investment properties	6	2,220
Reduction in debt service reserve gilts	1	(17)
Non-basic derivative financial instruments	7	(11,337)
Unwind discounted pension deficit payments	5	(421)
Unwind discounted rent payment agreements	2	(78)
Restated surplus for the year		**36,436**

Restated Association surplus for the year ended 31 March 2015

	Explanations	31 March 2015 £'000
Original surplus for the year		43,578
Multi-employer pension deficit payments	5	1,585
Change in assumptions of SHPS liability	5	(670)
Revaluation of investment properties	6	645
Reduction in debt service reserve gilts	1	(17)
Non-basic derivative financial instruments	7	(11,337)
Unwind discounted pension deficit payments	5	(421)
Unwind discounted rent payment agreements	2	(78)
Restated surplus for the year		**33,285**

Explanations

1) The carrying value must reduce over the remaining life of the instruments to the nominal value and the effective interest method has been used to calculate this.

2) Rent arrears payment plans are discounted at an appropriate discount rate. A finance charge is incurred to the extent of the unwinding of the discount on rent repayment plans.

3) Social housing grant attached to housing properties held at historic cost is taken to reserves and no longer included within fixed assets.

4) The increase in valuation of housing properties in the year ended 31 March 2015 is removed as the Association moved to using a deemed cost equating to the valuation as at 31 March 2014.

5) Multi-employer pension scheme deficit contribution plans are included as a liability in the Statement of Financial Position. The liability is the discounted cash flow of the total deficit catch up payments. Payments going through the Income Statement in the year will now reduce this liability and not be expensed. A finance charge is incurred to the extent of the unwinding of the discount applied to the pension scheme deficit. The pension liability is split between long and short term balances, creating a change in net assets. A change in the discount rate assumptions applied creates a charge or credit in operating costs in the year.

6) Investment properties are held at fair value, deemed to be the open market value, and movements in the fair value are included in the Income Statement and not reserves.

7) The fair value of stand-alone derivatives, which are classified as non-basic financial instruments under FRS 102, must now be reflected in the Statement of Financial Position. Any subsequent movement in fair value from year to year will pass through either the Income Statement, or if certain criteria are met, through a cash flow hedge reserve in the Statement of Other Comprehensive Income. 2014/15 saw a £47m fall in the fair value of Sovereign's stand-alone derivatives, due mostly to the market expectation that long term interest rates would stay lower and for longer. The rules which determine how much of this movement has to be taken through the Income Statement and how much through the cash flow hedge reserve involve complex hedge effectiveness testing, but Sovereign had anticipated for some time that the split would be of the order of 25%/75%. The actual split as shown in the restated accounts is £11,337k through the income statement and £35,838k through the cash flow hedge reserve.

Glossary

Income statement	Financial statement that presents all items of income and expense recognised in a reporting period, excluding the items of other comprehensive income.
Other comprehensive income	Items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by this FRS.
Statement of cash flows	Financial statement that provides information about the changes in cash and cash equivalents of an entity for a period, showing separately changes during the period from operating, investing and financing activities.
Statement of comprehensive income	Financial statement that presents all items of income and expense recognised in a period, including those items recognised in determining profit or loss (which is a subtotal in the statement of comprehensive income) and items of other comprehensive income.
Statement of financial position	Financial statement that presents the relationship of an entity's assets, liabilities and equity as of a specific date.
Deemed cost	An amount used as a surrogate for cost or depreciated cost at a given date. Subsequent depreciation or amortisation assumes that the entity had initially recognised the asset or liability at the given date and that its cost was equal to the deemed cost.
Derivative	A financial instrument or other contract with all three of the following characteristics: (a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable (sometimes called the 'underlying'), provided in the case of a non-financial variable that the variable is not specific to a party to the contract; (b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and (c) it is settled at a future date.
Financial instrument	A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.
Hedging gain or loss	The change in fair value of a hedged item that is attributable to the hedged risk.
Financial risk	The risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.
Cash equivalents	Short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.