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Sovereign Housing Association Limited is a charitable Registered Society under the Co-operative and Community Benefit Societies Act 2014, registered with the Financial Conduct Authority No.7448 and the Homes and Communities Agency No. 4837.

Registered office:
Woodlands, 90 Bartholomew Street,
Newbury RG14 5EE

sovereign

ANNUAL REPORT 2019

Annual Report and Financial Statements









We exist to provide quality affordable homes, within thriving communities, for people priced out of the housing market.

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OUR PERFORMANCE

GREAT LANDLORD

- £154m social value created
- 190,000 repairs completed, with 92% satisfaction
- 68.5% satisfaction with how we resolved complaints
- 100% gas safety compliance

COMMUNITY-BUILDER

- £900,000 invested in communities
- £3m pledged each year from 2020
- 234 residents supported into work or better work
- 70.6% satisfaction with how we deal with anti-social behaviour

LEADING DEVELOPER

- £238m invested in 1,543 new homes
- 530 were homes for shared ownership
- Aspirations to build 1,900 homes a year
- £75m sales income

MAJOR BUSINESS

- Top 10 housing association, with a £402m turnover
- 58,000 homes with a market value of £11.4bn
- £99m surplus
- Well-run, robust business (A+ S&P, A2 Moody's, regulatory rating G1/V1)

INSPIRING PEOPLE

- Investors in People Gold standard
- 49 apprentices employed or training with us
- Lower than average gender pay gap, at 7.4%
- Bespoke Chartered Institute of Housing qualification launched

OUR YEAR IN REVIEW

In a year of political instability, where Brexit has dominated the headlines, housing continued to hold its own at the top of the agenda.

Government changed its tone on social housing, recognising that a quality and affordable home, within a flourishing community, is the foundation for a happy, successful life.

It also pledged more investment and gave the sector certainty over future rents. We were one of the first to join Homes England in a new-look Strategic Partnership. But with an uncertain economic outlook and the charity Crisis estimating that four million new social homes are needed over the next 22 years, there is much to be done.

Against this turbulent backdrop, Sovereign has delivered. A £99m surplus, particularly given the ongoing rent reduction demonstrates our financial strength and we remain a well-run, efficient business; consistently achieving excellent ratings from the Regulator of Social Housing (G1/V1) as well as Standard & Poor's (A+) and Moody's (A2).

We also brought our merger integration work to a close, having joined with Spectrum in late 2016. One rationale for bringing the business together was so we could build more. We invested more than £238m to build 1,543 homes last year, which is nearly 30% more than the year before, with nine out of 10 below market rates.

We continue to deliver sector-leading landlord services. Overall arrears stood at just 2%, with arrears for those not impacted by Universal Credit continuing to fall. For those moving to the new welfare system, teams are providing a focused, tailored service. On lettings, turnaround times across all homes averaged just 14.5 days, nearly half the sector average of 28 days.

A major focus continues to be on our contact services, making it as easy as possible for people to get in touch. We're investing heavily in new IT platforms, both in contact and in housing, which impacted performance in the first half of the year. At year end, the service had recovered to hit all targets, but it remains an area of focus.

We spent £93m maintaining and improving existing homes and our property services, brought in-house under a single Sovereign brand, reported excellent results. We invested £16.5m on kitchens, bathrooms and boilers, and the team completed around 190,000 repairs. Importantly, customer satisfaction with repairs was 92% - but we'll continue to work on getting the job done at the first visit wherever possible.

Given the two-year anniversary of the tragic fire at Grenfell Tower, there continues to be a focus on safety and compliance. All homes had a valid gas safety check and we achieved 100% of our fire risk assessment programme. Challenges remain, but we will continue to focus on making sure our homes are safe places to live.

As we look ahead, to provide guidance and challenge, our innovative approach to resident involvement continues to evolve. We are fortunate to have such talented and committed people, who give their expertise to shape our strategy and policies and their time to scrutinise the quality and performance of the services that matter to them.

We know we need to make more of customer feedback and challenge. That's why we've introduced new measures around effort and trust. Overall, levels remain largely positive, but reflect falling customer satisfaction across all services and sectors. We are committed to listening, investing and adapting in order to deliver a great customer experience.

As I draw to a close, I'd like to thank our residents, the Board and committees, and everyone who works for Sovereign, they are fundamental to our success and make the difference, every day. I'd also like to thank Mark Washer, who has made a huge impact in his first year at Sovereign.

Finally, I must pay my respects to Jenny Mannella, a dedicated and respected member of our Resident and Board Partnership, who sadly passed away this year.

Gordon Holdcroft, Chair

As a leading housing association, Sovereign has strong foundations, robust finances and great people, but it also has significant untapped potential.

With a new five-year strategy, investing more and re-imagining solutions to old problems, we aim to grow sustainably and really maximise the social impact of everything we do. We can provide more homes, better homes, with services for people priced out of the housing market. But we want to go further, so we're putting in place plans that will guide us for the next thirty years.

This means rethinking our core service offer. We'll build a truly customer-focused culture, where our residents are at the heart of our services and every decision we take. So we're investing more in our homes and reviewing the standard at which we let our properties. We're trebling our investment in our communities, working alongside our residents to create sustainable and vibrant communities for the long-term. We already take a Housing First approach in a number of areas to tackle homelessness, but we can go further.

We'll grow, not just through merger, but by taking control and creating really great places to live through large strategic sites and more land-led development.

Working in partnership with the public and private sector, we'll create great places and have a say over the tenure, the pace, the design and the environmental standards of future homes. This also helps with challenges around the quality of some new homes.

And we'll create a business model that can stand the test of time. This means continuing to invest and transform our services, but thinking about the IT platforms and technical infrastructure we need for today and tomorrow.

To achieve our ambitions, we want to inspire our people too, giving them the tools to succeed and growing Sovereign's reputation as a great place to work. It is clear that they are up for the challenges ahead.

During my first year, as I've met with government and partners, I've seen the strong reputation and lasting relationships Sovereign has. But I know we can do more, and have an even more influential voice on the issues that matter to our residents, communities and our organisation.

Housing associations have existed for many years, and will play a vital role for decades to come. Therefore, we need to think carefully about the design and the environmental sustainability of the places that we create and the neighbourhoods where we have deep connections. Our services, social action and future development should all contribute to the long-term health and well-being of our residents and neighbours.

As I pass the first anniversary of joining this great business, my overwhelming impression is of an organisation that is ready for this next exciting phase of its development. It is an honour to play a role in its continuing transformation.

Mark Washer, Chief Executive

WE ARE SOVEREIGN

> We exist to provide quality, affordable homes, within strong sustainable communities, for people priced out of the housing market.

We're driven by our purpose, with residents at the heart of everything we do. But our work doesn't stop at the front door – we invest for the long-term, creating great places to live, working with residents and partners to support them in realising their potential.

WHAT WE DO

We're a sector-leading, ambitious housing association, providing more than 58,000 quality and affordable places for 134,500 people to call home.

Across the south of England, from growing cities to rural villages, for people at any stage of life, we have a place where they can belong.

And for those at risk of homelessness, we take a Housing First approach in many areas, as well as providing specialist homes and support in Basingstoke and on the Isle of Wight.

We know we need to do more, so we're investing in building a greater number of much-needed new homes too. We're already one of the largest affordable housing developers in England, with nine out of ten of our new homes available to rent below market levels, or to buy through Shared Ownership. But we're going further, taking greater control, building more, building faster and we're on track to provide 1,900 new homes a year.

We value our existing homes, investing to make them places to be proud of, ensuring safety, fighting fuel poverty and protecting the environment.

But it's not just about homes - we want to help create great, thriving communities too - so we invest in people and places, offering a range of support services to help them achieve their aspirations.

HOW WE DO IT

We are for purpose, not for profit, using our sector-leading reputation and the financial clout of a FTSE-250 business (based on net asset value) to maximise our social impact.

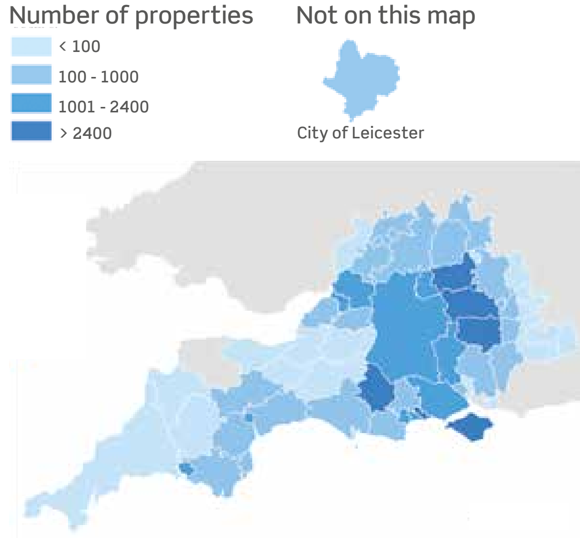
We use our organisational strength, along with funding from government, banking and capital markets, to invest in building and maintaining more affordable homes, while delivering services to those that need them.

As customer expectations change, we're working towards becoming a more modern, connected business. This means investing in new technology and going digital – so it's easy for residents to do business with us. Not only does this mean we can provide a great customer experience, it frees up time to focus on those who may need some extra support.

We know we cannot do this alone, so we take the time to build long-term relationships with a range of partners. We pride ourselves on our strong, open partnerships with national and local government, Homes England, housebuilders, businesses, investors, community and charitable groups and many more. And we listen. With an award-winning approach to resident engagement, residents are able to help shape strategies, scrutinise and improve services and provide a deep connection with our communities.

WHERE WE WORK

We have deep roots in the south of England, with our investment and activity focused in a core area covering Berkshire, Hampshire, Oxfordshire, Gloucestershire, Dorset, Devon, Wiltshire, the West of England and the Isle of Wight.



IT'S ABOUT PEOPLE

Our dedicated and inspiring people enable us to achieve our social and commercial objectives and provide outstanding services to our residents.

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

We are transforming how we work, creating great offices in new locations and investing in the right tools, so our talented employees can realise their potential and deliver outstanding results.

A diverse and inclusive culture is central to our success and our values provide a touchstone for decision-making that will guide the business into the future.

WE PROVIDE QUALITY AFFORDABLE HOMES

OF OUR 58,000 HOMES

74% are social rent

15% support people into home ownership

7% are affordable rent

3% are for key workers

1% are private rent

OUR VALUES

ACCOUNTABLE
We take personal responsibility and are trusted to do the right thing

DRIVE TO DELIVER
We work with energy, enthusiasm and passion to get things done and we do what we say we will

TOGETHER
We collaborate with colleagues and partners so everybody benefits

ADAPTABLE
We embrace change, think ahead and find new ways of delivering a better customer experience

WE ARE FOR PURPOSE

At Sovereign we provide safe and affordable homes. But we want to do more.

We want to have more impact, be more innovative and influential, and bring out the best in our people so we deliver a great customer and employee experience, today and tomorrow. Driven by our purpose, our five-year strategy sets out the roadmap.

HAVING IMPACT

We'll maximise the social impact of everything we do by:

- Making the most of our homes and land for the benefit of our current and future residents
- Maximising our social impact locally and investing in our communities
- Growing, so we can better meet housing need

BEING INNOVATIVE

We'll think differently, creating solutions that do more by:

- Modernising our services, making best use of technology to meet business and customer need
- Listening harder and embedding a customer framework that keeps residents, young and old, at the centre of our decision making
- Exploring opportunities and testing new ways to deploy homes at scale

BEING INFLUENTIAL

We'll lead from the front by:

- Creating new, strong partnerships to take advantage of market opportunities and strengthening existing partnerships to make more of what we do now
- Making an impact through a great public affairs and research programme, to influence policy and amplify our voice
- Staying financially strong through good governance and performance management, so we can invest more in the things that matter

INSPIRING PEOPLE

We'll invest and bring out the best in people by:

- Creating a great employee experience, so the best people will want to come and work with us
- Building an environment where employees are engaged, valued and passionate about what they do
- Developing our leaders, employees and apprentices so they can contribute more and advance their careers

A CHANGING WORLD

POLITICAL INSTABILITY

Housing remained a central theme of the government's domestic policy agenda, but political instability and challenges around leaving the European Union have meant future housing policy is unclear.

However, there have been positive steps, including £2bn investment for new social rented homes, a long-term rent settlement and Strategic Partnerships between housing associations and Homes England.

The government's Social Housing Green Paper, published in August 2018, was designed as a comprehensive review of social housing. The paper sought ideas on how to rebalance the relationship between residents and landlords, tackle stigma, expand supply of new homes and make sure existing properties are safe and decent.

We responded to the consultation and government is expected to publish its response in September 2019.

A FOCUS ON SAFETY

Two years on from the tragedy at Grenfell Tower in London, housing associations continue to call for clarity on vital elements of fire safety and standards, including fire doors. However, in many areas they have not waited, pressing ahead to make sure residents and their homes are as safe as they can be.

Since the fire, Sovereign has carried out around 600 in-depth Fire Risk Assessments and launched a new, more transparent approach to provide residents with in-depth fire risk information relating to where they live.

In addition to fire risk, housing associations remain focused on other health and safety risks, including gas, electrics, legionella, asbestos and lifts.

A HOUSING CRISIS

The National Housing Federation (NHF) and Crisis estimate that nearly four million homes need to be built in England by 2031 to meet demand. As well as being above the current government aspiration, this is far more than the 165,100 built in 2017/18, which includes conversions.

While unemployment is low, the type of jobs some people have can be low paid and insecure, and so, alongside the continuing roll out of Universal Credit, the affordability of new homes is crucial. The NHF also estimates that, of the 340,000 homes needed each year, 90,000 should be for social rent, 30,000 for intermediate affordable rent and 25,000 for shared ownership.

To achieve these challenging numbers, increased investment and a new approach to land will be required. Housing associations like Sovereign have a fundamental role in building more new and quality homes, taking a long-term approach to place-making and using their financial strength to increase supply.

However, after years of rapidly rising house prices and market rents, the property market is changing. On one side, growth and sales of new homes are slowing, and on the other, major financial institutions and for-profit affordable housing providers are entering the market, seeking a secure, long term return.

LOOKING AHEAD - AND LISTENING

The world is changing, and society is evolving too. An increasingly ageing population means we need to plan for the future, today. Meanwhile all generations are demanding more from the services they receive. For younger people trying to come into the housing market, particularly as Help to Buy changes over the coming years, we need homes and products that meet their needs, lifestyles and budgets.

Housing associations take pride in how they involve residents in their business. At Sovereign, our approach means residents are able to influence strategy at Board level, and scrutinise the services that matter to them. They're also supported to create positive change in their own neighbourhood or community.

Additionally, the sector is being challenged to go further, building trust and transparency. We are evolving how we gather and use feedback and are also early adopters of the National Housing Federation's Together with Tenants approach, which aims to rebalance the relationship between housing associations and their residents.

WE ARE A STRONG BUSINESS

We're a 'for purpose', not-for-profit independent business. By building and maintaining our financial and organisational strength we can maximise the social and economic impact of everything we do.

AN OUTSTANDING PERFORMANCE

Last year, we delivered outstanding operational results with our operating surplus up 2.2% to £140.3m (2018: £137.3m), reflecting strong performance from the Group's core housing management operations and property sales activity.

The surplus before tax of £98.9m is down £5.0m on last year (2018: £103.9m), reflecting the additional surplus generated in 2018 from the sale of properties post-merger, to rationalise our stock outside our core geography. This surplus was achieved despite the requirement to reduce rents for existing social and affordable tenancies by 1%.

These results mean we can continue to invest in our homes and services, as well as raising additional funding from the financial markets to build much-needed new homes.

Measure	2019	2018	Change
Operating surplus £m	140.3	137.3	2.2%
Operating margin %	34.9	36.2	(3.6%)
Overall surplus £m	98.9	103.9	(4.8%)
EBITDA MRI £m	155.1	143.4	8.2%
EBITDA MRI %	38.6	37.9	1.7%

EBITDA MRI = Earnings before interest, tax, amortisation and major repairs included

TURNOVER

Our income increased in 2019, up £23.9m (6.3%) to £402.1m, mainly through an increase in receipts from shared ownership first tranche sales of £17.0m to £55.2m. Our social rent income also increased by £3.4m (1.2%) despite the rent reduction. This is mainly due to building more homes, as well as maintaining low void levels and short re-let times. We also continue to provide property maintenance services to other outside organisations, though as we bring more work in-house there is less capacity for external contracts, explaining the 6.9% reduction in income on last year.

Turnover £m	2019	2018	Change
Social housing rent	295.6	291.3	1.5%
Other social housing income	2.4	4.2	(42.9%)
Shared ownership first tranche sales	55.2	38.2	44.5%
Open market sales	20.0	16.1	24.2%
Private rent	10.3	9.5	8.4%
Key workers	9.1	8.7	4.6%
Other non-social housing activities	9.5	10.2	(6.9%)
Total	**402.1**	**378.2**	**6.3%**

OPERATING COSTS

Our operating costs have increased by 2.4% to £202.6m

Operating costs £m	2019	2018	Change
Social housing activities			
Management costs	60.7	53.2	(14.1%)
Maintenance costs	81.7	85.6	4.5%
Other costs	1.8	2.0	6.7%
Non-social housing activities	18.5	17.8	(3.9%)
Depreciation	39.8	39.2	(1.5%)
Total	**202.6**	**197.8**	**(2.4%)**

Increased social housing costs of £3.4m reflect our continued investment in employees, including a company-wide pay and grading benchmarking review, and our commitment to invest in IT and digitisation to modernise the way we work, improve services and lay the foundations for future cost efficiencies. This year we also increased efficiency by insourcing our gas servicing and maintenance delivery and consolidating our property services under a single brand. The £0.7m increase in non-social housing costs is driven by investment in modern cloud-based IT solutions as part of our wider IT strategy. Depreciation costs have increased by £0.6m, driven by the increased volume of properties under management in the year.

OTHER COSTS AND ACTIVITIES

The surplus from sales of housing assets (disposals of property, plant and equipment) decreased by £11.8m to £6.6m (2018: £18.4m). This decrease reflects the additional surplus generated in 2018 through increased asset management activity and stock rationalisation sales, post-merger.

THE GROUP STATEMENT OF FINANCIAL POSITION

The Group Statement of Financial Position has continued to strengthen, reflecting our outstanding performance during the year and the ongoing investment programme. This strength remains a key part of the business strategy, ensuring resilience in the current policy environment. We continue to report a strong financial position with net assets of over £1.7bn.

At March 2019, fixed assets totalled £3,864m (2018: £3,674m), an increase of £190m on the previous year. The key elements of this increase include £238m invested in new developments and £18m of capitalised improvements on existing properties. These increases are partially offset by depreciation of £40m (2018: £39m) and disposal of properties to other housing associations, with a total net value of £18m (2018: £36m).

Cash and short-term investments have increased to £45m (2018: £26m) which is sufficient to cover both short-term margin call fluctuations and operational cash requirements. Revolving bank facilities remain available to support ongoing liquidity requirements. Total reserves strengthened to £1,712m, (2018: £1,647m) an increase of £65m.

CASH FLOW

The operating cash flow at £167m was down £1m on last year (2018: £168m) reflecting the stable operating performance. The main movements in the Group's cash flow are shown in the table opposite.

The net cash outflow from investing activities increased to £203m in 2019 (2018: £117m). The increase primarily reflects new housing development investment where expenditure was significantly higher than the previous year at £277m (2018: £176m).

During the year, Sovereign sold 546 properties generating receipts of £75m (2018 - £57m). Interest paid increased to £62m (2018 - £61m) in line with the increase in net loans of £115m (2018: £11m decrease) with deposit withdrawals of £3m (2018: £28m). As a result, the year ended with a net debt position of £1,662m, £95m higher than 2018 (£1,567m).

Cash flow £m	2019	2018
Net cash inflow from operating activities	**167.3**	168.0
Cash flow from investing activities		
Investment in jointly controlled entity	**0.0**	(4.4)
Purchase of tangible fixed assets	**(225.4)**	(175.6)
Proceeds from sale of tangible fixed assets	**20.0**	57.3
Grants received	**1.7**	4.5
Interest received	**1.2**	1.1
Net cash from investing activities	**(202.6)**	(117.1)
Cash flow from financing activities		
Interest paid	**(61.6)**	(61.1)
Movements in collateral deposits	**1.4**	2.4
Net new borrowing/(repayment)	**114.7**	(11.2)
Withdrawals from deposits	**2.8**	28.2
Net cash used in financing activities	**57.3**	(41.7)
Net increase in cash and cash equivalents	**22.0**	9.2

A VALUE FOR MONEY BUSINESS

Sovereign's Value for Money (VfM) Strategy balances financial health with our responsibilities to residents and our social mission.

SOVEREIGN'S APPROACH TO VALUE FOR MONEY

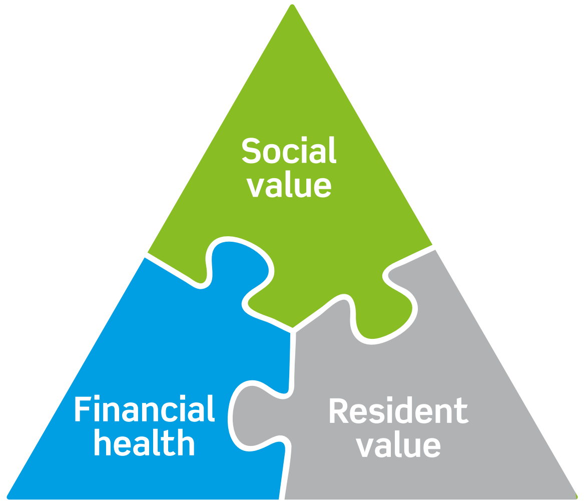
As a social purpose business, we aim to maximise our impact and demonstrate we are using our skills and resources effectively. However, our pursuit of efficiency is not simply an exercise in cost cutting – financial health is not an end in itself, but complements and reinforces our social purpose, which is embedded in our rules and in our strategy and is absolutely fundamental to our organisation.

Sovereign takes a holistic and balanced approach to VfM that supports our fundamental social purpose, and our strategic intent. The interconnected nature of our approach recognises both social and financial value and also balances the needs of our existing residents with the wider social value we deliver, such as meeting future housing need or managing our environmental impact.

None of these elements dominate but social value is visually prominent as it is the aspect of VfM that is least developed in our sector. Each element is important in its own right, but none of them should be considered in isolation.

SOVEREIGN DELIVERING VALUE FOR MONEY

Sovereign is one of the largest housing associations in the country, providing more than 58,000 homes for around 135,000 people in the south and south west of England and the Isle of Wight.



We are proud to confirm that, as a result of the merger, we have reduced our running costs and achieved our £34m targeted savings by March 2019, a full year before the target end date.

These savings are being reinvested in higher quality services for our residents and in growth and have improved our financial resilience. In fact, Sovereign has increased its development aspirations from 1,600 to 1,900 new homes a year – a combination of homes to rent or buy. This will include a growing portfolio of quality private rented homes and homes for outright sale, often developed through commercial subsidiaries and Joint Ventures, where it makes sense to do so, reinvesting the profits into more affordable homes.

A specific example contributing to the £8m of savings achieved during the year, is the £2.2m procurement savings, tendering for new contracts for lift servicing, lone worker devices and technology.

Sovereign employs 800 skilled trades - people to provide a quick, high-quality repairs and maintenance response service to our residents. During 2018/19, we augmented the service by insourcing the provision of kitchens and bathrooms, reducing VAT costs and providing a higher quality service to our customers – more repairs are now completed first time and to a higher standard than in the traditional outsourcing model. We have achieved a resident satisfaction level of 92% and we forecast additional savings of £360k for the first four years.

As a result of Sovereign's decision in 2018/19 to consolidate 22 offices, moving to around seven hubs over the next few years, we forecast a further £3m savings on refurbishment and running costs over the next 15 years. As part of this process, we will invest in new technology and develop modern workspaces, enabling better connections both between our employees and with our customers.

At Sovereign we are not satisfied to stop there – we have begun an exciting new project to consider how the whole organisation should operate and work together in the longer term, in a way anticipated to deliver more efficient ways of working. The project is due to be completed by autumn 2019 and will feed into our VfM agenda.

MEASURING VALUE FOR MONEY

We have made use of both sector scorecards and internally generated ratios to report on our delivery of VfM. We use benchmarking as an indicator of our performance against a handpicked group of peers and we pick up trends in our performance.

Although the peer group comparisons are a year behind our financial reporting, they still provide an effective comparison of performance against our peers.

OUR PEER GROUP

Sovereign is the largest regional housing association outside London, with a repairs and maintenance Direct Labour force Organisation (DLO) and a number of commercial subsidiaries and Joint Venture arrangements that deliver a range of services, including development for sale, design and build, repairs and maintenance and raising debt. This is supported by a well-developed treasury function. Uniquely for an organisation of our size, we do not hold a portfolio of property in London and the South East. Consequently, our peer group has been selected accordingly, from large housing associations. However, among the peers selected, unlike Sovereign, a number have significant care and supported housing activity. Places for People also has a more diverse business model, including leisure companies.

OUR VALUE FOR MONEY PERFORMANCE

We are performing well against our peer group across the majority of metrics. Our cost per unit is the lowest against our peers, demonstrating the value of the services we provide, while achieving high levels of customer satisfaction.

While our rent collection rates are below our peers, this is because of our consistently low levels of arrears.

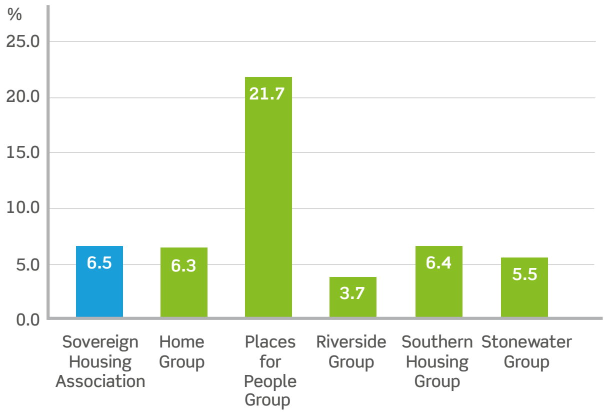
Organisation	Homes owned ('000)	Development subsidiary	Treasury subsidiary	Repairs and maintenance	Commercial investment subsidiary	Care and supported housing
Sovereign	59	✓	✓	✓	✓	
Home	55	✓		✓	✓	✓
Places for People	67	✓	✓	✓	✓	✓
Riverside	55	✓	✓	✓	✓	✓
Southern	28	✓			✓	
Stonewater	32	✓	✓	✓	✓	✓

SECTOR SCORECARDS

Metric 1a – Reinvestment

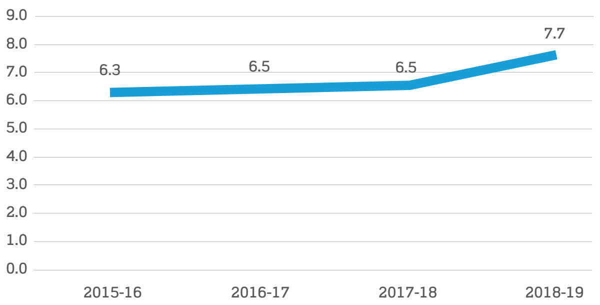
This metric reflects investment in properties (existing stock as well as new supply) as a percentage of the value of total properties held.

Metric 1a - Reinvestment % (2017 - 2018 data)



For this metric we divide the total capital investment in developing/acquiring new properties, as well as the investment in major works to existing properties, by deemed cost. Deemed cost is the value at which Sovereign discloses its social housing properties in its financial statements. The other housing associations in the peer group disclose social housing property at historic cost. All things being equal, deemed cost tends to be higher than the historic cost, suppressing Sovereign's reported reinvestment percentage. Equally, housing associations with stock based in London and the South East tend to report lower, like-for-like, reinvestment levels.

Metric 1a - Reinvestment (%) trend analysis

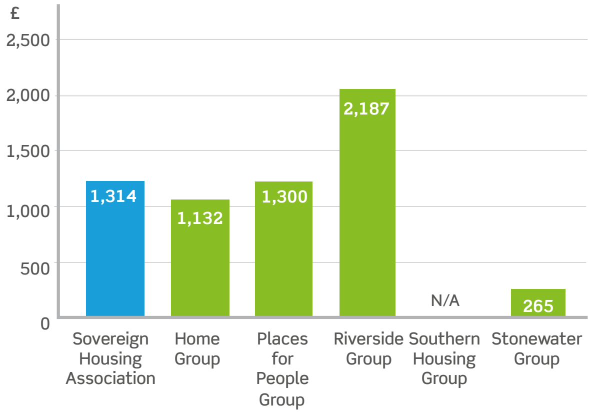


The Group reinvestment in the year reflects above target growth, with 1,543 homes delivered during 2018/19. Of the 1,543 homes, 57% were affordable homes to rent which, we cross subsidised with shared ownership, outright sales and Joint Venture surpluses.

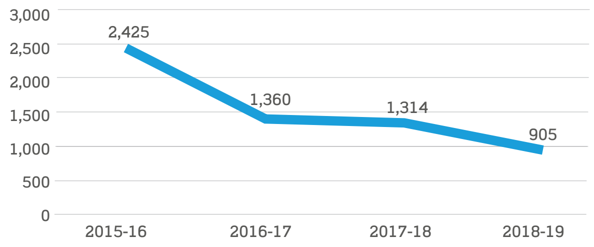
Metric 1b – Reinvestment in communities

This metric considers the reinvestment of surpluses in the community, expressed as a percentage of the value of total properties held. It varies considerably between housing associations, dependent on the missions and vision of the organisation, local factors, the level of surpluses and the business/economic cycle.

Investment in communities (£,000) (2017 - 2018 data)



Metric 1b - Reinvestment in communities (£'000)

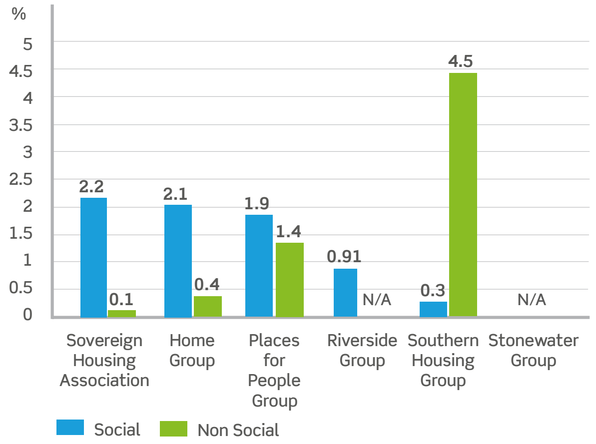


Sovereign compares well with peers when looking at 2017/18. The trend for 2018/19 shows a decrease to £0.9m. We recognise that this is an area where we could do more, and a new community investment programme has launched for 2019/20 with a budget of £3m.

Metric 2 – New supply delivered %

The new supply metric (social housing) reports on the number of new social housing and non-social housing units that have been acquired or developed during the year, as a proportion of total social housing units and non-social housing units managed at the period end.

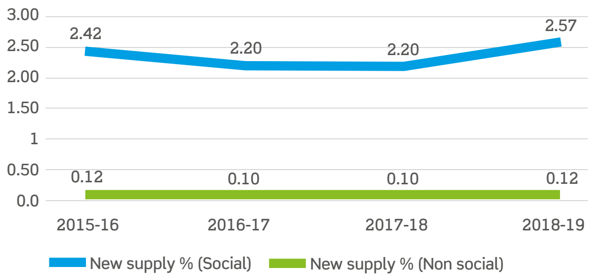
Metric 2 - New supply % (2017 - 2018 data)



Sovereign's percentage growth for new social homes (2.2%) was similar to Home and Places for People but at least more than twice that of our other peers. Housing associations in central and southern England tend to record the largest social housing development programmes as a proportion of their stock size.

Although we do have a number of active Joint Ventures developing non-social homes, as these schemes are largely in the construction phase, there were relatively few delivered during 2018/19 compared to our peers.

Sovereign Metric 2 - New supply %

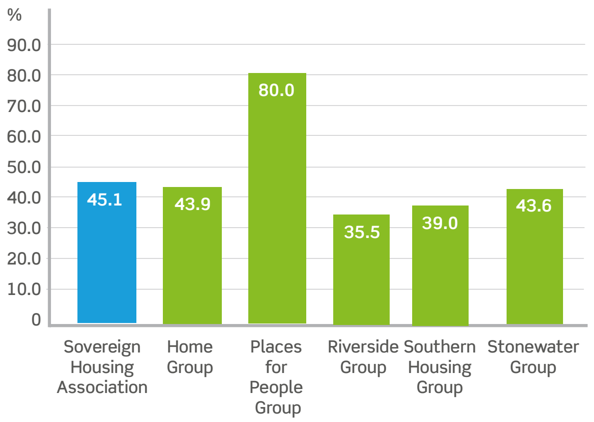


The trend for 2018/19 is an uplift in development activity and our new development strategy, launched for 2019/20, will see this trend continue as we seek to deliver 1,900 units each year.

Metric 3 – Gearing %

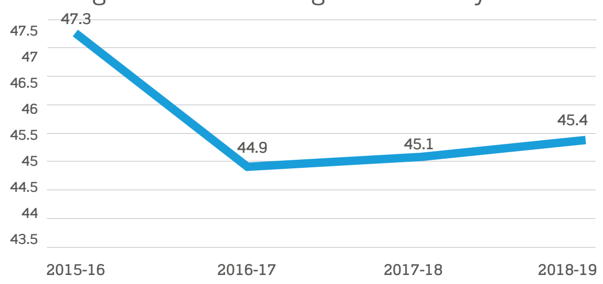
This metric assesses how much of the adjusted assets are funded by debt and the degree of dependence on debt finance. It is a key indicator of a housing association's appetite for growth.

Metric 3 - Gearing % (2017 - 2018 data)



Our gearing ratio (45%) is slightly higher than our peers, which reflects our ambitious development plans. The significant outlier is Places for People which operates a fairly unique business plan with a higher gearing ratio (80%).

Sovereign Metric 3 - Gearing % trend analysis

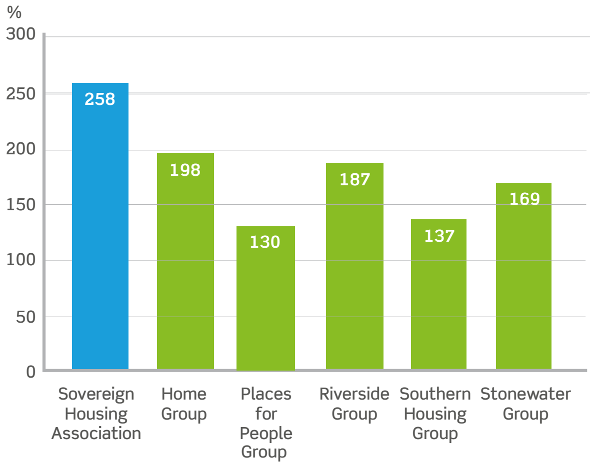


Considering the trend within the Group, the clear direction of travel is increasing investment in development activity, with a focus on more affordable homes.

Metric 4 – Earnings Before Interest, Tax, Depreciation, Amortisation, Major Repairs Included (EBITDA MRI) as % interest

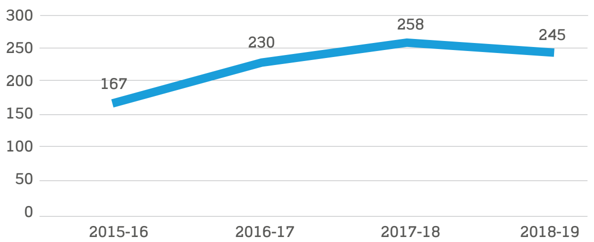
The EBITDA MRI interest cover measure is a key indicator of liquidity and investment capacity. It seeks to measure the level of surplus that a housing association generates against interest payments (the measure avoids any distortions stemming from the depreciation charge).

Metric 4 - EBITDA MRI (as % interest) (2017 - 2018 data)



Sovereign has the highest interest cover of the six organisations at 258%. Places for People, which is by far the mostly highly geared and has a lower overall margin, reported the lowest interest cover at 130%. This metric means that we have the greatest capacity to service more debt, which will enable us to achieve our ambitious growth plans.

Sovereign Metric 4 - EBITDA MRI (%)

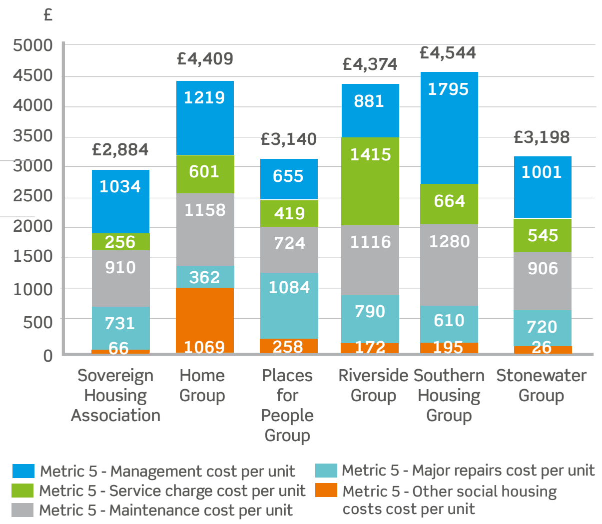


The trend in interest cover shows a fall from the prior year in 2018/19 of 13%, reflecting our renewed investment in technology and people, following completion of the merger integration work.

Metric 5 – Cost Per Unit (£)

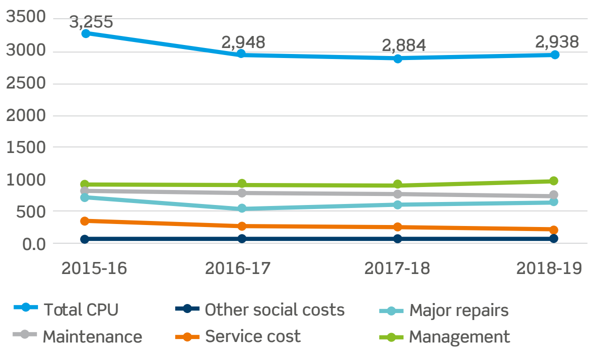
The unit cost metric assesses the headline social housing cost per unit as defined by the Regulator. We have also analysed the unit cost per unit into its six constituent parts.

Metric 5 - Cost Per Unit (£)



This metric shows that Sovereign has the lowest headline social housing cost per unit of the six organisations benchmarked, at £2,884 per unit. However, Home, Riverside and Stonewater, which have significantly higher unit costs, have a far greater proportion of care and supported housing accommodation. Southern, which also has a significantly higher unit cost figure, has a sizeable proportion of its operations in London, which brings a higher cost base. Nonetheless, this metric demonstrates our commitment to delivering good value services to our residents.

Cost Per Unit (£) Trend analysis

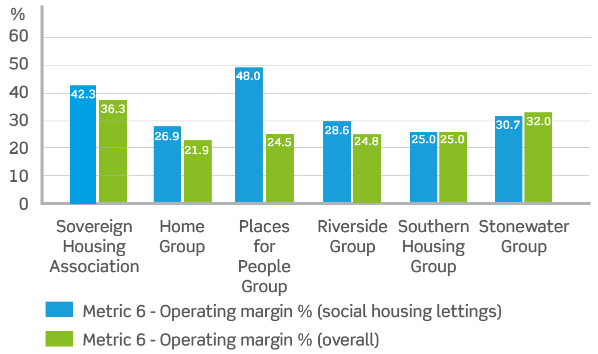


The group trend in the headline social housing cost per unit shows a decrease in total unit costs from £3,255 in 2015/16 to £2,938 in 2018/19. This is a reduction of £317 per unit over the last four years (9.7%). This is a significant achievement.

Metric 6 – Operating margin %

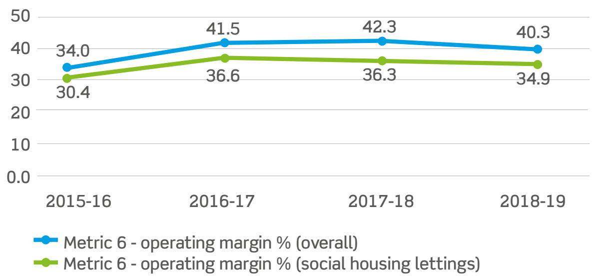
The operating margin demonstrates the profitability of operating assets before exceptional expenses are taken into account. Increasing margins are one way to improve the financial efficiency of a business. In assessing this ratio, it is important that consideration is given to registered providers' purpose and objectives (including their social objectives). Further consideration should also be given to specialist providers who tend to have lower margins than average.

Metric 6 - Operating margin (%) (2017 - 2018 data)



Only Places for People has a higher operating margin (48%) than Sovereign (42.3%) amongst its peers, which demonstrates our efficient operating model. However, it should be remembered that Home, Riverside and Stonewater have a far greater proportion of care and supported housing stock which typically generate lower margins.

Metric 6 - Operating margin (%) trend analysis



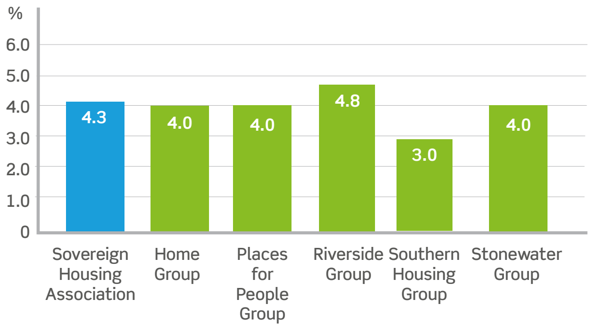
Sovereign witnessed a slight downward trend in overall operating margin in the last year, largely due to the impact of the 1% rent reduction, partially mitigated by healthy shared ownership and outright sales profits and cost-saving efficiencies.

Metric 7 – Return on capital employed (ROCE)

This metric compares operating surplus to total assets, less current liabilities and is a common measure in the commercial sector to assess the efficient investment of capital resources.

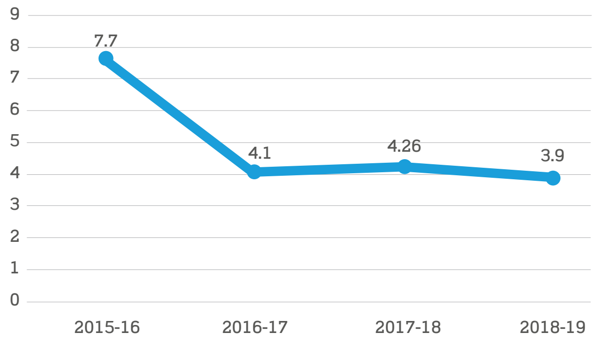
Metric 7 - Return on capital employed (ROCE) %

(2017 - 2018 data)



Sovereign scores around the average for ROCE at 4.3%, bettered only by Riverside at 4.8% - Southern was the lowest at 3%. Sovereign's high score is a reflection of our higher operating margins, lower costs per unit and relatively higher reinvestment rates.

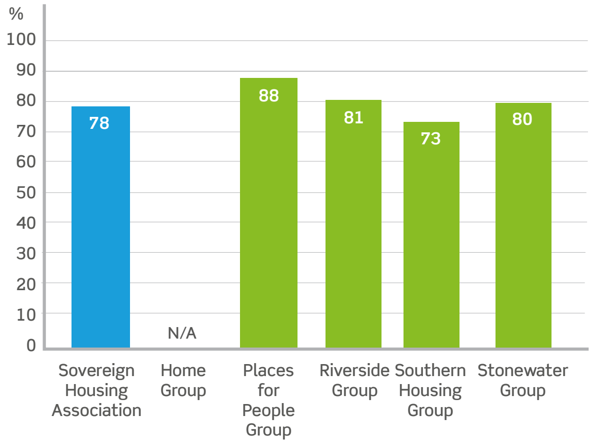
Metric 7 - Return on capital employed (ROCE) %



Sovereign is showing a reduction in ROCE over the last year, again resulting from the continued 1% reduction in income.

Sector scorecard, outcomes delivered – customer satisfaction (%)

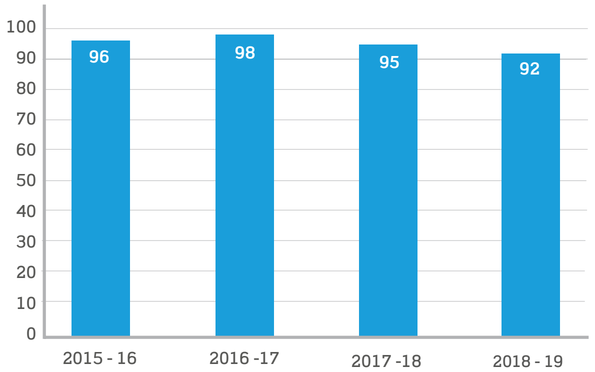
Customer satisfaction - STAR % (2017 - 2018 data)



Data was unavailable for Home Group. Sovereign performed a little behind our peers on average in 2018. This is attributed to upheaval and internal focus on integration following the merger.

We have not carried out STAR surveys consistently in the past, although this is an activity we intend to pursue in future.

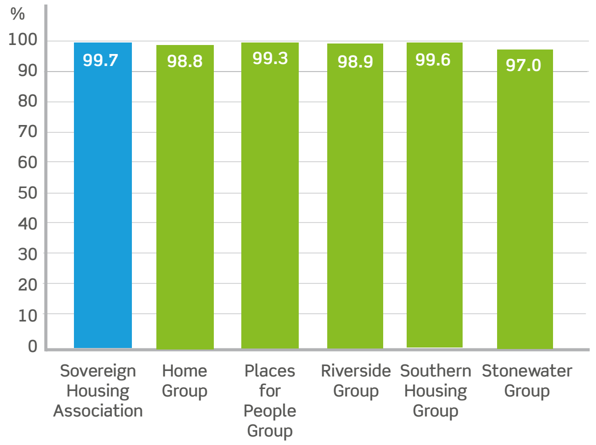
Customer satisfaction % - Repairs



The trend graph above represents customer satisfaction on our repairs service. These excellent results demonstrate how Sovereign Response (now Sovereign), our in-house repairs and maintenance service, delivered a cost effective, quality service to our residents.

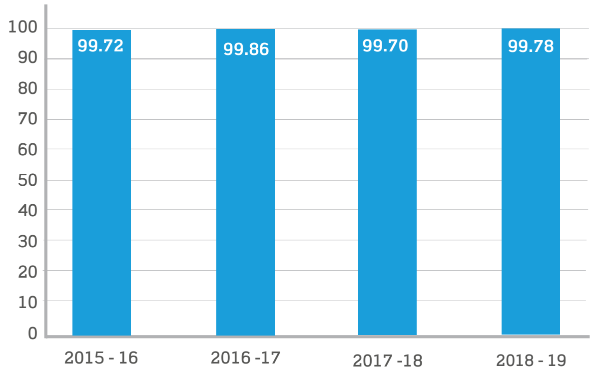
Sector scorecard, effective asset management – occupancy (%) (2017 - 2018 data)

Occupancy %



Sovereign had the highest occupancy rate, close to full occupancy at 99.7% which is higher even than London-based Southern. Stonewater had the lowest occupancy rate at 97%. This metric illustrates our commitment to disciplined asset management.

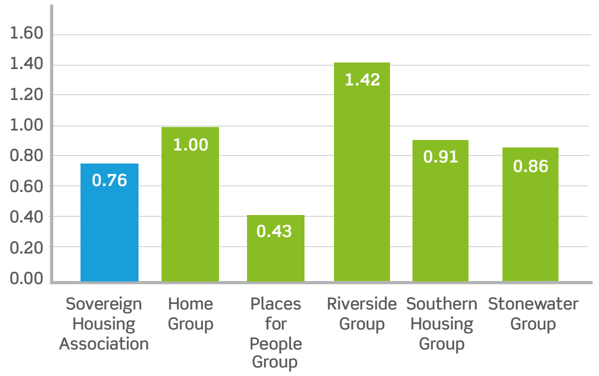
Occupancy (%) Trend analysis



Considering the trend, Sovereign has kept occupancy levels consistently high, year-on-year.

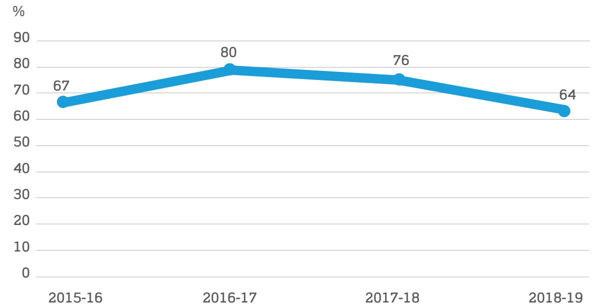
Sector scorecard, effective asset management – ratio of responsive repairs to planned maintenance

Ratio of responsive repairs to planned maintenance (2017 - 2018 data)



Sovereign scored the second lowest for the ratio (0.76) with only Places for People having a lower ratio (0.43) – Riverside had the highest ratio (1.42). This reflects the fact that both Sovereign and Places for People had low headline costs per unit. In contrast, Riverside had amongst the highest headline cost per unit and the highest ratio of responsive repairs to planned maintenance (1.42).

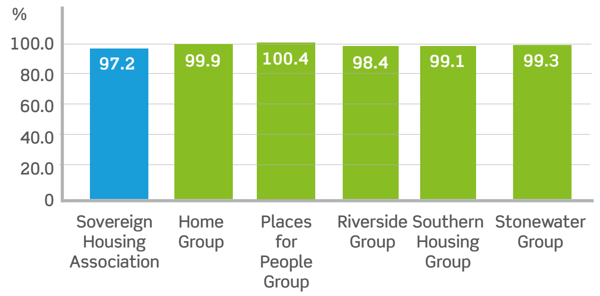
Ratio of responsive repairs to planned maintenance Trend analysis



Considering the group trend, we are driving a disciplined asset management strategy, investing in existing stock efficiently to drive down responsive repairs.

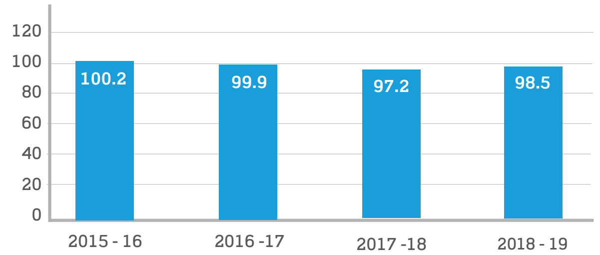
Sector scorecard, operating efficiencies – rent collected (%)

Rent collected % (2017 - 2018 data)



At 97.2% in 2017/18, Sovereign had the lowest rent collection rate. However, while we have recognised this is an area of focus, this is due to Sovereign's consistently low arrears, which stand at just 2%.

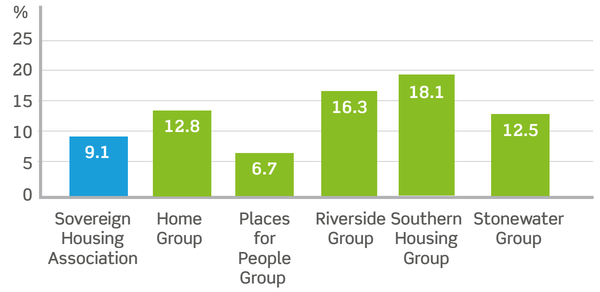
Rent collection (%) Trend analysis



Following a concerted effort, our rent collection rates have increased 1.3% in 2018/19. This will remain an area for improvement.

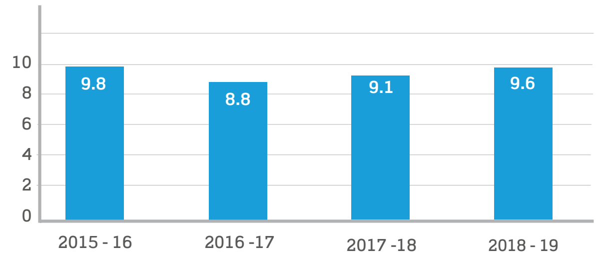
Sector scorecard, operating efficiencies – overheads as % of adjusted turnover (%)

(2017 - 2018 data)



Sovereign scored the second lowest for this ratio (9.1%) with only Places for People having a lower percentage (6.7%) – Southern was the highest (18.1%). A figure anywhere between 10 – 15% of adjusted turnover tends to be regarded as normal for the housing association sector. So this metric demonstrates clearly Sovereign's efficiency in this area, with overhead expenditure kept well under control.

Overhead as % Adjusted Turnover
Trend analysis



Considering the Group trend, there has been an increase in overheads latterly, arising from post-merger investment activity in technology and employees. Sovereign overheads remain lower than our peers despite this increase.

GREAT LANDLORD, WITH RESIDENTS AT THE HEART

> Our core mission is to be a leading landlord, providing great services to our residents and customers. This means really listening to and acting upon the home truths and feedback that come our way.

A MODERN, CONNECTED BUSINESS

We are on our way to providing a great customer experience all day, every day, by investing in and modernising our services to provide a better, more personalised service. Investing in new technology will free up time so we can focus on those who may need a little extra face-to-face support.

We implemented a new and enhanced housing platform, ActiveH, in summer 2018 and we plan to implement a new CRM (Customer Relationship Management) system this year. Employees across the business will have all the information they need at their fingertips, to solve problems first time and provide a great customer experience.

Meanwhile, our digital approach to lettings continues to make life easier for new residents and help us to save time, money and the environment.

Our new contact centre platform supported teams in answering and effectively managing more than 550,000 calls and 93,000 emails last year. Social media continues to be a popular way of doing business with us and our dedicated social media team handled more than 46,000 contacts throughout 2018, nearly twice as many as the previous year. Using social media is quick, with responses in around half an hour, and enables residents to send us photos of issues, which helps to find the right tradespeople to resolve problems more quickly.

The MySovereign customer portal also continues to grow. This easy-to-access personalised site gives our residents the flexibility to book and cancel appointments from the comfort of their home, as well as reporting issues and completing straightforward transactions. More than 12,000 residents are using MySovereign, with more than 79,000 actions carried out online by customers in 2018/19.

SECTOR-LEADING PERFORMERS

We have high-performing housing teams, providing sector-leading services to residents.

Our housing teams are also transforming how they work and helping to reshape services around our residents' needs. We're evolving the traditional housing model, moving towards 'patchless working', so that simple cases can be sorted quickly and officers can focus on resolving complex neighbourhood issues.

We managed 2,782 relets last year in a record average time of 14.5 days (2018: 16.9 days), delivered in partnership between housing and property teams. As well as maximising the value of a property – our void loss was just 0.59% (2018: 0.54%) - it also means places are turned around so residents can move into their new homes sooner.

This year, we achieved rent arrears of 2% on our 45,000 social and affordable rent properties compared with 1.8% last year. With focused support in place, arrears for those impacted by the move to Universal Credit averaged 6.2% - which is around half the arrears being seen across the country.

IT'S ALL ABOUT PEOPLE

While the majority of our homes are meeting general needs, we also provide specialist housing for those that require it.

Through our schemes for older people, we work hard to tackle isolation and loneliness, forging long-term relationships with schools, colleges and community groups to bring people together.

We also want to provide homes and services for the long-term, so last year we began funding our services for housing for older people ourselves, replacing investment from central or local government that has decreased over the years.

We also offer more than 1,600 safe and secure homes for key workers, such as nurses, teachers, police officers and fire fighters. With sites including Reading, Southampton and Leicester, we received a 97% customer satisfaction rate and completed 6,386 relets.

Giving refuge for those fleeing domestic abuse, including a unique service in Dorset for those unable to access traditional safe places is extremely important to us. This includes men, women with teenage boys, LGBTQ+ couples and couples fleeing honour-based violence.

We want to be there for those without a home, too. In Basingstoke, we provide temporary homelessness accommodation and services at the Joshua Tree and Oakley Lodge. These homes not only help those in urgent need of a home, but also reduce the need for the local authority to use bed and breakfast accommodation.

On the Isle of Wight, The Foyer offers a home and support for young people coming out of care. Last year, we helped 161 young people, with many moving on into further education, full-time work or into apprenticeships.

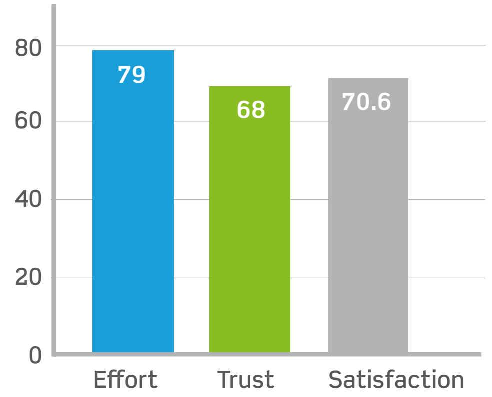
Further underlining our commitment to tackle homelessness, we've also signed up to the Commitment to Refer and, working in partnership with local authorities and specialist support agencies, we're trialling Housing First approaches in some of our communities, providing a secure and safe place to call home, to those who need it most.

LEADING CUSTOMER SERVICES

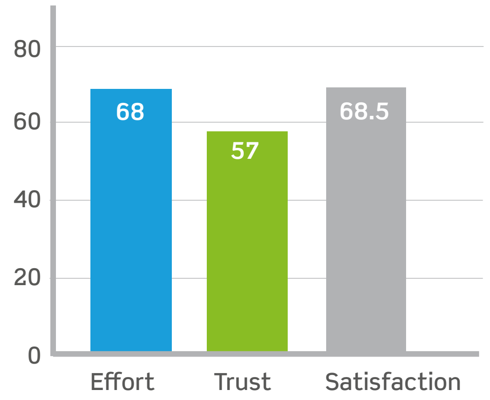
We want doing business with us to be as easy as possible, and the services we provide to be the best they can be. We don't truly know if we've been successful unless we ask - and then listen to - answers from our residents and customers. Therefore, we seek feedback regularly, across a range of channels, as well as conducting our in-depth, resident-led scrutiny work.

RESIDENT SATISFACTION

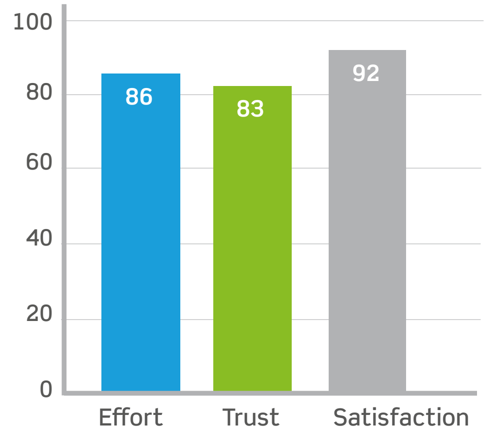
Anti-social behaviour



Complaints



Repairs



A high score shows less effort.

CO-CREATING SOLUTIONS

We're committed to being open and transparent, making sure residents have easy access to the information they need.

Our award-winning approach to resident engagement, based on a 'triangle of engagement', cements the resident voice into Sovereign's governance, scrutiny and community engagement. It means the business can listen and act as residents influence our strategy, scrutinise our services and retain a local focus.

COMMUNITY ENGAGEMENT GROUPS

These groups support the communities where we have homes, with the aim of becoming self-sustaining after three years. From groups that help people address health concerns, to meetings for those wanting to learn to cook healthy food on a budget, our staggered funding programme promotes togetherness and pride in Sovereign communities.

We're also supporting the National Housing Federation's Together with Tenants approach, which aims to build trust and rebalance the relationship between housing associations and their residents and tenants. This includes a charter, which we'll co-create with our residents to make sure we're delivering a great service, openly.

FLOURISHING NEIGHBOURHOODS

To be a great landlord, our services do not stop at the front door. We invest in local areas through our estate improvement fund, and work with police to tackle anti-social behaviour. We offer mediation services and work hard to bring people together through local community action. And while we do not want to evict people from their homes, we will take strong action on any criminal activity.

We are committed to safeguarding residents and their families, working with other local and specialist agencies should we spot any potential signs of domestic or economic abuse, county lines activity or 'cuckooing'. We've introduced 'victim of modern slavery' into our tenancy agreements, so that if people feel they need to make a move they can do so safely and without fear.

RESIDENT AND BOARD PARTNERSHIP

Working with our Board, residents can influence strategy, shape policy, service standards and have oversight of service quality and performance.

- OVER **300** HOURS volunteering from **RBP members**
- **10** POLICIES, STANDARDS and STATEMENTS **reviewed**
- **14** HOUSING TOPICS including homelessness DISCUSSED and REFLECTED ON
- **10** MP events, HOUSING CONFERENCES and RESEARCH MEETINGS

SCRUTINY COORDINATION GROUP

Residents agree, commission and carry out in-depth reviews to make sure we're providing quality, value for money services and a great customer experience.

- OVER **300** HOURS volunteering from **SCG members**
- OVER **120** HOURS volunteering from **Scrutineers**
- **80** RESIDENTS **SPOKEN TO** during SCRUTINIES
- **45** EMPLOYEES **SPOKEN TO** during SCRUTINIES

WE MAKE HOMES POSSIBLE

We have ambitious plans to build the homes we need. Last year, we built 1,543 new homes – that's nearly 30% more than the year before. But we remain focused on our core purpose, with nine out of ten of those new homes being affordable, either to rent or buy.

639	530	241	70	63
AFFORDABLE RENT	SHARED OWNERSHIP	SOCIAL RENT	OPEN MARKET SALES	JOINT VENTURE SALES

BUILDING PLACES FOR PEOPLE

We already deliver one of the largest development programmes in the sector, but we want to do more.

As part of our new strategy, we are taking greater control, through a more land-led approach. By 2024, we intend to deliver half of all new homes ourselves, with the other half coming through Section 106 agreements with housebuilders. That's around 1,900 new homes a year.

This means we'll need to think more holistically about the sites we're developing, considering the long-term impact of the homes and neighbourhoods we build and manage. We'll consider design, environment and sustainability, as well as building diverse, successful, communities.

WORKING TOGETHER

Although we want to rebalance our programme, we'll need to continue to work in partnership to build the homes we need.

As part of this approach we strengthened our development team to enable us to begin to begin negotiations for land in our own right and enter into Joint Ventures with other developers. We already have good relationships with local authority partners, working together to solve local housing needs and offer a quality, long-term management service.

In West Berkshire and in Harry Stoke, Bristol our shared objectives have led to the creation of formal Joint Ventures, allowing us to build more homes, more quickly, by sharing land, investment and risk.

Across the south west, and in particular in the West of England, our Strategic Partnership with Homes England, which included £112m of government investment, means we are working with local authority partners to increase the supply of new affordable homes where it's needed most.

BUILDING GREEN AND BEAUTIFUL

As we take control, we can have more influence over the design and the sustainability of our new homes.

In rural Oxfordshire, one of the least affordable places in the country, we recently completed 15 new affordable homes at Kings Farm, Longcot. The homes included hemp-lime and wood fibre insulation panels which were built off-site and assembled in a matter of weeks, providing exceptional levels of thermal performance.

Direct delivery

Mount Pleasant Farm, Longwell Green, Bristol

A complicated land assembly to acquire 67 acres of farmland in three lots. Of this, four acres have been developed for 70 dwellings - 42 have successfully sold for outright sale and 28 are affordable.

The remaining land has potential for future development.

Asset management

Basingstoke opportunities

Following a review of combined assets, we successfully acquired land from Basingstoke and Deane Borough Council to combine with our own land holdings, developing a self-funded affordable housing project for 12 dwellings at May Street. Following the success of this initiative, a further site has been identified at Paddock Road in the town, working once more with the Local Authority.

Joint Venture

Crest Nicholson, Harry Stoke, Bristol

A £229m Joint Venture (JV) with Crest Nicholson will deliver 920 new homes within the next phase of a 2,700 home new residential community at Harry Stoke, Bristol.

We've committed to pre-purchasing 376 homes, meaning that 42% of the development will be affordable or intermediate homes available for shared ownership or to rent.

Section 106

Tadpole Farm, Swindon

We're now on the tenth phase of this attractive village garden extension to Swindon. With over 260 homes delivered through Section 106 agreements and a smaller number secured with funding from Homes England through our Strategic Partnership, we're the major landlord at this site.

The scheme will ultimately deliver 2,000 homes along with a 40-hectare nature reserve. The classic and contemporary houses sit well amongst the village facilities of allotments, cricket square and local pub.

Private rent

Wapping Wharf

We've entered a £21.9m contract on the second phase of this waterfront development, to deliver a further 44 apartments for market rent, along with 49 for shared ownership.

We already have 55 apartments from the first phase, which are fully occupied. Development is progressing well and there's considerable interest from customers keen to buy, or live in, what will be another landmark building in Bristol.

WE TAKE PRIDE IN OUR HOMES

> We know that the quality of a home can affect every aspect of a person's life. We've been changing how we work, thinking differently and increasing investment so that our residents can be even prouder of where they live.

HOMES TO BE PROUD OF

Last year, we invested £93m in taking care of our homes. This included £17m of capital investment on improvements such as kitchens, bathrooms, heating, boilers and roof replacements. This means we installed 5,000 new doors, windows and boilers last year. And we're there when things go wrong too, completing over 190,000 responsive repairs at an average cost of £127 per job.

Customer satisfaction for our repairs service at the end of March was 92%, along with excellent average scores out of 10 for 'customer trust' and 'ease of reporting repairs'.

92%
OVERALL SATISFACTION

8.6
OVERALL EASE

8.3
OVERALL TRUST

SAFETY FIRST

Keeping our residents safe is our top priority. Since the tragedy at Grenfell Tower, we have bolstered our in-house safety and compliance team, giving us greater oversight of all our homes.

Sovereign owns or manages homes in just six buildings of 10 storeys and above and another 28 which are six to nine storeys tall.

We've reviewed all of them to confirm that none has the Aluminium Composite Material (ACM) cladding like that used on Grenfell Tower.

We've also completed almost 600 Fire Risk Assessments and closed more than 1,700 fire safety actions or checks, as well as looking at the compartmentation of our blocks. Our Board's agreed a sprinkler strategy and we're identifying which sites might most benefit from the retrofitting of this fire prevention method. They're already in place at Holes Bay, a new taller building under construction in Poole, as part of a revised specification.

To successfully manage risk, we also need to work with our residents and neighbours. Within the next year, we'll be rolling out an Annual Home Safety Check to make the process of keeping our homes safe, easier.

As part of our regular inspections, we've also visited 37,000 properties and delivered 100% of our homes with a valid gas safety compliance record. Our accelerated electrical testing programme has seen compliance increase by 20%, with 91% of our properties with an in-date electrical condition inspection.

When considering our residents' safety we've also ensured that 100% of offices and communal areas have had asbestos surveys where required and 100% of our passenger communal lifts have either been inspected or isolated to make them safe.

Our efforts have been recognised by Royal Society for the Prevention of Accidents (RoSPA), which gave us a Silver award in recognition of our health and safety management systems, including practices such as leadership and workforce involvement.

THE BEST SERVICES, IN-HOUSE

Investing in our skilled and dedicated property teams is a priority, as we deliver the services that our residents really want to see.

As we transform, the new operating model will set the following goals:

- Customer-centric: To be our customers' most trusted service provider.
- Consistent: To provide a consistent service wherever you live.
- Patch management: To be accountable for day-to-day delivery, focused at patch level, overseen by an Area Manager.
- Scalable: To be able to grow and adapt in the future.
- People: To create opportunities for our people to deliver and develop.
- Time: To make time for what's important, with the right resources at the right level to deliver our business as usual and change.
- Clarity: To have clear roles and accountabilities, so everyone understands where they contribute and how they can work with colleagues.

To drive forward this transformation and customer-focused approach, we decided to bring all our property services under a single brand, Sovereign. This replaced Sovereign Response and Spectrum Property Care (SPC).

As we really focus on the services we deliver for our residents and in our homes, we are closing all external contracts delivered by SPC by the end of 2019. Having successfully insourced our kitchen and bathroom programmes and mobilised a new in-house delivery team we also insourced our gas servicing and maintenance delivery, which is now overseen by a single, centrally-managed team.

In addition, we successfully restructured the property operations management teams. This brings our operations team together into a consistent management structure, which we'll be embedding over the next year.

We also continue to invest in and consolidate our property and asset management systems. These improvements will reduce the time our customer contact team needs to book repairs, as well as give teams a clear view of the customer and the property.

FIT FOR THE FUTURE

Many of our homes are more than fifty years old, and we need to think about how we take care of the homes that will be standing in another fifty years' time. So we're pledging that all our homes will be rated 'C' or above on environmental performance by 2035 to meet government targets.

In 2018, this meant making the most of Southern Gas Network's 'Help to Heat' initiative to fund gas supply connections and replace out-dated electric heaters at more than 350 homes. It also meant using Warmer Homes Funding, which matched our own investment, to install air source heat pumps at 150 rural homes that were not on the gas grid. And it means continuing to invest in improving wall and cavity insulation, using environmentally materials like hemp and lime.

We completed a pilot of smart boilers in 2018/19, which we'll now roll out to 100 homes across the next year. This means we can see why a boiler has failed, or even catch it before it does, so we can keep our homes warm. We believe emergency and communal lighting that can be remotely monitored will bring similar benefits, and a trial is currently underway at four locations.

Smart technology relies on a strong and reliable internet connection, so we are considering community fibre projects, alongside other methods, that would ensure every property has a suitable internet connection. This is vital if we are to achieve our 'Connected Home' aspirations.

WE'RE COMMUNITY BUILDERS

We are more than a landlord - we want to build communities for the long-term. This is why we're trebling our investment to £3m a year so we can help our residents and communities really go places.

SUCCEEDING TOGETHER

We focus our efforts and investment where they're needed most. This includes the places where we have the most homes and the deepest roots in the community. But it also means working with new communities, bringing people together as new estates come to life.

This means getting out into the community to build connections. We delivered 143 projects last year, which involved 2,235 people - up from 1,711 last year.

We want to help people achieve their goals, today and tomorrow, so we worked with 23 schools last year to build aspiration and attainment in the next generation. From funding iPads and teaching assistants to attending dozens of careers days, designed to boost understanding of the social housing sector and increase aspiration among children who might well be potential future employees, working with students is an essential part of our growth.

And as part of our 'triangle of engagement', we supported residents to create their own groups to spark social action within their communities. This includes seed funding, training and support - but we ask that these groups are set up for the benefit of the whole community.

Nine Community Engagement Groups, made up of 69 Sovereign residents and 48 other members of the community, are up and running, each with their own unique aims.

Over three years, these groups can access £9,000 in funding from Sovereign to organise events or carry out awareness campaigns. Ideas carried forward have included groups to reduce social isolation and increase fitness, litterpicking, speed awareness campaigns and more.

On top of that, we also invest in making sure our estates are great places, from playground improvements to estate investments, we spent more than £272,000 last year brightening communal gardens, installing safety features like speed bumps and hand rails, and revamping slides and swings.

COMMON GROUND, FARINGDON, OXFORDSHIRE

Common Ground aims to bring the town of Faringdon together to enjoy outdoor space and improve the appearance of the town. A recent project saw the group refurbish the flower beds at Faringdon Infant School, which will instead be used by the school and its pupils to grow produce.

SMILES MATTER, SPEEDWELL, BRISTOL

Smiles Matter's aim is to "create a safer and better place for children and families to grow". They're working in conjunction with an older people's charity, the local community centre and the local children's centre to put on a series of intergenerational events around Speedwell.

REALISING POTENTIAL

We provide a specialist service for those that want to get back into work, push on or change careers. This personalised support is designed to help people set and achieve their own goals, whether that's through CV building or practice interviews, providing refurbished laptops or even helping with the cost of driving lessons.

Last year, 584 residents engaged with the service and 234 residents achieved work or better work, a 10% increase on the previous year. We'll continue to expand this service, creating social value through our own employment and apprenticeship opportunities and through our supply chain, building even closer relationships with the companies we work with, asking them to share our values.

ADAPTING TO UNIVERSAL CREDIT

For some, the challenge of moving to Universal Credit means they need to make a change.

Our team took a proactive approach in 2018/19, contacting each affected resident to offer support with their claim if they wanted it and 'triaging' cases where help was needed. In this way, we supported residents through lapses in cash-flow or delays in payments.

With nearly 9% of Sovereign arrears being down to issues with Universal Credit, keeping these channels of communication open, and letting residents know that we're here to support them is extremely important.

We continue to work with the Department for Work & Pensions and local Job Centres to both help smooth the roll-out and influence the process to make it work for everyone.

MEASURING THE SOCIAL VALUE OF OUR HOMES

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

In 2019, Sovereign's social value by this measure was £153.5m (2018: £146m) showing that we continue to create direct savings of £64.2m for the public purse and £89.3m in terms of putting extra cash into our residents' hands, for day-to-day essentials and flow-through into local economies.

143
PROJECTS

234
RESIDENTS ACHIEVED WORK OR BETTER WORK

584
RESIDENTS ENGAGED WITH THE EMPLOYMENT AND TRAINING SERVICE

WE'RE INSPIRING PEOPLE

We want to be known as a great place to work, with inspiring people who make the difference for residents, customers and each other, every day.

THE BEST PEOPLE

We want to develop and engage with our employees, wherever they work, so they do the best job they can. This means investing in their future, whether that's via our bespoke, Chartered Institute of Housing-accredited housing training, our in-house Aspire management training or our award-winning apprenticeship programmes.

It also means valuing and rewarding employees for their successes. We are rolling out a new approach to reward in 2019 that will empower managers to reward their own teams, while linking organisational and individual successes.

We're also proud of our Investors in People gold standard accreditation, but we want to go from being a good employer to a great one over the coming years. While our salaries are competitive in the market, our median pay gap this year in favour of males was 7.4%. This means there's work to do, but we continue to compare well on both a national and sector basis.

The gap reflects the gender representation across the business, as we have a higher proportion of females in the lower pay band. As well as our annual pay and grading review, we are working to ensure there are no unfair obstacles which could prevent people from applying for - and potentially being appointed to - any position.

THE BEST PLACES

We're changing where and how we work, so we can deliver better services to residents, partners and colleagues.

This means reducing our offices from 22 to around seven over the next few years. Our head office and customer contact teams will be moving to a new home in Basingstoke and work will start on a new, purpose-built operational hub at Greenham, West Berkshire, soon.

The project will continue to look at the best options for delivering our services across our geography and will be announced as soon as possible.

But it's not just about depots and desks, we want to change how we work too. We already have 'patchless working' in housing and dynamic scheduling in property teams, so we can spend more time out in the community, with residents, getting the job done.

Our workplace strategy is designed to foster this more agile approach across the business, supported by technology, while retaining modern offices that will allow crucial face-to-face interaction.

TREASURY MANAGEMENT

The management of treasury is key to ensuring that sufficient facilities are in place to support our strategy, which incorporates a substantial development programme.

Our Treasury Management Policy sets the framework for managing the treasury activities and encompasses strong governance procedures. The Board delegates responsibility for the approval and regular review of the policy to the Treasury Committee.

Treasury strategy is reviewed on an ongoing basis and a documented Treasury Plan is prepared at least annually 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 ten principal commercial lenders together with the European Investment Bank (EIB).

All of Sovereign's bonds and bank debt is secured debt, with security provided by way of charges over housing properties. At 31 March 2019, there were more than 16,000 uncharged properties with a value in excess of £1bn available to be pledged as security. Accordingly, considerable borrowing capacity remains available to support ongoing development.

Subsequent to the year-end, a £250m unsecured revolving credit facility has been put in place with a consortium of five banks, the primary purpose of which is to provide Sovereign with flexibility as to when it should best approach the debt capital markets. This is considered to afford additional liquidity comfort during a period which could prove volatile due to global economic challenges and uncertainty surrounding the UK's proposed exit from the European Union.

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, as has been shown by the recent unsecured facility.

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. There have been no covenant compliance breaches. Future compliance with interest cover and gearing covenants is considered both as part of regular quarterly forecasting and as part of the business planning process.

Following a recent renegotiation of our tightest gearing covenant, our latest business plan reflects considerable headroom in relation to all interest cover and gearing covenants.

LIQUIDITY

Sovereign has a minimum liquidity policy that requires cash and confirmed finance facilities to be in place to cover both committed and approved financing requirements for at least the following 18 months. For added prudence, an element of any forecast sales revenue is excluded for the purposes of this calculation. At 31 March 2019, Sovereign's undrawn loans totalled £370m; we also held £45m in cash. Since the year-end, completion of the £250m unsecured facility has added considerably to the liquidity headroom.

Accordingly, 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.

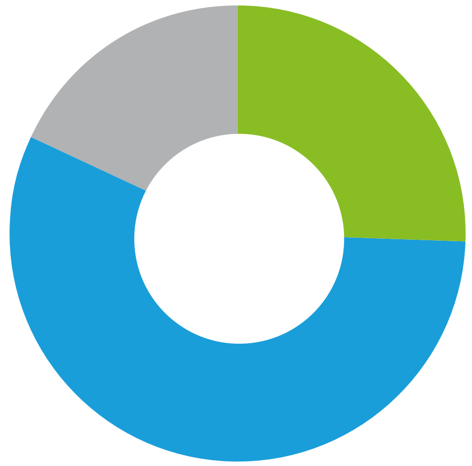
Sovereign's finance facilities have a weighted average term of 14 years with only £154m of Sovereign's total £2,072m finance facilities maturing within the next three years. Counterparty exposure is managed by keeping cash balances low and through retaining available facilities across a number of different funders.

INTEREST RATES

Sovereign's own-name bonds bear interest at fixed rates, as does our various borrowing through The Housing Finance Corporation and Affordable Housing Finance and the initial drawdowns from the European Investment Bank facility. Bank debt is at a combination of fixed and variable rates. Interest rate exposure in relation to the variable rate bank debt is managed through the use of stand-alone interest rate derivatives. The average interest rate payable in the year was 3.9% (2018: 3.9%). Sovereign's annual business plan is stress-tested to ensure it is not unduly exposed to risks associated with interest rate movements and the interest rate hedging strategy is adjusted as considered appropriate. At 31 March 2019, 81% of drawn debt was at fixed rates or at rates fixed through the use of derivative financial instruments.

The value of Sovereign's stand-alone interest rate derivatives is reflected on the balance sheet. At 31 March 2019, the aggregate value of these derivatives was £88m negative (2018: £83m negative), of which the great majority was covered by thresholds or by property security, with only a small requirement for cash security. This increase, notwithstanding regular swap payments made during the year, reflects market expectations of lower average interest rates over the remaining lives of the derivatives.

TOTAL FACILITIES



BONDS £532m
DRAWN BANK DEBT £1,170m
UNDRAWN BANK DEBT £370m

TOTAL £2,072m

MANAGING RISK

Taking risks is an integral part of any business. By carefully balancing our objectives against the risks we are prepared to take, we strive to conduct our operations in a socially responsible and sustainable manner. This approach assists us to effectively achieve our strategic objectives.

Sovereign's profile, as a large, financially robust housing association, is inevitably subject to a range of strategic, operational, financial and compliance risks. Risk management is an integral part of our business processes, supported by a policy which has been refreshed during the year to effectively manage these risks.

As a business, Sovereign's risk management framework is continually evolving and improving. Good risk management also ensures that we exploit any potential opportunities that may present themselves. We are committed to improving and embedding a mature risk culture within Sovereign that helps us to grow and become a more sustainable and efficient business.

OUR APPROACH

Risks present themselves constantly in every area of business. The operating environment for social housing providers, which is shaped by government policy and budget announcements, remains particularly challenging. How we respond to risks and how we prepare for risks is what separates good businesses from great ones.

At Sovereign, we encourage our employees to consider risks within everything we do. It is not an aspect of business that only sits at the top of the organisation with the Board. We ensure that risk management is considered at all levels, through implementation of our strategy, through transformation and projects, and also operationally. The more prepared we are for risks, the more effective and efficient we can be at mitigating them should they arise. Our risk management framework is overseen by the Audit and Risk Committee on behalf of the Sovereign Board.

OUR OBJECTIVES

The basic principles of risk management, aside from our regulatory obligations, are to make Sovereign's operations more effective and efficient, to help inform decision-making and to provide assurance to our Board. This can be split down at strategic and operational levels.

Strategically, the risks we face are in relation to our long-term growth and ambitions, where we want to be and what services we want to be able to deliver in the future. Operationally, the risks we face are the day to day challenges that, collectively, could lead to an impact on our ability to deliver our strategy.

PROGRESS IN THE MANAGEMENT OF RISK

During the financial year we have been working to further enhance Sovereign's risk management framework, with the introduction of a risk controls testing process, aligned to our internal audit plan. Further cohesion between all risk and control functions is being implemented to support an integrated assurance process between the second lines of defence.

We have also reviewed the whole Strategic Risk Register, to ensure that this is a true reflection of the risks we currently face.

OUR RISK APPETITE

Our appetite represents the amount of risk we are willing to take in pursuit of the achievement of our strategic and business objectives.

An important precursor to risk assessments is Sovereign's overall risk appetite, which is defined by the Board. Within the boundaries of that overall risk appetite, business decisions can then be made to ensure that we are only taking on the level of risk that the Board has agreed. Along with the review of the Strategic Risk Register, our Risk Appetite has also been developed to complement this work.

When making a strategic business decision there is a need to understand our attitude to risk, which is dependent on the nature of the area that the decision could impact on. By categorising all of our strategic risks into a number of key risk categories, we are able to determine a risk appetite for each of these areas. As such this will enable us to gauge the level of risk we are willing to pursue or to accept, within our comfort level, before action needs to be taken. We will not expose ourselves to any risk that we believe could have a severe impact on our customers, our employees or our business plan.

EMERGING RISKS – FOCUS ON BREXIT

We have carried out a wide range of stress testing against our business plan, to include both financial and non-financial impacts that could affect Sovereign, including sector/industry specific or politically, economically, socially, technologically, legally or environmentally driven issues. Like many housing associations, we have been closely following the plans to leave the European Union and have carried out extensive modelling using a variety of scenarios involving a 'no-deal Brexit', considering what it could mean for us and the services we provide our residents.

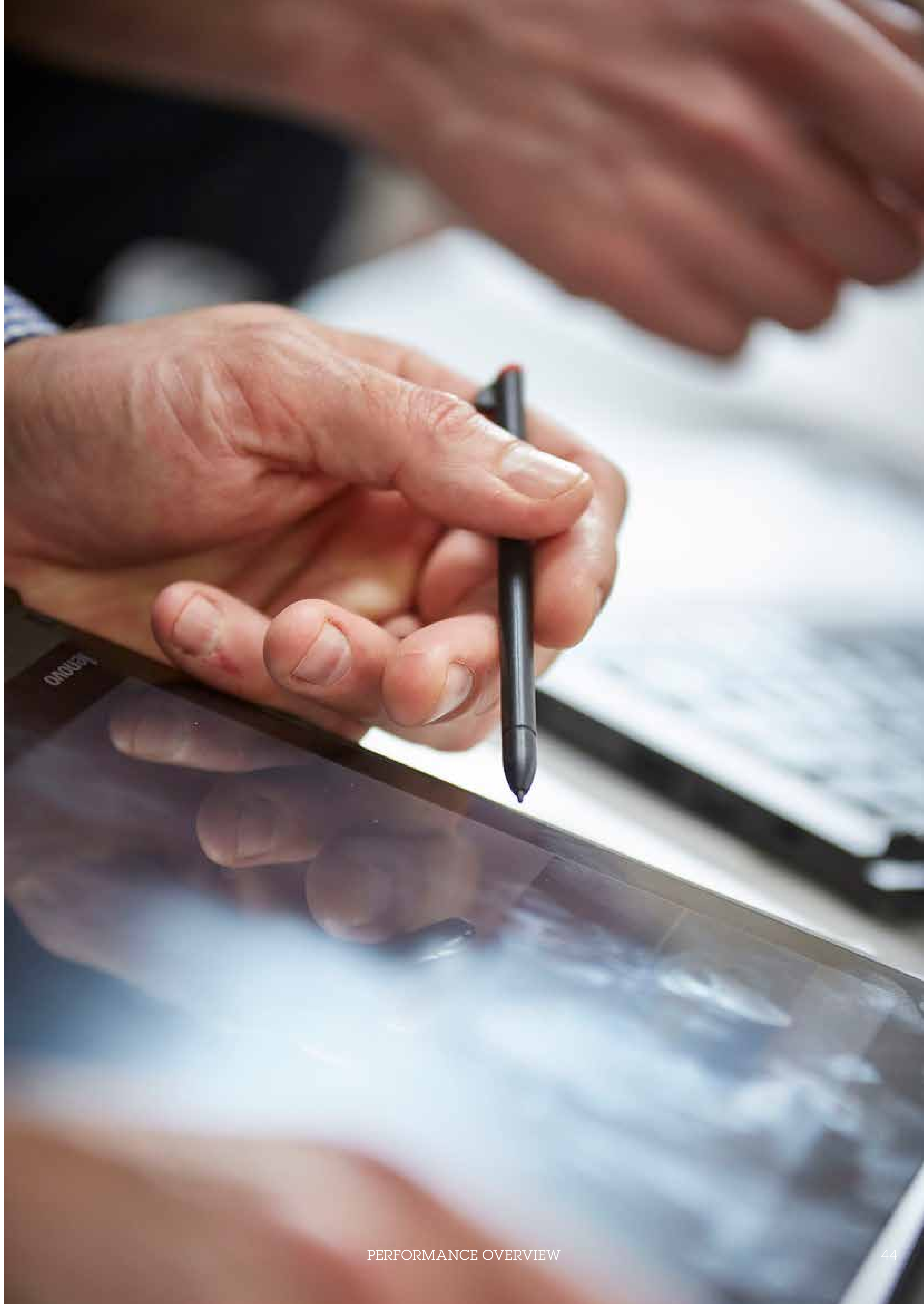
While not complacent, we're starting from a strong financial position and have robust business planning and risk control processes in place. We have already taken action to ensure that we have higher levels of maintenance components, and we are ready to respond to adverse circumstances should they arise. Maintaining a strong financial and operational position will make sure we can continue to provide services, as well as build new homes through an uncertain political and economic climate. We believe we're in a good position to achieve our ambitions, but will continue to monitor and adjust our approach as needed.

NEW APPROACH TO DATA

With the EU General Data Protection Regulation (GDPR) regulation being enforced in May 2018, whereby any data breaches may result in a significant financial penalty, Data Governance and Cyber Security risks have had a heightened focus on the Risk Register. Our mitigation strategy includes making Data Protection e-learning a mandatory requirement for all employees and the introduction of targeted training for high risk areas of Sovereign has also been implemented on a risk-based approach. Ensuring that everyone effectively manages data compliance as a part of their job continues to focus on managing the likelihood of this risk materialising.

In the housing sector we also always need to be conscious of when the next downturn in the housing market will come and given that there hasn't been such activity for a long time, we are keeping a close watching brief on this area.

Risk	Response/comments/mitigations
Financial / Economic shock Sovereign's financial resilience is insufficient to deal with the outcome of any unforeseen economic event	This may involve anything that is outside of Sovereign's control and affecting housing associations or the economy as a whole. There could be a range of impacts as a result that could include an increased cost of funds, decreased revenue streams, or significant changes to legislation, all of which could have a significant effect on our strategy. Being in a position of strong financial viability, and planning for a wide range of stress testing scenarios puts us in a good position to be able to deal with any unforeseen events.
Welfare reform The extent of welfare reforms impacting on our income streams	The impact of welfare reforms can have a significant detrimental impact on our rental income streams. By proactively engaging with our residents in terms of offering support, training and employment opportunities, we can assist with moves to more affordable accommodation and helping with personal budgeting. We also manage the impact by improving our operating efficiencies, seeing how we can better deliver our services whilst exploring alternative income streams.
Treasury management Changes to external funding environment result in funding shortages	Our business model is fundamentally reliant on borrowing, and this level is expected to significantly increase over the next few years in order to fund our significant development programme. Changes in the external environment could result in some sources of funding becoming unavailable, despite us having to commit to models of funding several years in advance.
Employee recruitment and retention Inability to attract and retain talented employees	Regular turnover or the loss of several key employees can have a serious impact on an organisation, whilst not having the right resources in the right place at the right time could lead to difficulties in delivering both business as usual and the strategic objectives. We have an effective Resourcing Strategy, Recognition Strategy and Succession Planning to address this risk.
Data governance Inadequate data governance including the integrity of it and how we manage it	Not having the correct data, or not being able to access the right data at the right time can impact on all areas of Sovereign's strategy and can affect business decisions being made. Breaching data protection legislation can result in serious financial fines. We ensure effective data governance through relevant policies, procedures, data governance groups and employee training.
Cyber security IT systems are not sufficiently secure and resilient	An IT security breach could result in a loss of, or serious damage to, our data, our reputation and our ability to provide our services, as well as financial and legal consequences. A suite of IT security policies and procedures, teamed with appropriate security and encryption helps to mitigate this risk.
Technology platform Sovereign's use of technology doesn't reflect the needs of our residents and employees	We have a heavy reliance on applications and the devices needed in order for them all to run effectively. Being unable to deliver on any of these areas could seriously impact Sovereign's capability to deliver core services and to effectively run the business. As a result we have invested heavily in our core IT infrastructure to ensure our employees have the most appropriate devices and tools to operate effectively, and so our customers can interact with us in more accessible ways.



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.

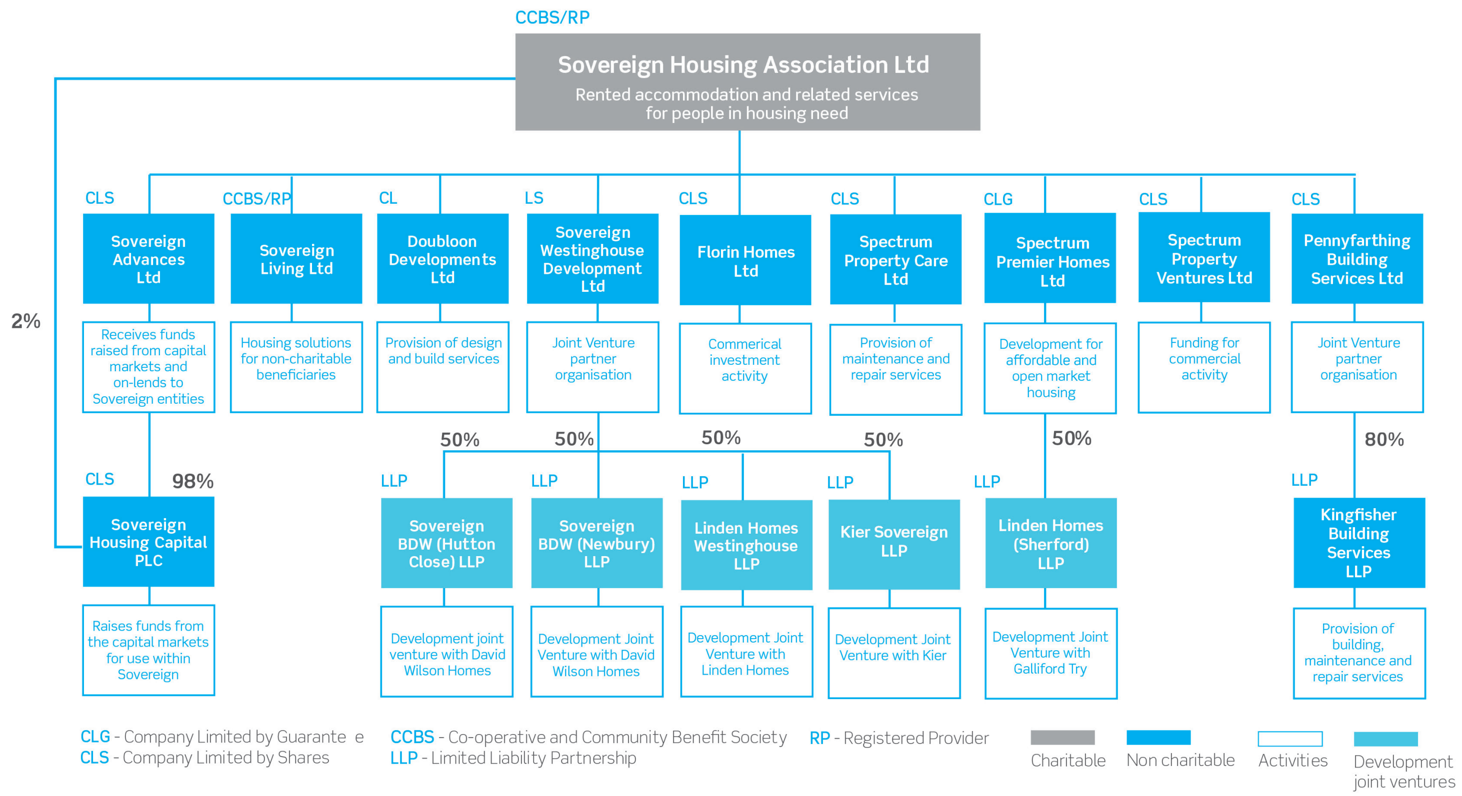
The Board presents its report and audited financial statements for the year ended 31 March 2019. The Board believes that Sovereign is well placed to manage its business risks successfully despite the current economic uncertainties. As a consequence, the Board has a reasonable expectation that it has adequate resources to continue to adopt the going concern basis in preparing the annual financial statements.

GROUP STRUCTURE

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

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

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



ADVISORS AND BOARD MEMBERS

Company Secretary

Claire McKenna ACIS
Registered office
Woodlands
90 Bartholomew Street
Newbury
Berkshire RG14 5EE

External auditor

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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

BOARD MEMBERS AS OF JULY 2019

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

Stuart Laird (Vice Chair)
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.

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

Lee Bambridge (Chair of Treasury Committee)
Joined 2013
Chief Risk Officer at Newbury Building Society, Lee is a chartered accountant and corporate treasurer. He previously worked in the aerospace industry.

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

Angela Williams (Chair of Remuneration Committee)
Joined 2017
Angela has extensive experience as a Non-Executive Director over 10 years, including within the housing sector, and an Executive Director across a range of organisations both in the UK and globally over the past 20 years

Christine Turner
Joined 2010
Christine has over 35 years' experience in senior executive and non-executive roles in the social housing sector, including as board chair, a group deputy CEO in a top 20 housing association and as a consultant to a major private sector developer. Christine champions customer involvement and standards of service and provides the Board 'link' to the Resident and Board Partnership.

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

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

John Weguelin
Joined December 2018
Experienced executive and non-executive with over 30 years in financial services and eight years in housing. Expertise in banking, capital markets, strategy development and execution, business transformation, people management, cultural change, mergers and acquisitions, regulation, governance and risk management.

Mark Washer (Chief Executive)
Appointed June 2018
Former Chief Financial Officer for Clarion, Mark was appointed as Sovereign's CEO in June 2018. Mark has worked in the housing sector for 25 years and was, until recently, the Vice Chair of the National Housing Federation.

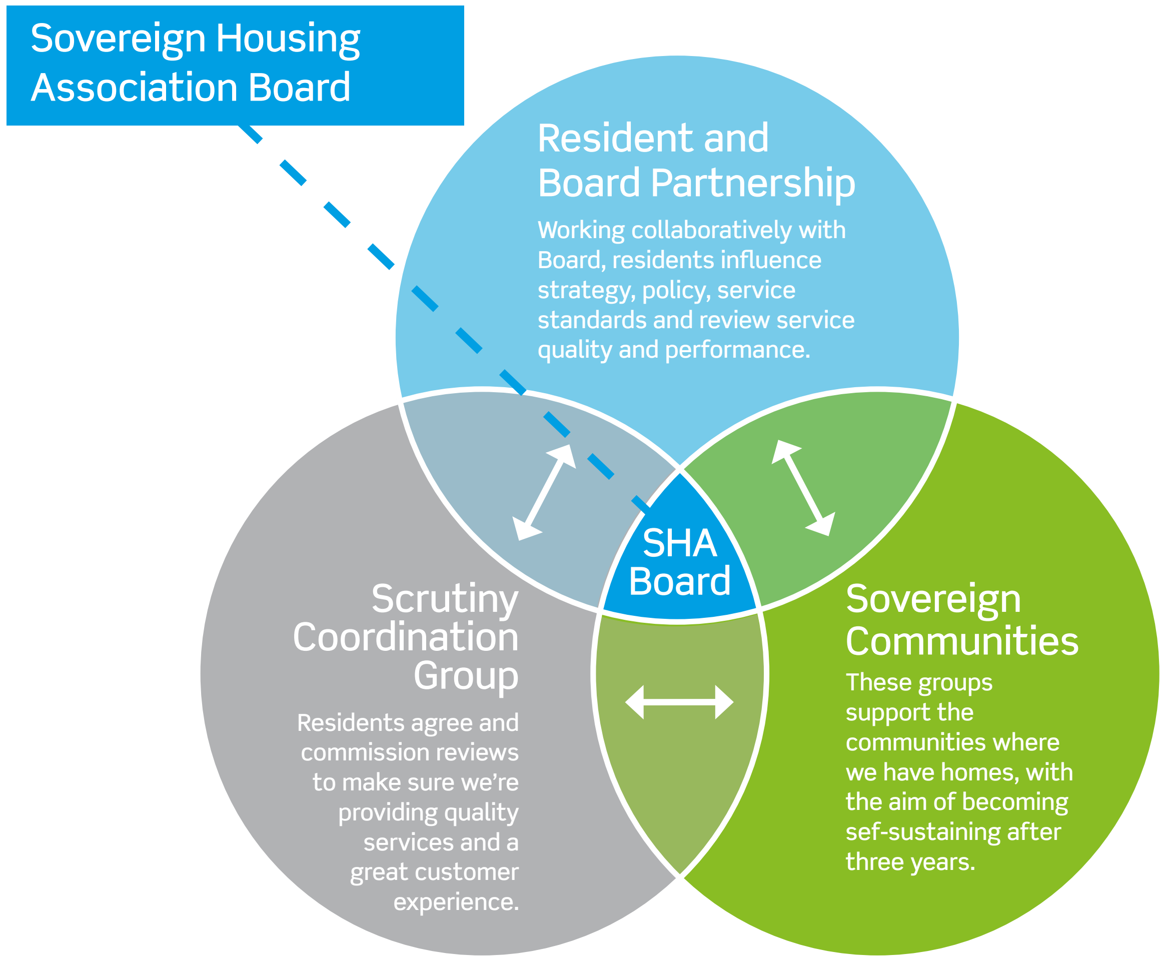
Barry Nethercott (Chief Financial Officer)
Joined January 2019
Sovereign's Chief Financial Officer, Barry brings experience from both commercial and charitable sectors and was Chief Financial Officer at Network Housing Ltd before joining Sovereign.

BOARD RESPONSIBILITIES AND GOVERNANCE

GOVERNANCE FRAMEWORK

As well as a broad range of skills and experience, the Board's decisions are informed by the expertise and scrutiny from its supporting committee structure. This is further enhanced by the challenge and insights from its resident engagement structure - the 'triangle of engagement' - linking most closely with the Resident and Board Partnership.

The structure was first created in 2017 and focused on three key components – the Resident and Board Partnership, the Scrutiny Coordination Group and Community Engagement Groups - and has seen exceptional levels of interest from both within Sovereign and the wider housing sector, being considered a model of excellence.



RESIDENT ENGAGEMENT

Building upon our award winning 'triangle of engagement' approach we have embedded all three parts of our engagement model across the business, ensuring it is core to everything we do.

Key highlights of the work all three aspects of the triangle have achieved this year, include:

RESIDENT BOARD PARTNERSHIP

The Partnership has been instrumental in working closely with the National Housing Federation (NHF) in providing feedback to the Together with Tenants Charter and is also an early adopter to the Charter.

The Chair of the Partnership Joyce Ward was successful in becoming a member of the national advisory panel for the NHF, in line with the Tenants Together initiative, one of only nine in the whole country.

Joyce Ward, Chair of the Resident and Board Partnership

"We're all committed to ensuring the voices of residents are heard and that they receive great services from Sovereign. It's about building a team: the Board, residents and employees agreeing a shared vision for the future. It's a genuine partnership, where residents and Sovereign are working together to make things better for everyone."

SCRUTINY COORDINATION GROUP

The Scrutiny Coordination Group (SCG) have worked closely with resident scrutineers to review our services. Over the past year the SCG have carried out two scrutiny reviews, one in lettings and one in multiple contacts, with another one currently underway in complaints.

During this time, the SCG and Scrutineers have achieved more than 420 hours of volunteering and during their work have spoken with 80 residents and 45 employees to gain valuable insights and information.

Paula Grebot, Chair of the Scrutiny Coordination Group

"It's great to be able to review how Sovereign works at such a detailed level. It does take a lot of time and effort to do these scrutiny reviews but our Scrutineers and SCG members are really committed and Sovereign has put processes in place to help us get the most out of each review. It means our voices as residents can be used constructively to recommend different ways of doing things when it's needed."

BOARD AND COMMITTEES

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 are constantly reviewed and regularly updated.

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

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

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

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

A STRONG AND EFFECTIVE ORGANISATION INTO THE FUTURE

The Board's focus in 2018/19 has been to oversee the continued transformation of the way Sovereign works, while continuing to oversee the delivery of sustained operational performance. Activity has centred on the transformation plan which is managed by the Executive-led Transformation Board, and the delivery of efficiencies, whilst maintaining business as usual.

The economic, regulatory and political environment presents ongoing operational challenges to housing associations, their residents and partners. Some of the challenges and risks include Brexit and the uncertainty that this brings to all organisations, the continued roll out of Universal Credit, the proposed introduction of a new Regulatory rent standard from 2020, and low inflation. This supports the need for a responsive and experienced Board that is committed to continuous development.

The Board agreed a new strategic plan 2018 – 2023, which is supported by a robust business plan and includes a challenging new development strategy, all of which continue to evolve.

The Board undertakes annual performance reviews, both collectively and as individuals. The collective reviews of the Board and its Committees were undertaken internally in 2018 which reviewed how the Board and Committees were working as teams, whether they had the necessary skills to fulfil their roles and whether the delegation of power from the Board to Committees was appropriate for effective decision making and control. Following a review of the Board's skills and succession plan, actions were agreed which included the appointment of a finance expert to the Board in December, along with the appointment of Board member designates to fulfil the skills gaps in relation to asset management and digital technology.

While these posts will not take effect until the Annual General Meeting (AGM) in September 2019, following the retirement of existing members, designate members are welcomed to observe Board meetings as part of their induction. These members have been formally appointed as independent members of the Investment and Audit and Risk committees respectively during the interim period to further strengthen the skills on the Committees and to provide a useful period where they can get to know the business. An independent expert has also been appointed to the Treasury Committee in accordance with the skills and succession plan review.

All Terms of Reference for the Committees have been reviewed to ensure that decisions are made in the most appropriate forum whilst maintaining oversight and control.

There was almost full attendance at Board meetings by non-executive directors throughout the period and all Committee meetings have been quorate.

CORPORATE GOVERNANCE STATEMENT

The Board has assessed its compliance against its adopted Code of Governance and is satisfied that the organisation's governance is compliant with all material aspects of the code. This compliance is supported by the Sovereign Board reserved powers, delegated authorities, financial regulations, internal controls, policies and procedures.

An assessment against the Code for the previous year was undertaken in March 2019, where it was established that there were two departures from the Code of Governance, which are explained below:

B4 - Board members who are executive employees must be in a minority. Boards should have at least five members and no more than twelve, including any co-optees and any executive board members.

The make up of the Board of Sovereign Living Ltd, a non-charitable registered provider, bound by the same Code, does not comply as the non-executives are in the minority. In practice, decisions are made at the Parent Board level, with Sovereign Living merely being a 'vehicle' to deliver affordable home ownership on behalf of the parent. The standing orders and scheme of delegation evidence the decision making parameters of the subsidiary.

D9 - A full and rigorous appraisal process for the individual members of the board and its committees, including the chairs, must be carried out at least every two years.

A full and rigorous annual appraisal process is in place for the individual members of the Board, which includes the Chairs of Committees. However, this has not been consistently applied to the independent members of the Committees. A recent review of the board member appraisal scheme, approved by the Remuneration Committee, resulted in improvements being made to the timing, process, breadth and inclusion of the scheme, which has been extended to the independent committee members with immediate effect.

COMPLIANCE WITH THE REGULATOR FOR SOCIAL HOUSING (RSH) GOVERNANCE AND FINANCIAL VIABILITY STANDARD

The Board of Sovereign has carefully considered the requirements of the regulatory standards and has robustly assessed and taken assurance of Sovereign's compliance with them during the year. On this basis, the Board certifies that Sovereign Housing Association has complied in all material aspects with the RSH's regulatory standards during the reporting period ended 31 March 2019.

We review our performance with our shareholders each year at the AGM. This year the meeting will be held at the Hampshire Court Hotel, Chineham, Basingstoke at 6pm on 12 September 2019.

REGULATORY PERFORMANCE

Sovereign was the subject of an In-Depth Assessment carried out by the RSH in quarter four of 2018/19, which confirmed that Sovereign meets the requirements on governance and viability set out in the Governance and Financial Viability standards and maintained the highest of the four available grades.

This was reinforced in November 2018, when the RSH refreshed its assessment of Sovereign's compliance with the Governance and Financial Viability Standard of the Regulatory Framework based upon assurance obtained through regulatory activity, as set out in the Regulator's publication, Regulating the Standards.

The RSH confirmed that the governance and financial viability grades and straplines for Sovereign remained as:

- G1 - The provider meets our governance requirements.
- V1 - The provider meets our viability requirements and has the financial capacity to deal with a wide range of adverse scenarios.

EQUALITY, DIVERSITY AND INCLUSION

We recognise that all people are different and Sovereign is committed to providing an environment that is inclusive and acknowledges people's differing needs, both mental and physical. Our Equality, Diversity and Inclusion (EDI) Forum provides a platform for reviewing and monitoring how we are performing against our EDI Strategy, recognising the connection between employing diverse teams and business performance. In doing so, it also considers equality, diversity and inclusion not only with our employees, but also with our customers and stakeholders so that we tailor our services and working environment to meet their diverse needs.

In advancing our equality, diversity and inclusion programme, our EDI Forum takes an overview of our attraction, engagement, reward, recognition and development approaches, driven through our People Strategy, to ensure fairness and accessibility to all, whilst meeting our legal and regulatory requirements,

GENDER PAY REPORTING

The government introduced gender pay reporting regulations on 6 April 2017 to help close the gender pay gap.

The regulations require that employers with 250 employees or more report their gender pay gap on an annual basis. In line with this legislation, Sovereign published its gender pay information in April 2019 for the second year.

Our median gender pay gap is 7.4% and continues to be lower than the national gap of 17.9%. This gap is relatively small and is caused by the distribution of men and women in our workforce:

- We have more women in the lower pay quartile and in part time roles
- We have fewer women in our more traditionally male 'trade' roles
- We have fewer women in our more senior roles

While this gap is relatively small, we're not complacent and we want it to be smaller still.

Sovereign has already done lots of work harmonising terms and conditions, and redesigning pay and grading structures. This work isn't fully reflected in results yet, following the merger in 2016, but will help to improve our pay gap over time.

To make things even better, we're:

- working to remove obstacles which might deter people from applying for all roles
- actively encouraging greater diversity throughout the organisation

- building a modern, connected working environment which will allow employees to work more flexibly at every level
- starting a workplace programme to create an inclusive working environment which supports everyone's needs
- making the most of targeted initiatives like our Women in Trades programme and our partnership with Women in Construction.

HEALTH AND SAFETY

The property compliance team is responsible for the overarching review and control of all safety activity and property risk across Sovereign, in particular setting in place policy and procedural governance for:

- Gas safety
- Fire safety
- Electrical safety
- Asbestos management
- Legionella management
- Lift management

As a registered social landlord Sovereign operates within an increasingly important and valuable regulatory environment where any deficiency in the letting of homes can impact on our relationship with our residents, stakeholders, the Regulator of Social Housing and the Health & Safety Executive.

The Property Compliance Policy, approved by the Board, incorporates the six main areas of compliance and identifies how we will manage, report and deliver property compliance to protect our residents, our homes, our employees and other assets.

We closely monitor compliance and performance, which is reported monthly to the Executive Board and six-monthly to the Strategic Health and Safety Committee, chaired by the Chief Executive. Property compliance is also monitored on an exceptional basis at each Audit and Risk Committee meeting and via the monthly performance report to the Board.

APPOINTMENT OF THE EXTERNAL AUDITOR

It's Sovereign's policy to retender the external audit every seven years. The current external auditor KPMG LLP won the competitive tender process in 2010. As the incumbent provider was the Auditor for both former organisations, the contract was extended for one year to the year ended 31 March 2018 to provide stability and advice through the merger of accounting practices, policies and systems.

The contract was retendered during 2018 with KPMG LLP being recommended for appointment by the Board in quarter three. A resolution to reappoint KPMG as Sovereign's auditor will be proposed at the 2019 Annual General Meeting.

THE COMMITTEES

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

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

AUDIT AND RISK COMMITTEE

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

The Committee includes three non-Executive Board members and one independent non-Executive member. The Committee meets at least four times a year and regularly reviews its policies, its effectiveness and ensures its work plan is in line with its delegations from the Board and its terms of reference.

Chair's review

"Sovereign utilises a co-sourced internal audit model, which is led by the Director of Audit and Risk with external expertise procured for more specialist audits requiring specific expertise and skills. The internal audit plan was agreed by the Committee and reported to Board, with the effectiveness of these arrangements being monitored on an ongoing basis.

"A key focus of internal audit for 2018/19 was on health and safety, to ensure the safety and well-being of Sovereign's residents and employees and that it meets its statutory and regulatory obligations. The external auditor attended all the quarterly meetings ensuring there is an open dialogue and the ability to keep abreast of sector and accounting related matters.

"Sovereign is currently reviewing its risk management framework and has significantly reduced its key strategic risks. The development of the revised framework, which includes the risk appetite, will be overseen and monitored by the Committee on behalf of the organisation throughout the year to ensure that it is embedded in the business. The Committee will also oversee the procurement of the insurance programme, which is out to tender."

Barbara Anderson, Chair

TREASURY COMMITTEE

The Treasury Committee oversees Sovereign's treasury and funding activities, ensuring sufficient facilities are available to support the agreed strategy, and providing challenge and scrutiny of the Treasury Strategy and risk management. The Committee also considers the treasury-related business planning assumptions and stress tests.

The Committee normally comprises three Non-Executive Board members, an independent Non-Executive member and the Chief Financial Officer, and is supported by independent treasury advisers. At the year-end it included an additional Non-Executive Board member and an independent Non-Executive member, due to impending retirements.

Chair's review

"Sovereign continues to enjoy a strong financial position, while also being a leading developer of new homes. We continue to hold a V1 status for viability from our regulator, whilst our Standard & Poor's rating stands at A+ and our Moody's rating at A2.

"With a number of new revolving credit facilities having been put in place during the course of the year, our liquidity position remains strong, with cash and undrawn committed facilities exceeding £400m at the financial year-end. A further facility of £250m has been put in place subsequent to the year-end, which provides additional headroom to enable choices to be made around the optimum timing for Sovereign's next debt capital markets issue.

"Ensuring Sovereign remains appropriately funded and its treasury risks are well managed in support of the organisation's strategy will continue to be our focus through the next year."

Lee Bambridge, Chair

REMUNERATION AND NOMINATIONS COMMITTEE

In support of the Board, the Committee's role is to provide challenge, scrutiny and support in reviewing the People Strategy and related policies that have a significant implication or risk to Sovereign. It also considers issues relating to the contracts of employment for the Executive Board together with strategic issues relating to the compensation and benefit packages for employees. The Committee has responsibility for overseeing the recruitment, induction and training of all Board and Committee members.

The Committee includes three Non-Executive Board members together with two independent Non-Executive members. The Executive Director for Corporate Services and the Director of Governance & Regulation support the Committee.

Chair's review

"During the year, a refreshed People Strategy was launched, with a clear focus on creating and maintaining the culture to deliver a great service to our customers aligned to our social purpose. To ensure the continued effective leadership of Sovereign, the Committee oversaw the recruitment of three non-executive directors as part of a managed succession plan.

"Members were also actively involved in the successful executive recruitment activity during the year. A new pay and grading system was introduced across the organisation and alongside new management and leadership development programmes, a range of initiatives were designed to ensure we are able to attract, motivate and retain talented people.

"Looking ahead, we shall continue to invest in our people to enable them to deliver a great service to our customers. We shall play an active role in the workplace strategy, which will help to enhance our culture and create a more efficient and modern business with fewer offices, enabling better ways of working. The Chairman of Sovereign will retire at the AGM in 2020 and the Committee will lead an approach to ensure that Sovereign secures the right successor for the challenges ahead and builds upon its success for the benefit of future generations."

Angela Williams, Chair

THE INVESTMENT COMMITTEE

The role of the Investment Committee is to oversee all new development, commercial or asset management schemes of all tenures including social and affordable rent, shared ownership, market rent or open market sale. This may include projects involving the remodelling, rehabilitation, regeneration and disposal of existing homes owned by the Group alongside the approval and monitoring of all land acquisitions required to facilitate any new development project.

The Committee will also monitor the performance of Joint Venture partnerships entered into by the Group, ensure that regular updates are supplied to the Board and that emerging risks are escalated as required in a timely manner.

The Committee has a maximum of nine members and should be made up of:

- The Chief Financial Officer
- The Executive Director of Development and Commercial
- Chief Operating Officer
- Up to two other members of the Executive Board
- At least two and up to four non-executive directors, two of whom are also Board members.

Chair's review

"This year saw a streamlining in efficiency and effectiveness improvement in the governance arrangements for development, as the previous Development Approvals Panel and Development Committee were replaced by a single Investment Committee from January 2019. Comprising both execs and non execs and chaired by the Chief Financial Officer, since its inception it has considered a number of development schemes, as well as supporting the creation of the new development strategy, which shifts our future focus towards land-led delivery of new homes.

"Moving forwards, the committee will focus on all investment and divestment matters on a monthly basis within its delegated authority from Board. It will also be giving its attention to more strategic matters, such as the finalisation of the Development Strategy and the parameters for a land-led delivery model. Ongoing consideration will be given to existing and new Joint Venture opportunities where these deliver and enhance the strategy, along with the delegations required to allow the strategy to effectively achieve its outcomes and remain in line with the Business Plan."

Barry Nethercott, Chair

SPECTRUM PROPERTY CARE BOARD

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

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

Chair's review

"SPC has had another exceptional year, ending 2018/19 with a record profit of over £1m, delivered while maintaining excellent levels of customer satisfaction. As a result, there will be a record level of Gift Aid returned to Sovereign.

"The integration of three maintenance organisations is substantially complete and the savings forecast at the time of the merger has been comfortably exceeded. External contracts are being wound down and much of the subcontracted work has been insourced, which means the focus will now be solely on servicing Sovereign residents' properties. The oversight of this work and the associated £100m budget will be carried out by the newly established Property Services Committee.

"On behalf of the SPC Board I would like to thank the employees for their tremendous achievements throughout the year."

Simon Lindley, Chair

THE EXECUTIVE BOARD

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

The Executive Board works to protect and grow the business, while overseeing our performance as we build and provide great homes that people would choose to live in as well as providing a great customer experience.

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

Mark Washer
Chief Executive Officer

Mark joined Sovereign as Chief Executive Officer in June 2018, from his role as Chief Financial Officer at Clarion Housing Group. Mark has worked in the housing sector for 25 years and was, until recently, the Vice Chair of the National Housing Federation.

Mark is an Executive member of the Board of Sovereign Housing Association Ltd and Director of Sovereign Living Ltd, Sovereign Advances Ltd and Sovereign Housing Capital PLC.

Keith Astill
Executive Director – Corporate Services

Keith is a commercially orientated senior HR leader with experience across sectors and economic cycles and at Board level, with a proven record in general management. His experience includes executive responsibility in UK Financial Services, Telecomms and Retail, with a particular focus on leadership of major change and integration programmes.

Keith joined Sovereign in December 2017 and is the lead Executive officer for the Remuneration and Nominations Committee, the Equality and Diversity Forum and was recently appointed as a Director of Sovereign Westinghouse Developments Ltd.

Steve Barford
Executive Director – Property
(Resigned July 2019)

Steve joined Sovereign in 2001 and was appointed to the Executive Board in March 2015. Steve offered extensive experience in construction, largely in the private sector, including commercial estates and facilities management with national infrastructure company, Amey PLC. Sovereign Customer Services

Sovereign's Customer Services Director, Nicole Sharp has replaced Steve as Executive Director - Property, joining the Executive Board in July 2019.

Heather Bowman
Chief Operating Officer

Heather joined Sovereign in 2001 and has led a range of service areas as Managing Director for former subsidiary Sovereign South+West as well as Executive Director for Housing and Communities. Heather is a Chair of the National Housing Federation's South East Standing Board and elected member of the CBI South East Regional Council.

Heather is lead executive officer for the Resident and Board Partnership and a Director of Doubloon Developments Ltd, Sovereign Advances Ltd, Sovereign Housing Capital PLC, and presently dormant companies, Points West Ltd, Sovereign Housing D1 Ltd, Sovereign Maintenance Ltd and Sovereign Property Care Ltd .

Barry Nethercott
Chief Financial Officer

An experienced leader, Barry joined Sovereign in January 2019 as Interim Chief Financial Officer. For the past 10 years, Barry has worked at an executive level at several housing associations including The Guinness Partnership, Southern Housing and, most recently, with Network Homes.

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

Tom Titherington
Executive Director – Development and Commercial

Tom joined Sovereign in January 2019, bringing a wealth of housing experience in delivering new homes on large-scale developments, building private and public sector partnerships and creating sustainable places. Tom was formerly Executive Director of Property and Growth at Catalyst Housing and before that spent two years as Chief Executive of the Network Housing Group, building on thirteen years as Executive Director of Business Development at The Hyde Group.

FINANCIAL STATEMENTS

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STATEMENT OF BOARD'S RESPONSIBILITIES

IN RESPECT OF THE BOARD'S REPORT AND THE FINANCIAL STATEMENTS

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

Co-operative and Community Benefit Society law requires the Board to prepare financial statements for each financial year. Under those regulations the Board have elected to prepare the financial statements in accordance with 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;
- assess the group and the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless it either intends to liquidate the group or the association or to cease operations, or has no realistic alternative but to do so.

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

The Board is responsible for the maintenance and integrity of the corporate and financial information included on the 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 are a director at the date of approval of this report confirms that:

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

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

INTERNAL CONTROL ASSURANCE STATEMENT

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

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

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

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

IDENTIFICATION AND EVALUATION OF KEY RISKS

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

MONITORING AND CORRECTIVE ACTION

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

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

CONTROL ENVIRONMENT AND CONTROL PROCEDURES

The Board retains responsibility for a defined range of issues covering strategic, operational, financial, and compliance issues including treasury strategy and new investment projects. The Board has adopted the National Housing Federation (NHF) Excellence in Governance Code. Sovereign continues to meet the principles and material obligations of the Code, with its only minor departures relating to provisions B4, and D9, which are explained.

B4 relates to the composition of the Sovereign Living Board, which has an executive majority. The make up of the Board of Sovereign Living Ltd, a non-charitable registered provider, bound by the same Code, does not comply as the non-executives are in the minority. In practice, decisions are made at the Parent Board level, with Sovereign Living merely being a 'vehicle' to deliver affordable home ownership on behalf of the parent. The standing orders and scheme of delegation evidence the decision-making parameters of the subsidiary.

D9 applies to the Board Member Appraisal process not fully extending to the Independent members of the Board's Committees. A full and rigorous appraisal process is in place for the individual members of the Board, which includes the Chairs of Committees. However, this has not been consistently applied to the independent members of the Committees. A recent review of the board member appraisal scheme, approved by the Remuneration Committee, resulted in improvements being made to the timing, process, breadth and inclusion of the scheme which has been extended to the independent committee members with immediate effect.

The Association has adopted policies with regard to the quality, integrity and ethics of its employees, with which all employees must comply. These cover issues such as delegated authority, segregation of duties, accounting, treasury management, health and safety, data and asset protection and fraud prevention and detection. The Board has adopted the NHF Code of Conduct 2012 which ensures high standards of business conduct.

The Group has three other specialist committees in addition to the Audit and Risk Committee; the Remuneration and Nominations Committee, which deals with matters of governance, human resources, terms and conditions and has responsibility for overseeing the processes required for the recruitment, induction and training of all Board and Committee members. The Treasury Committee which approves and administers the Treasury Policy and ensures the most efficient and effective funding for the Group and the Investment Committee, which reviews the viability of development schemes for the provision of new homes.

INFORMATION AND FINANCIAL REPORTING SYSTEMS

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

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

This Strategic Report, Board Report and the Statement of Board's Responsibilities were approved on 18 July 2019 and signed on its behalf by:

BY ORDER OF THE BOARD
Claire McKenna
Company Secretary

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SOVEREIGN HOUSING ASSOCIATION LIMITED

OPINION

We have audited the financial statements of Sovereign Housing Association Limited ("the association") for the year ended 31 March 2019 which comprise the Statement of Total Comprehensive Income, Statement of Financial Position, Statement of Changes in Reserves, Statement of Cash Flows and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view, in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, of the state of affairs of the group and the association as at 31 March 2019 and of the income and expenditure of the group and the association for the year then ended;
- comply with the requirements of the Co-operative and Community Benefit Societies Act 2014; and
- have been properly prepared in accordance with the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group and the association in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

THE IMPACT OF UNCERTAINTIES DUE TO THE UK EXITING THE EUROPEAN UNION ON OUR AUDIT

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

GOING CONCERN

The association's Board has prepared the financial statements on the going concern basis as they do not intend to liquidate the group or the association or to cease their operations, and as they have concluded that the group and the association's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Board's conclusions, we considered the inherent risks to the group business model, including the impact of Brexit, and analysed how those risks might affect the group and association's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the association will continue in operation.

OTHER INFORMATION

The association's Board is responsible for the other information, which comprises the Board's Annual Report and the Statement on Internal Control. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Under the Co-operative and Community Benefit Societies Act 2014 we are required 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.

We have nothing to report in these respects.

BOARD'S RESPONSIBILITIES

As more fully explained in their statement set out on page 63, the association's Board is responsible for the preparation of financial statements which give a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to liquidate the group or the association or to cease operations, or has no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

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.

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

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019

	Note	2019 £'000	2018 £'000
Turnover	3	**402,144**	378,198
Cost of sales	3	**(59,249)**	(43,054)
Operating expenditure	3	**(202,560)**	(197,821)
Operating surplus	3	**140,335**	137,323
Surplus on disposal of property, plant and equipment	7	**6,620**	18,387
Share of operating surplus in Joint Ventures	18	**3,933**	149
Interest receivable and similar income	8	**1,154**	1,227
Interest and financing costs	9	**(56,007)**	(54,736)
Movement in fair value of financial instruments	32	**2,611**	(886)
Movement in fair value of investment properties	10	**2,458**	2,481
Impairment of loan receivable	6	**(2,180)**	-
Surplus before tax	6	**98,924**	103,945
Taxation	11	**5**	232
Non-controlling interest		**-**	(147)
Surplus for the year		**98,929**	104,030
Initial recognition of multi-employer defined benefit scheme		**(15,629)**	-
Actuarial (loss)/gain in respect of pension schemes	31	**(7,204)**	2,774
Changes in fair value of hedged financial instruments	32	**(11,148)**	10,998
Total comprehensive income for the year		**64,948**	117,802

All the amounts above relate to continuing activities.

The financial statements were approved by the Board on 18 July 2019 and were signed on its behalf by:

Gordon Holdcroft
Chair

Mark Washer
Chief Executive

Claire McKenna
Company Secretary

ASSOCIATION STATEMENT OF TOTAL COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019

	Note	2019 £'000	2018 £'000
Turnover	3	**370,878**	349,818
Cost of sales	3	**(42,091)**	(31,104)
Operating expenditure	3	**(195,030)**	(188,643)
Operating surplus	3	**133,757**	130,071
Gift aid		**6,263**	9,987
Surplus on disposal of property, plant and equipment	7	**6,618**	18,380
Interest receivable	8	**3,830**	2,691
Interest and financing costs	9	**(57,225)**	(56,140)
Movement in fair value of financial instruments	32	**2,611**	(886)
Movement in fair value of investment properties	10	**678**	1,077
Surplus before tax	6	**96,532**	105,180
Taxation	11	**-**	-
Surplus for the year		**96,532**	105,180
Initial recognition of multi-employer defined benefit scheme		**(15,629)**	-
Actuarial (loss)/gain in respect of pension schemes	31	**(7,204)**	2,774
Changes in fair value of hedged financial instruments	32	**(11,148)**	10,998
Total comprehensive income for the year		**62,551**	118,952

All the amounts above relate to continuing activities.

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019

	Note	2019 £'000	2018 £'000
Fixed assets			
Social housing properties	14	**3,665,306**	3,480,904
Other fixed assets	15	**41,247**	39,372
Investment properties	17	**134,338**	130,481
Investments in Joint Ventures	18	**1,951**	-
Investments - HomeBuy loans	19	**11,739**	12,036
Financial assets	20	**9,826**	11,291
		3,864,407	3,674,084
Current assets			
Stocks	21	**55,436**	52,566
Debtors	22	**37,096**	39,877
Financial assets (short term)	23	**-**	3,011
Cash and cash equivalents	24	**45,228**	23,202
		137,760	118,656
Creditors: amounts falling due within one year	25	**(133,990)**	(130,098)
Net current assets/(liabilities)		**3,770**	(11,442)
Creditors: amounts falling due after more than one year	26	**(2,075,520)**	(1,976,986)
Provisions for liabilities			
- Pension	31	**(74,891)**	(31,360)
- Other	28	**(6,126)**	(7,457)
Total net assets		**1,711,640**	1,646,839
Capital and reserves			
Called up share capital	33	**-**	-
Income and expenditure reserve		**1,397,998**	1,315,433
Revaluation reserve		**358,094**	364,563
Hedging reserve		**(44,452)**	(33,304)
Non-controlling interest		**-**	147
Total reserves		**1,711,640**	1,646,839

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ASSOCIATION STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019

	Note	2019 £'000	2018 £'000
Fixed assets			
Social housing properties	14	**3,675,405**	3,483,014
Other fixed assets	15	**40,546**	38,339
Investment properties	17	**96,383**	94,306
Investments - HomeBuy loans	19	**11,739**	12,036
Financial assets	20	**16,120**	17,585
		3,840,193	3,645,280
Current assets			
Stocks	21	**42,550**	33,345
Debtors	22	**85,203**	90,015
Financial assets (short term)	23	**-**	3,011
Cash and cash equivalents	24	**42,125**	16,172
		169,878	142,543
Creditors: amounts falling due within one year	25	**(135,708)**	(122,706)
Net current assets		**34,170**	19,837
Creditors: amounts falling due after more than one year	26	**(2,068,007)**	(1,964,928)
Provisions for liabilities			
- Pension	31	**(74,891)**	(31,360)
- Other	28	**(6,037)**	(5,952)
Total net assets		**1,725,428**	1,662,877
Capital and reserves			
Called up share capital	33	**-**	-
Income and expenditure reserve		**1,200,062**	1,119,894
Revaluation reserve		**569,818**	576,287
Hedging reserve		**(44,452)**	(33,304)
Total reserves		**1,725,428**	1,662,877

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CONSOLIDATED STATEMENT OF CHANGES IN RESERVES AS AT 31 MARCH 2019

	Income and expenditure reserve £'000	Revaluation reserve £'000	Hedging reserve £'000	**Total excluding non-controlling interest £'000**	Non-controlling interest £'000	**2019 total including non-controlling interest £'000**	2018 total including non-controlling interest £'000
As at 1 April 2018	1,315,433	364,563	(33,304)	**1,646,692**	147	**1,646,839**	1,529,182
Surplus from statement of comprehensive income	98,929	-	-	**98,929**	-	**98,929**	104,177
Transfer from revaluation reserve to income and expenditure reserve							
- on sale of revalued properties	4,201	(4,201)	-	**-**	-	**-**	-
- depreciation of revalued properties	2,268	(2,268)	-	**-**	-	**-**	-
Initial recognition of multi-employer defined benefit scheme	(15,629)	-	-	**(15,629)**	-	**(15,629)**	-
Actuarial (loss)/gain in respect of pension schemes	(7,204)	-	-	**(7,204)**	-	**(7,204)**	2,774
Movement in fair value of financial derivatives	-	-	(11,148)	**(11,148)**	-	**(11,148)**	10,998
Distribution of non-controlling interest reserves in the year	-	-	-	**-**	(147)	**(147)**	(292)
As at 31 March 2019	1,397,998	358,094	(44,452)	**1,711,640**	-	**1,711,640**	1,646,839

ASSOCIATION STATEMENT OF CHANGES IN RESERVES AS AT 31 MARCH 2019

	Income and expenditure reserve £'000	Revaluation reserve £'000	Hedging reserve £'000	**Total excluding non-controlling interest £'000**	Non-controlling interest £'000	**2019 total including non-controlling interest £'000**	2018 total including non-controlling interest £'000
As at 1 April 2018	1,119,894	576,287	(33,304)	**1,662,877**	-	**1,662,877**	1,543,925
Surplus from statement of comprehensive income	96,532	-	-	**96,532**	-	**96,532**	105,180
Transfer from revaluation reserve to income and expenditure reserve							
- on sale of revalued properties	4,201	(4,201)	-	**-**	-	**-**	-
- depreciation of revalued properties	2,268	(2,268)	-	**-**	-	**-**	-
Initial recognition of multi-employer defined benefit scheme	(15,629)	-	-	**(15,629)**	-	**(15,629)**	-
Actuarial (loss)/gain in respect of pension schemes	(7,204)	-	-	**(7,204)**	-	**(7,204)**	2,774
Movement in fair value of financial derivatives	-	-	(11,148)	**(11,148)**	-	**(11,148)**	10,998
As at 31 March 2019	1,200,062	569,818	(44,452)	**1,725,428**	-	**1,725,428**	1,662,877

CONSOLIDATED STATEMENT OF CASH FLOWS AS AT 31 MARCH 2019

	Note	**2019 £'000**	2018 £'000
Net cash inflow from operating activities		**167,260**	168,037
Cash flow from investing activities			
Investment in jointly controlled entity		**-**	(4,388)
Purchase of tangible fixed assets		**(225,422)**	(175,595)
Proceeds from sale of tangible fixed assets		**19,993**	57,331
Grants received		**1,690**	4,499
Interest received		**1,159**	1,052
Net cash from investing activities		**(202,580)**	(117,101)
Cash flow from financing activities			
Interest paid		**(61,557)**	(61,084)
Movement in collateral deposits		**1,448**	2,403
New secured loans		**177,103**	106,836
Repayment of borrowings		**(62,416)**	(118,059)
Capital element of finance lease rental payments		**(243)**	18
Withdrawal from deposits		**3,011**	28,165
Net cash used in financing activities		**57,346**	(41,721)
Net change in cash and cash equivalents		**22,026**	9,215
Cash and cash equivalents at the beginning of the year	24	**23,202**	13,987
Cash and cash equivalents at the end of the year	24	**45,228**	23,202
Cash flow from operating activities			
Surplus for the year		**98,924**	104,030
Adjustments for non-cash items			
Depreciation of tangible fixed assets		**39,890**	39,253
Increase in stock		**(2,870)**	(7,121)
Decrease in trade and other debtors		**830**	435
Decrease in trade and other creditors		**(10,518)**	(6,446)
(Decrease)/Increase in provisions		**(1,331)**	5,569
Pension costs less contributions payable		**(4,030)**	(867)
Carrying amount of tangible fixed asset disposals		**11,093**	35,953
Impairment	6	**2,180**	-
Fair value movements in Investment Properties	17	**(2,458)**	(2,481)
Share of operating surplus in associate		**698**	149
Adjustments for investing or financing activities			
Proceeds from the sale of tangible fixed assets		**(19,993)**	(57,331)
Interest payable	9	**56,007**	58,121
Interest receivable	8	**(1,154)**	(1,227)
Cash from operations		**167,268**	168,037
Corporation tax		**(8)**	-
Net cash generated from operating activities		**167,260**	168,037

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2019

1. LEGAL STATUS

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

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

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with 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 2015 and comply with the Accounting Direction for Private Registered Providers of Social Housing 2015.

(a) Basis of Accounting

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

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

(b) Exemptions for Qualifying Entities under FRS 102

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

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

(c) Going Concern

The Group'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.

Investments in subsidiaries are accounted for using the equity method in the Group financial statements. Investments in subsidiaries and jointly controlled entities are carried at cost less impairment in the individual financial statements.

Uniform accounting policies have been used throughout the Group.

(e) Turnover

Turnover represents rental and service charge income, fees and revenue based grants receivable from local authorities and from the Homes England, the proceeds of first tranche sales of shared ownership properties and open market property sales, amortisation of grant previously received and income from building maintenance and refurbishment services. These exclude VAT (where applicable). Revenue for the main income streams is recognised as follows:

- Rental income is measured at fair value of the consideration received or receivable and represents the amount receivable for the services rendered net of any voids.
- Fixed service charge income is recognised in the year to which it relates. Variable service charge income is recognised in the year the related cost is recognised.
- Income from first tranche sales and sales of properties built for sale is recognised at the point of legal completion of the sale.
- Income from provision of buildings maintenance and refurbishment services to third parties is recognised as work is completed.

Intra-group income and expenditure is included in turnover and operating costs on an arm's length basis in the financial statements of the Association but is eliminated in producing the Group consolidated financial statements.

(f) Cyclical Repairs and Maintenance

The actual costs of cyclical repairs and maintenance are charged to the Statement of Total Comprehensive Income as incurred.

(g) Major Repairs

The capitalisation of major repairs will follow the methodology of Component Accounting as laid out in the SORP 2015. 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 six multi-employer defined benefit pension schemes, 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 31.

Pension Trust Social Housing Pensions Scheme ('SHPS')

SHPS is a multi-employer scheme which provides benefits to non-associated employers. The scheme is classified as a defined benefit scheme. At 31 March 2018 it was not possible for the Association to obtain sufficient information to account for the liability on a full FRS 102 valuation basis so it was accounted for as a defined contribution scheme where the net present value of the deficit contributions were recognised in the accounts as creditors falling within and more than one year.

As a result of additional information, SHPS are now able to split the pension liability by employer which has resulted in the scheme liability being accounted for adopting a full FRS 102 valuation at 31 March 2019. In accordance with FRED 71, no restatement of prior year figures has been made in these accounts with the opening balance adjustment being recorded through Other Comprehensive Income.

Other Defined Benefit Pension Schemes

Where the Association can identify their share of scheme assets and liabilities these are included in the Statement of Financial Position and the expected cost of pensions is charged to the Statement of Total Comprehensive Income so as to spread the cost of pensions over the service lives of employees. For the defined benefit pension schemes, the liability for the benefits earned by employees in return for service rendered in the current and prior periods is determined using the projected unit credit method as determined annually by qualified actuaries. This is based upon a number of assumptions, the determination of which is significant to the valuation.

The following are charged to operating profit:

- the net finance expense measured using the discount rate applied in measuring the defined benefit obligation;
- the increase in the present value of pension scheme liabilities arising from employee service in the current period (current service cost);
- the increase in the present value of pension scheme liabilities as a result of benefit improvements over the period during which such improvements vest (past service cost);

- gains and losses arising on settlements/ curtailments; and
- scheme administration costs.

Actuarial gains and losses are recognised in full in other comprehensive income in the period in which they occur.

Defined Contribution Schemes
The Association also participates in defined contribution money purchase pension schemes which are open to new members, the details of which are given in note 31. In respect of the defined contribution schemes, employers' contributions are charged to the Statement of Total Comprehensive Income in the year incurred.

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

(k) Joint Ventures
Joint Ventures are contractual arrangements where two or more parties enter into an economic activity that they jointly control. The Group has the following type of Joint Venture:

- Jointly controlled entities – these are Joint Ventures that involve the establishment of a corporation, partnership or other entity in which each partner has an interest. They are accounted for using the equity method in the member organisation. The Group includes an investment to the extent of any undistributed profits on an individual LLP basis.

These investments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

(l) Leased Assets
Operating leased assets
Rentals paid under operating leases are charged to the Statement of Total Comprehensive Income on an accruals basis.

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

(m) Sale of Housing Properties
Sales of housing properties are recognised on the completion date. Where houses are sold, the surplus or deficit in the Statement of Total Comprehensive Income 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 Statement of Total Comprehensive Income as sales of fixed assets – housing properties.

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

(n) First Tranche Shared Ownership Sales
Shared ownership sales are treated under the SORP 2015 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;
- Any surplus on first tranche shared ownership sales on mixed tenure developments is restricted to the net present value of future cash flows on shared ownership properties.

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

Housing properties	120 years
Kitchens	23-25 years
Bathrooms	25-30 years
Windows	25-30 years
Heating systems	30-40 years
Roofs	56-60 years
Boilers	15 years

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

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

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

(p) Social Housing Properties and Other Fixed Assets
Social Housing Properties are stated at cost or deemed cost valuation (as part of the FRS 102 transition, taken at 1st April 2014) less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bring the asset to its working condition for its intended use and borrowing costs capitalised.

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

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 2015.

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

Recoverability of properties constructed for outright sale is measured by reviewing the current net present value against the original appraisal. Allocation of costs for mixed tenure developments are generally 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 purchase of such properties is disclosed as a contingent liability within social housing properties (note 14).

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

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

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

(q) Impairment
At each reporting date fixed assets that are held at cost are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset is estimated and compared with its carrying

amount. If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised as operating expenditure.

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

Impairment reviews are carried out for all properties where the scheme appraisal has worsened since approved by the Board in accordance with the SORP 2015.

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

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

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

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

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

(t) Stock
Inventories 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 stock. 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 stock.

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

(v) Recycled Capital Grant Fund and Disposal Proceeds Fund
The purpose of the funds is to provide replacement properties for rent, at no greater cost than properties provided through the approved development programme. If unused within a three year period it may be repayable to Homes England with interest unless a time extension or waiver is received. The development programme of the Group is such that the funds are likely to be used before they become repayable.

Changes made by the Housing and Planning Act 2016 and associated regulations that came into force on 6 April 2017 no longer require the Group to account for net proceeds of 'Right to Acquire' sales which occur after this date and therefore no further proceeds will be recycled to the Disposal Proceeds Fund.

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

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

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

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

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

(aa) Basic Financial Instruments
Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition 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.

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

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

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

Cash flow hedges
Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable

forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised 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.

(cc) Taxation

Corporation tax is provided on the taxable profits of each member of the Group at the current rate. Deferred taxation would normally be recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, when transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. However, deferred tax assets and liabilities are not recognised as any timing differences do not give rise to any material deferred tax charge or credit.

3. TURNOVER, OPERATING COSTS AND OPERATING SURPLUS BY CLASS OF BUSINESS

Group	Note	Turnover £'000	Cost of sales £'000	Operating costs £'000	**2019 Operating surplus £'000**	2018 Operating surplus £'000
Income and expenditure from social housing lettings:						
Housing accommodation		283,785	-	(171,678)	**112,107**	114,610
Shared ownership accommodation		20,841	-	(10,308)	**10,533**	8,955
	4	304,626	-	(181,986)	**122,640**	123,565
Other social housing income and expenditure:						
External income generated from development services		179	-	(162)	**17**	14
Community investment		-	-	(905)	**(905)**	(1,314)
Other		2,409	-	(1,965)	**444**	2,091
		2,588	-	(3,032)	**(444)**	791
Development for sale						
Shared ownership first tranche sales		55,155	(43,157)	-	**11,998**	6,878
		55,155	(43,157)	-	**11,998**	6,878
Total social housing activities		362,369	(43,157)	(185,018)	**134,194**	131,234
Non social housing activities:						
Market rented properties		6,393	-	(4,414)	**1,979**	(785)
Commercial properties		3,850	-	(2,164)	**1,686**	2,369
Outright sales		20,029	(16,092)	-	**3,937**	4,164
Other		9,503	-	(10,964)	**(1,461)**	341
		39,775	(16,092)	(17,542)	**6,141**	6,089
Total		402,144	(59,249)	(202,560)	**140,335**	137,323

Other activities within Other social housing include management services, administration services and HomeBuy activities.

3. TURNOVER, OPERATING COSTS AND OPERATING SURPLUS BY CLASS OF BUSINESS (CONTINUED)

Association	Note	Turnover £'000	Cost of sales £'000	Operating costs £'000	**2019 Operating surplus £'000**	2018 Operating surplus £'000
Income and expenditure from social housing lettings:						
Housing accommodation		283,764	-	(174,131)	**109,633**	116,358
Shared ownership accommodation		20,841	-	(10,308)	**10,533**	5,790
	4	304,605	-	(184,439)	**120,166**	122,148
Other social housing income and expenditure:						
Income from Group undertakings		2,843	-	-	**2,843**	2,135
External income generated from development services		179	-	(162)	**17**	14
Community investment		-	-	(905)	**(905)**	(1,314)
Other		1,177	-	(1,223)	**(46)**	670
		4,199	-	(2,290)	**1,909**	1,505
Development for sale						
Shared ownership first tranche sales		53,881	(42,091)	-	**11,790**	6,878
		53,881	(42,091)	-	**11,790**	6,878
Total social housing activities		362,685	(42,091)	(186,729)	**133,865**	130,531
Non social housing activities:						
Market rented properties		4,343	-	(4,156)	**187**	(2,566)
Commercial properties		3,850	-	(2,164)	**1,686**	2,369
Other		-	-	(1,981)	**(1,981)**	(263)
		8,193	-	(8,301)	**(108)**	(460)
Total		370,878	(42,091)	(195,030)	**133,757**	130,071

Other activities within Other social housing include management services, administration services and HomeBuy activities.

4. INCOME AND EXPENDITURE FROM SOCIAL HOUSING LETTINGS

Group	Note	General needs £'000	Shared ownership £'000	Supported housing/ Housing for older people £'000	Keyworker £'000	Other £'000	**2019 Total £'000**	2018 Total £'000
Rent receivable net of identifiable service charges		253,374	17,663	6,419	6,278	2,927	**286,661**	280,803
Service charges		6,697	2,908	1,621	2,685	967	**14,878**	15,896
Supporting people block subsidy		187	-	299	-	-	**486**	614
Amortised government grants		2,331	270	-	-	-	**2,601**	2,591
		262,589	20,841	8,339	8,963	3,894	**304, 626**	299,904
Turnover from social housing lettings								
Management		(44,772)	(6,664)	(3,863)	(4,324)	(1,029)	**(60,652)**	(53,200)
Service costs		(9,232)	(1,312)	(761)	(422)	(202)	**(11,929)**	(13,179)
Routine maintenance		(29,813)	-	(2,330)	(1,293)	(577)	**(34,013)**	(36,390)
Planned maintenance		(11,028)	-	(796)	(442)	(212)	**(12,478)**	(10,408)
Major repairs expenditure		(20,600)	-	(1,486)	(825)	(395)	**(23,306)**	(24,243)
Bad debts		(764)	(109)	(63)	(35)	(17)	**(988)**	(799)
Depreciation of housing property		(31,156)	(2,223)	(2,408)	(1,337)	(641)	**(37,765)**	(35,543)
Other costs		(756)	-	(54)	(30)	(15)	**(855)**	(1,177)
One off property maintenance costs	6	-	-	-	-	-	**-**	(1,400)
Operating costs on social housing activities		(148,121)	(10,308)	(11,761)	(8,708)	(3,088)	(181,986)	(176,339)
Operating surplus/(deficit) on social housing activities		114,468	10,533	(3,422)	255	806	122,640	123,565
Rent receivable is net of void losses of:		1,773	165	199	1,459	300	**3,896**	3,456

4. INCOME AND EXPENDITURE FROM SOCIAL HOUSING LETTINGS (CONTINUED)

Association	Note	General needs £'000	Shared ownership £'000	Supported housing/ Housing for older people £'000	Keyworker £'000	Other £'000	**2019 Total £'000**	2018 Total £'000
Rent receivable net of identifiable service charges		253,354	17,663	6,419	6,278	2,926	**286,640**	280,646
Service charges		6,697	2,908	1,621	2,685	967	**14,878**	15,896
Supporting people block subsidy		187	-	299	-	-	**486**	614
Amortised government grants		2,331	270	-	-	-	**2,601**	2,591
		262,569	20,841	8,339	8,963	3,893	**304, 605**	299,747
Turnover from social housing lettings								
Management		(44,707)	(6,664)	(3,863)	(4,324)	(1,028)	**(60,586)**	(54,404)
Service costs		(9,232)	(1,312)	(761)	(422)	(202)	**(11,929)**	(13,163)
Routine maintenance		(32,296)	-	(2,330)	(1,293)	(620)	**(36,539)**	(36,462)
Planned maintenance		(11,028)	-	(796)	(442)	(212)	**(12,478)**	(10,408)
Major repairs expenditure		(20,600)	-	(1,486)	(825)	(395)	**(23,306)**	(24,243)
Bad debts		(764)	(109)	(63)	(35)	(17)	**(988)**	(801)
Depreciation of housing property		(31,156)	(2,223)	(2,408)	(1,337)	(641)	**(37,765)**	(35,543)
Other costs		(750)	-	(54)	(30)	(14)	**(848)**	(1,175)
One off property maintenance costs	6	-	-	-	-	-	**-**	(1,400)
Operating costs on social housing activities		(150,533)	(10,308)	(11,761)	(8,708)	(3,129)	**(184,439)**	(177,599)
Operating surplus/(loan) on social housing activities		112,036	10,533	(3,422)	255	764	**120,166**	122,148
Rent receivable is net of void losses of:		1,773	165	199	1,459	300	**3,896**	3,455

5. NUMBER OF UNITS IN MANAGEMENT

	Group		**Association**	
	2019 Units	2018 Units	**2019 Units**	2018 Units
Owned and managed:				
General needs	**38,390**	37,559	**38,390**	37,556
General needs - affordable	**4,298**	3,574	**4,298**	3,574
Shared ownership	**6,138**	5,669	**6,138**	5,669
Housing for older people	**2,430**	3,034	**2,430**	3,034
Housing for older people - affordable	**32**	35	**32**	35
Supported	**995**	877	**995**	877
Keyworker	**1,707**	1,730	**1,707**	1,730
Intermediate market rent	**417**	467	**417**	467
Other social	**182**	101	**179**	101
Non-social - market rent	**617**	578	**485**	446
Non-social - other	**74**	63	**74**	63
Managed not owned:				
Owned by external company - social	**22**	124	**25**	127
Owned by external company - non-social	**2,414**	2,553	**2,546**	2,685
Owned by external company - keyworker	**26**	26	**26**	26
Total in management	**57,742**	56,390	**57,742**	56,390
Owned not managed:				
Managed by third parties	**236**	250	**226**	240
Freehold/Long leasehold (incl. Right to Buy leasehold)	**9**	9	**9**	9
Total owned not managed	**245**	259	**235**	249
Total owned or managed	**57,987**	56,649	**57,977**	56,639

6. SURPLUS ON ORDINARY ACTIVITIES BEFORE TAXATION

	Note	Group		Association	
		2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Surplus on ordinary activities before taxation is stated after charging:					
Depreciation:					
- housing properties		**35,628**	34,732	**35,624**	34,732
- other owned assets		**4,261**	4,517	**3,919**	4,136
Rentals payable:					
- plant, vehicles and machinery		**3,154**	3,280	**1,970**	2,105
- other assets		**169**	262	**169**	262
- operating leases		**36**	36	**36**	36
Auditor's remuneration:					
- in their capacity as auditor		**178**	165	**130**	121
- in respect of tax advice		**-**	31	**-**	12
- in respect of other work		**5**	13	**5**	13
Other:					
- remedial and corrective property costs: social	28	**-**	1,400	**-**	1,400
- remedial and corrective property costs: non-social		**-**	2,733	**-**	2,733
- impairment of loan receivable		**2,180**	-	**-**	-

The impairment of the loan relates to the interest due on an amount lent to Linden Homes (Sherford) LLP, a Joint Venture within the Group.

7. SURPLUS ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

	Group		Association	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Proceeds from house sales	**16,097**	54,100	**16,097**	54,093
Cost of sales	**(9,871)**	(37,501)	**(9,871)**	(37,501)
Depreciation	**583**	2,193	**583**	2,193
Selling expenses	**(189)**	(405)	**(191)**	(405)
Net surplus	**6,620**	18,387	**6,618**	18,380

8. INTEREST RECEIVABLE AND SIMILAR INCOME

	Group		Association	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Interest receivable on investments	**1,029**	98	**242**	98
Interest receivable on bank deposits	**142**	1,146	**135**	413
Interest receivable from Group undertakings	**-**	-	**3,470**	2,197
Interest receivable	**1,171**	1,244	**3,847**	2,708
Amortisation of investment to nominal value	**(17)**	(17)	**(17)**	(17)
Interest receivable and similar income	**1,154**	1,227	**3,830**	2,691

9. INTEREST PAYABLE AND FINANCING COSTS

	Group		Association	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
In respect of loans:				
Interest payable on loans and bank overdrafts	**(56,269)**	(53,306)	**(34,875)**	(31,956)
Interest payable on hedging arrangements	**(7,768)**	(8,604)	**(7,768)**	(8,604)
On hedging arrangements - non cash	**3,480**	3,385	**3,480**	3,385
Interest payable to Group undertakings	**-**	-	**(21,936)**	(21,936)
Interest payable on recycled capital grant and disposal proceeds funds	**(89)**	(89)	**(89)**	(89)
Interest payable on finance leases	**(255)**	(255)	**(255)**	(255)
Interest payable	**(60,901)**	(58,869)	**(61,443)**	(59,455)
Less interest capitalised	**6,687**	5,315	**6,011**	4,497
	(54,214)	(53,554)	**(55,432)**	(54,958)
Unwind discounted cash flows	**(35)**	(328)	**(35)**	(328)
Net interest payable on pension liabilities	**(1,758)**	(854)	**(1,758)**	(854)
Interest and financing costs	**(56,007)**	(54,736)	**(57,225)**	(56,140)

Interest is capitalised on active development schemes at 4% (2018: 4% - 5%).

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

10. MOVEMENT IN FAIR VALUE OF INVESTMENT PROPERTIES

	Note	Group		Association	
		2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Fair value increase in investment properties	17	**2,458**	2,481	**678**	1,077
Fair value adjustments		**2,458**	2,481	**678**	1,077

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.

	Group		Association	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
UK corporation tax				
Current tax on income for the period	**8**	-	**-**	-
Prior year released	**(13)**	(232)	**-**	-
Total current tax	**(5)**	(232)	**-**	-
Tax credit on profit on ordinary activities	**(5)**	(232)	**-**	-

Factors affecting the tax charge for the current period

The current tax credit for the year is lower (2018: lower) than the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are explained below.

11. TAXATION (CONTINUED)

	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
Current tax reconciliation				
Profit on ordinary activities before tax	**98,924**	103,945	**96,532**	105,180
Profit chargeable to corporation tax	**98,924**	103,945	**96,532**	105,180
Current tax at 19% (2018: 19%)	**18,796**	19,750	**18,341**	19,984
Effects of:				
Profits not within the scope of taxation due to charitable status	**(18,788)**	(19,750)	**(18,341)**	(19,984)
Other timing differences	**(13)**	(232)	**-**	-
Total tax credit for the year	**(5)**	(232)	**-**	-
Current tax (see above)	**(5)**	(232)	**-**	-
Deferred tax	**-**	-	**-**	-
Tax (credit)/charge for the year	**(5)**	(232)	**-**	-

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2017. This will reduce the company's future current tax charge accordingly.

12. BOARD MEMBERS AND EXECUTIVE OFFICERS

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

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

Annual rates of pay	2019 £	2018 £
Position held as at 31 March		
Chair	**32,000**	29,000
Vice chair	**18,000**	18,000
Board member	**13,000**	13,000
Independent committee member	**5,000**	5,000
Committee chair (in addition to Board member salary)	**5,000**	5,000

The table below sets out all Group non-Executive Board members who served during the year:

Non-Executive Directors	2019 £	2018 £
Barbara Anderson	**18,000**	18,000
Lee Bambridge	**18,000**	18,000
Jennifer Dykes	**13,000**	13,000
Gordon Holdcroft	**31,627**	25,683
Katherine Innes Ker (resigned 30 June 2017)	**-**	7,250
Stuart Laird	**18,000**	18,000
Simon Lindley	**18,000**	18,000
Claire O'Shaughnessy	**13,000**	13,000
Elizabeth Sabey (resigned 14 September 2017)	**-**	6,500
Christine Turner	**18,000**	18,000
John Weguelin (appointed 14 December 2018)	**3,850**	-
Angela Williams	**18,000**	14,688
	169,477	170,121

Jennifer Dykes is a resident, her lease and tenancy is on normal commercial terms and she cannot use her position on the Board to her advantage.

Previously Ann Santry was a co-optee of Sovereign Housing Association Limited and Richard Hill was a full Board member of Spectrum Housing Group Limited. Ann Santry resigned from Sovereign on 18 June 2018 and Richard Hill resigned from Sovereign on 31 August 2017.

Total expenses paid to Board members that are subject to income tax were £2,320 (2018: £7,332).

12. BOARD MEMBERS AND EXECUTIVE OFFICERS (CONTINUED)

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

	2019 £	2018 £
Martin Lawton	**5,000**	5,000
David Todd	**5,000**	5,000
	10,000	10,000

Executive Directors emoluments	2019 £'000	2018 £'000
Emoluments (including pension contributions and benefits in kind)	**1,400**	1,501
Total pension contributions to Executive Officers	**21**	79
Emoluments (excluding pension contributions and payments in lieu of pension contributions) include amounts paid to:		
The highest paid director	**222**	261

Pension contributions to the highest paid director were £nil (2018: £nil).

12. BOARD MEMBERS AND EXECUTIVE OFFICERS (CONTINUED)

The level of emoluments to members of the Executive Board during 2018/19 is shown below:

	Taxable Pay £	Pension contri-butions £	In lieu of pension £	Benefits in kind £	PRP paid 2018/19 £	Accrued PRP 2018/19 £	2019 Total £	2018 Total £
Executive Directors:								
Ann Santry [1]	167,947	-	6,713	-	-	-	**174,660**	288,477
Mark Washer [2]	197,470	-	23,654	396	-	24,375	**245,895**	-
Mark Hattersley [3]	112,760	-	13,500	272	-	-	**126,532**	224,644
Richard Hill [4]	-	-	-	-	-	-	**-**	83,738
Members of the Executive Board:								
Keith Astill	146,063	-	17,493	368	-	18,980	**182,904**	55,293
Steve Barford	160,450	19,200	-	-	-	-	**179,650**	209,326
Heather Bowman	160,450	-	19,200	368	-	20,800	**200,818**	201,479
Paul Bryan [5]	-	-	-	-	-	-	**-**	42,800
Ben Denton [6]	52,298	1,565	-	-	-	-	**53,863**	104,946
Dale Meredith [7]	55,191	-	-	-	7,505	-	**62,696**	-
Phil Stephens [8]	10,000	-	-	-	-	-	**10,000**	155,916
Tom Titherington [9]	37,327	-	-	-	-	-	**37,327**	-
Anne Wildeman [10]	-	-	-	-	-	-	**-**	133,952
	1,099,956	20,765	80,560	1,404	7,505	64,155	**1,274,345**	1,500,571

[1] Resigned 18 June 2018 - aggregate payment of notice amounted to £111,890.
[2] Appointed 18 June 2018
[3] Resigned 15 October 2018
[4] Resigned 31 August 2017
[5] Redundant with effect from 31 July 2017
[6] Appointed 8 October 2017; resigned 7 July 2018
[7] Appointed 3 July 2018; resigned 31 January 2019
[8] Resigned 31 October 2017
[9] Appointed 21 January 2019
[10] Resigned 31 December 2017 – aggregate compensation for loss of office amounted to £30,000.

Barry Nethercott was appointed on 2 January 2019. The Association paid £71k for his services as Chief Financial Officer.

Rita Akushie was appointed on 15 October 2018, and resigned on 14 December 2018. The Association paid £55k for her services as Chief Financial Officer.

Ann Santry, Heather Bowman, Mark Washer 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 31). Of the current Executive Board, Steve Barford and Heather Bowman are ordinary members of the SHPS defined contributions scheme. Funding is by employer and employee contributions and no enhanced or special terms apply to the Chief Executive and any other Director. The Chief Executive does not have any other individual pension arrangement (including a personal pension) to which the Association or any of its subsidiaries make a contribution.

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

No pension contributions are accruing to former executives (2018: £nil).

13. EMPLOYEE INFORMATION

Highest paid employees

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

Salary £'000	2019 Number	2018 Number
>60 to 70	**54**	56
>70 to 80	**31**	22
>80 to 90	**11**	12
>90 to 100	**7**	9
>100 to 110	**3**	4
>110 to 120	**8**	3
>120 to 130	**3**	4
>130 to 140	**2**	2
>140 to 150	**-**	1
>150 to 160	**-**	1
>160 to 170	**-**	1
>170 to 180	**2**	-
>180 to 190	**1**	-
>200 to 210	**1**	2
>220 to 230	**-**	1
>240 to 250	**1**	-
>280 to 290	**-**	1

13. EMPLOYEE INFORMATION (CONTINUED)

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

	Group		Association	
	2019 FTE	2018 FTE	**2019 FTE**	2018 FTE
Expressed in full time equivalents (FTE):				
Central administrative services	**481**	425	**481**	414
Developing or selling housing stock	**73**	84	**73**	84
Managing or maintaining stock	**1,326**	1,272	**1,326**	1,250
Employees providing support	**15**	45	**15**	45
	1,895	1,826	**1,895**	1,793

	Group		Association	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Employees costs (for the above persons):				
Wages and salaries	**65,669**	60,790	**65,665**	59,911
Social security costs	**6,058**	5,822	**6,058**	5,735
Pension costs	**3,109**	3,816	**3,109**	3,795
Oxfordshire LGPS cessation value	**1,771**	-	**1,771**	-
	76,607	70,428	**76,603**	69,441

14. SOCIAL HOUSING PROPERTIES

Group	Completed		Under construction			
	Housing properties (rental) £'000	Shared ownership properties £'000	Housing properties £'000	Shared ownership properties £'000	**2019 Total £'000**	2018 Total £'000
Deemed cost						
At 1 April	3,253,660	367,156	136,602	61,892	**3,819,310**	3,686,258
Reclassification of schemes	-	-	193	(193)	**-**	-
Transfer to investment properties	-	-	-	-	**-**	(4,059)
Schemes completed	53,819	30,013	(53,819)	(30,013)	**-**	-
Additions - new units	44,112	12,104	103,575	54,257	**214,048**	163,249
Additions - improvements to stock	17,024	-	-	-	**17,024**	13,386
Disposals	(6,171)	(7,336)	-	-	**(13,507)**	(39,524)
As at 31 March	**3,362,444**	**401,937**	**186,551**	**85,943**	**4,036,875**	**3,819,310**
Depreciation						
At 1 April	324,907	13,499	-	-	**338,406**	309,541
Charge for the year	33,405	2,223	-	-	**35,628**	34,736
On disposals	(2,087)	(378)	-	-	**(2,465)**	(5,871)
As at 31 March	**356,225**	**15,344**	**-**	**-**	**371,569**	**338,406**
Net book value at 31 March 2019	**3,006,219**	**386,593**	**186,551**	**85,943**	**3,665,306**	
Net book value at 31 March 2018	2,928,753	353,657	136,602	61,892	**3,480,904**	

14. SOCIAL HOUSING PROPERTIES (CONTINUED)

Group	Completed		Under construction			
	Housing properties (rental) £'000	Shared ownership properties £'000	Housing properties £'000	Shared ownership properties £'000	**2019 Total £'000**	2018 Total £'000
Cost or valuation at 31 March is represented by:						
Gross cost	2,997,282	378,436	186,551	85,943	**3,648,212**	3,428,649
Historic cost depreciation	(322,371)	(13,747)	-	-	**(336,118)**	(307,426)
	2,674,911	364,689	186,551	85,943	**3,312,094**	3,121,223
Revaluation reserve	331,308	21,904	-	-	**353,212**	359,681
	3,006,219	386,593	186,551	85,943	**3,665,306**	3,480,904
Existing use value and properties under construction	3,098,520	391,314	186,551	85,943	**3,762,328**	3,451,103

Additions to housing properties under construction during the year include capitalised interest of £6,687k (2018: £5,315k) and major repairs capitalised of £17,024k (2018: £13,368k). Interest is capitalised on development schemes as set out in the accounting policy in note 2(p).

In the current year the Association entered into transactions with other social landlords. During the year, housing properties with a net book value of £110k were sold to other housing associations. Properties to the value of £24.0m were purchased from other housing associations.

Following purchases of housing properties from other housing associations in previous years, the Association has a contingent liability of £165.0m (2018: £152.4m) for social housing grant which requires recycling into new social housing development on sale of the properties originally purchased.

There are no indicators of impairment in the current year and a detailed impairment review has not been required.

In addition to the capital improvements to housing properties shown above, £34,013k (2018: £36,390k) was spent on routine maintenance.

14. SOCIAL HOUSING PROPERTIES (CONTINUED)

Association	Completed: Housing properties (rental) £'000	Completed: Shared ownership properties £'000	Under construction: Housing properties £'000	Under construction: Shared ownership properties £'000	**2019 Total £'000**	2018 Total £'000
Deemed cost						
At 1 April	3,273,664	367,156	123,863	56,716	**3,821,399**	3,690,869
Reclassification of schemes	-	-	193	(193)	**-**	-
Transfer to investment properties	-	-	-	-	**-**	(4,059)
Schemes completed	53,819	30,013	(53,819)	(30,013)	**-**	-
Additions - new units	45,471	12,104	106,471	57,987	**222,033**	160,727
Additions - improvements to stock	17,024	-	-	-	**17,024**	13,386
Disposals	(6,171)	(7,336)	-	-	**(13,507)**	(39,524)
As at 31 March	3,383,807	401,937	176,708	84,497	**4,046,949**	3,821,399
Depreciation						
At 1 April	324,886	13,499	-	-	**338,385**	309,524
Charge for the year	33,401	2,223	-	-	**35,624**	34,732
On disposals	(2,087)	(378)	-	-	**(2,465)**	(5,871)
As at 31 March	356,200	15,344	-	-	**371,544**	338,385
Net book value at 31 March 2019	3,027,607	386,593	176,708	84,497	**3,675,405**	
Net book value at 31 March 2018	2,948,778	353,657	123,863	56,716	**3,483,014**	

Association	Completed: Housing properties (rental) £'000	Completed: Shared ownership properties £'000	Under construction: Housing properties £'000	Under construction: Shared ownership properties £'000	**2019 Total £'000**	2018 Total £'000
Cost or valuation at 31 March is represented by:						
Gross cost	2,824,293	378,436	176,708	84,497	**3,463,934**	3,236,386
Historic cost depreciation	(339,718)	(13,747)	-	-	**(353,465)**	(324,777)
	2,484,575	364,689	176,708	84,497	**3,110,469**	2,911,609
Revaluation reserve	543,032	21,904	-	-	**564,936**	571,405
	3,027,607	386,593	176,708	84,497	**3,675,405**	3,483,014
Existing use value and properties under construction	3,098,241	391,314	176,708	84,497	**3,750,760**	3,432,909

Total grant liability included in creditors, reserves and contingent liabilities is £978.2m (2018: £929.1m).

15. OTHER FIXED ASSETS

Group	Freehold shops £'000	Freehold offices £'000	Leasehold offices £'000	Office furniture and equipment £'000	Scheme plant, furniture and equipment £'000	Computer hardware and software £'000	Plant £'000	Motor vehicles £'000	**2019 Total £'000**	2018 Total £'000
Cost or valuation										
At 1 April	7,395	19,643	2,065	8,146	10,868	31,957	392	1,708	**82,174**	78,554
Additions	-	-	-	134	341	5,659	34	19	**6,187**	4,733
Disposals	-	-	-	(2)	-	(14)	-	(291)	**(307)**	(1,113)
As at 31 March	7,395	19,643	2,065	8,278	11,209	37,602	426	1,436	**88,054**	82,174
Depreciation										
At 1 April	-	5,392	402	7,175	7,528	20,844	271	1,190	**42,802**	39,066
Charge for the year	-	363	61	459	400	2,788	42	148	**4,261**	4,517
On disposals	-	-	-	(2)	-	(14)	-	(240)	**(256)**	(781)
As at 31 March	-	5,755	463	7,632	7,928	23,618	313	1,098	**46,807**	42,802
Net book value at 31 March 2019	7,395	13,888	1,602	646	3,281	13,984	113	338	**41,247**	
Net book value at 31 March 2018	7,395	14,251	1,663	971	3,340	11,113	121	518	**39,372**	

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

15. OTHER FIXED ASSETS (CONTINUED)

Group	Freehold shops £'000	Freehold offices £'000	Leasehold offices £'000	Office furniture and equipment £'000	Scheme plant, furniture and equipment £'000	Computer hardware and software £'000	Plant £'000	Motor vehicles £'000	**2019 Total £'000**	2018 Total £'000
Cost or valuation at 31 March is represented by										
Net book value of assets held at valuation	7,395	-	-	-	-	-	-	-	**7,395**	7,395
Net book value of assets held at historic cost	-	13,888	1,602	646	3,281	13,984	113	338	**33,852**	31,977
	7,395	13,888	1,602	646	3,281	13,984	113	338	**41,247**	39,372

15. OTHER FIXED ASSETS (CONTINUED)

Association	Freehold shops £'000	Freehold offices £'000	Leasehold offices £'000	Office furniture and equipment £'000	Scheme plant, furniture and equipment £'000	Computer hardware and software £'000	Motor vehicles £'000	**2019 Total £'000**	2018 Total £'000
Cost or valuation									
At 1 April	7,395	19,643	2,065	7,340	10,868	31,430	620	**79,361**	75,755
Additions	-	-	-	134	341	5,651	-	**6,126**	4,404
Disposals	-	-	-	-	-	-	-	**-**	(798)
As at 31 March	7,395	19,643	2,065	7,474	11,209	37,081	620	**85,487**	79,361
Depreciation									
At 1 April	-	5,392	402	6,716	7,528	20,414	570	**41,022**	37,382
Charge for the year	-	363	61	339	400	2,743	13	**3,919**	4,136
On disposals	-	-	-	-	-	-	-	**-**	(496)
As at 31 March	-	5,755	463	7,055	7,928	23,157	583	**44,941**	41,022
Net book value at 31 March 2019	7,395	13,888	1,602	419	3,281	13,924	37	**40,546**	
Net book value at 31 March 2018	7,395	14,251	1,663	624	3,340	11,016	50	**38,339**	

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

15. OTHER FIXED ASSETS (CONTINUED)

Association	Freehold shops £'000	Freehold offices £'000	Leasehold offices £'000	Office furniture and equipment £'000	Scheme plant, furniture and equipment £'000	Computer hardware and software £'000	Motor vehicles £'000	**2019 Total £'000**	2018 Total £'000
Cost or valuation at 31 March is represented by									
Net book value of assets held at valuation	7,395	-	-	-	-	-	-	**7,395**	7,395
Net book value of assets held at historic cost	-	13,888	1,602	419	3,281	13,924	37	**33,151**	30,944
	7,395	13,888	1,602	419	3,281	13,924	37	**40,546**	38,339

16. NON-HOUSING FIXED ASSETS - VALUATION METHODOLOGY

Freehold shops were last professionally valued by Jones Lang LaSalle on the basis of open market value as at 31 March 2016 and in accordance with the RICS Appraisal and Valuation Standards. The valuer is neither an employee nor an officer of the Association. No valuation was undertaken as at 31 March 2019 as management believe the market to be stable with no material fluctuations in the intervening period.

17. INVESTMENT PROPERTIES

	Group		Association	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Valuation				
At 1 April	**130,481**	124,180	**94,306**	89,410
Transfer from housing properties	**-**	4,059	**-**	4,059
Additions new units	**1,399**	1,729	**1,399**	1,728
Disposals	**-**	(1,968)	**-**	(1,968)
Fair value increase	**2,458**	2,481	**678**	1,077
At 31 March	**134,338**	130,481	**96,383**	94,306
Historic cost net book value	**121,674**	117,762	**89,857**	85,945

Investment properties, which primarily comprise market rent properties, were professionally valued by Jones Lang LaSalle at open market value as at 31 March 2019. The valuation was undertaken in accordance with the RICS Appraisal and Valuation Standards.

18. INVESTMENTS IN JOINT VENTURES

	David Wilson £'000	Linden Homes £'000	Kier £'000	**Total £'000**
Investment				
At 1 April 2018	-	-	-	**-**
Additions	-	-	-	**-**
At 31 March 2019	-	-	-	**-**
Share of profits				
At 1 April 2018	4	(205)	328	**127**
Profit for the year	(19)	2,535	1,417	**3,933**
Equity adjustment	-	562	-	**562**
Equity cap	15	(1,988)	-	**(1,973)**
Dividend distribution	-	-	(698)	**(698)**
At 31 March 2019	-	904	1,047	**1,951**
Net book value at 31 March 2019	-	904	1,047	**1,951**
Net book value at 31 March 2018	-	-	-	-

The investment in Joint Venture is grouped by venture partner for risk profile and exposure purposes. There are losses of £2m from Joint Ventures not shown on the statement of financial position as negative investments are not recognised. The group will recognise profit from those Joint Ventures when there is sufficient profit to eliminate the accumulated losses for each Joint Venture.

19. INVESTMENTS - HOMEBUY LOANS

	Group		Association	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
At 1 April	**12,036**	12,810	**12,036**	12,810
Loans repaid	**(297)**	(774)	**(297)**	(774)
At 31 March	**11,739**	12,036	**11,739**	12,036

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. There are 386 loans outstanding (2018: 397).

20. FINANCIAL ASSETS

	Group		Association	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Cost or valuation				
Bonds	**557**	1,269	**557**	1,269
Debt service reserve	**3,812**	3,688	**3,812**	3,688
Collateral deposits	**1,351**	1,219	**1,351**	1,219
Assets measured at fair value through the income statement (derivatives)	**4,106**	5,115	**4,106**	5,115
Shares in subsidiary undertaking	**-**	-	**6,294**	6,294
	9,826	11,291	**16,120**	17,585

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.

21. STOCK

	Group		Association	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Properties under construction	**48,710**	36,267	**36,479**	17,589
Completed properties	**5,147**	15,319	**5,147**	15,319
Consumable stock	**1,579**	980	**924**	437
	55,436	52,566	**42,550**	33,345

22. DEBTORS

	Group		Association	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Rental arrears				
Gross	**10,370**	8,460	**10,592**	8,434
Discounted repayment schedules	**(690)**	(655)	**(690)**	(655)
Less bad debt provision	**(6,630)**	(5,871)	**(6,863)**	(5,858)
Net rental income due	**3,050**	1,934	**3,039**	1,921
Social Housing grant receivable	**704**	3,692	**704**	3,692
Prepayments and accrued income	**9,432**	8,687	**6,399**	6,385
Due from other Group undertakings	**-**	-	**69,949**	74,744
Other loans	**19,629**	20,038	**338**	401
Other debtors	**4,281**	5,526	**4,774**	2,872
	37,096	39,877	**85,203**	90,015
Amounts falling due within one year	**36,309**	36,126	**21,609**	25,940
Amounts falling due after more than one year	**787**	3,751	**63,594**	64,075
	37,096	39,877	**85,203**	90,015

Loans from the Association to other members of the Group are charged at a market rate of interest of 3.75% to 6% (2018: 3.75% to 6%).

Long term debtors consist of prepayments and amounts due from Joint Ventures. Amounts are repayable dependent on sales and operating performance within the Joint Venture. No repayment is due within the next 12 months.

Within other loans are amounts due from Linden Homes (Sherford) LLP, a Joint Venture development partnership, of £19,495k (2018: £19,025k).

23. FINANCIAL ASSETS (SHORT TERM)

	Group		Association	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Short term deposits	**-**	3,011	**-**	3,011
	-	3,011	**-**	3,011

Short term investments comprise sterling notice deposits.

24. CASH AND CASH EQUIVALENTS

	Group		Association	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Cash and cash equivalents	**45,228**	23,202	**42,125**	16,172
	45,228	23,202	**42,125**	16,172

25. CREDITORS – AMOUNTS FALLING DUE WITHIN 1 YEAR

		Group		Association	
	Note	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000
Housing Loans	27	**39,201**	41,381	**38,657**	40,850
Trade creditors		**7,277**	11,421	**12,185**	11,742
Social housing grant in advance		**476**	1,531	**476**	1,531
Social housing grant - properties	29	**2,678**	4,981	**2,678**	4,981
Due to Group undertakings		**-**	-	**18,087**	10,701
Other loans		**494**	324	**569**	324
Taxation and social security		**1,666**	1,003	**1,666**	977
SHPS Pension deficit contributions	31	**-**	3,799	**-**	3,799
Recycled capital grant fund	30	**13,886**	12,779	**13,886**	12,779
Disposals proceeds fund	30	**-**	642	**-**	642
Rents received in advance		**6,585**	6,585	**6,550**	6,550
Other creditors		**4,633**	8,242	**5,209**	7,442
Accruals and deferred income		**57,094**	37,410	**35,745**	20,388
		133,990	130,098	**135,708**	122,706

26. CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN 1 YEAR

	Note	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
Housing Loans	27	**1,667,077**	1,551,353	**1,234,852**	1,118,605
Finance lease		**2,716**	2,460	**2,716**	2,460
Derivative financial instruments		**92,598**	88,550	**92,598**	88,550
SHPS pension deficit contributions	31	**-**	19,171	**-**	19,171
Social housing grant - properties	29	**289,954**	288,779	**289,666**	288,492
Deferred income		**11,739**	12,036	**11,739**	12,036
Recycled capital grant fund	30	**10,885**	10,050	**10,885**	10,050
Disposals proceeds fund	30	**-**	27	**-**	27
Other creditors		**551**	4,560	**551**	537
Long term Group loans	27	**-**	-	**425,000**	425,000
		2,075,520	1,976,986	**2,068,007**	1,964,928

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

	On demand £'000	Less than 12 months £'000	1 to 5 years £'000	More than 5 years £'000	Total £'000
March 2019					
Amounts due to 2009 bond investors	-	9,986	39,942	329,775	**379,703**
Amounts due to 2012 bond investors	-	11,920	47,680	482,440	**542,040**
Amounts due to Affordable Housing Finance	-	2,748	10,993	148,593	**162,334**
	-	24,654	98,615	960,808	**1,084,077**
March 2018					
Amounts due to 2009 bond investors	-	9,986	39,942	339,761	**389,689**
Amounts due to 2012 bond investors	-	11,920	47,680	494,360	**553,960**
Amounts due to Affordable Housing Finance	-	2,748	10,993	151,341	**165,082**
	-	24,654	98,615	985,462	**1,108,731**

27. HOUSING LOANS

	Note	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
Repayable other than by instalments in more than five years	26	**520,000**	520,000	**520,000**	520,000
Repayable by instalments within one year	25	**39,201**	41,381	**38,657**	40,850
Repayable by instalments in more than one but less than two years	26	**35,807**	78,713	**35,263**	77,625
Repayable by instalments between two and five years	26	**111,379**	162,343	**109,940**	160,904
Repayable by instalments in more than five years	26	**999,891**	790,297	**994,649**	785,076
		1,706,278	1,592,734	**1,698,509**	1,584,455

All loans are held at amortised cost.

The housing loans are provided by a combination of bank debt and capital markets funding. The bank facilities are provided by six principal commercial lenders being Santander, Barclays, Bank of Scotland, Dexia, RBS NatWest, Nationwide together with the European Investment Bank, THFC, Handelsbanken, Yorkshire Building Society, SMBC and National Australia Bank. Loan interest rates range from 0.72% to 10.25% per annum (2018: 0.72% to 10.75%). The average rate achieved over the year was 3.9% (2018: 3.9%). Interest on housing loans is charged to the Statement of Total Comprehensive Income or capitalised in the year that it is incurred. The housing loans are secured by first fixed charges over certain of the Group's housing properties. The total undrawn loan facilities at 31 March 2019 were £370m (2018: £320m).

28. PROVISIONS

	Group			Association		
	Property £'000	Other £'000	**Total £'000**	Property £'000	Other £'000	**Total £'000**
At 1 April 2018	2,812	4,645	**7,457**	2,733	3,219	**5,952**
Arising during the year	327	-	**327**	317	-	**317**
Utilised during the year	(232)	(1,426)	**(1,658)**	(232)	-	**(232)**
At 31 March 2019	2,907	3,219	**6,126**	2,818	3,219	**6,037**
Current	2,907	1,400	**4,307**	2,818	3,219	**6,037**
Non-current	-	1,819	**1,819**	-	-	**-**
At 31 March 2019	2,907	3,219	**6,126**	2,818	3,219	**6,037**

Provisions recognised by the Group and Association are based on reliable estimates determined by management of the amounts payable based on available information. The amounts recorded in the above tables are continually evaluated by management.

The Property provision relates to the cost of replacing defective cladding to one property. Cost of work is estimated and is expected to be incurred within one year.

Other provisions mainly relate to additional costs on existing development schemes.

29. GRANT

	Note	Group		Association	
		2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
At 1 April		**293,760**	291,831	**293,473**	291,544
Grants received during the year		**3,387**	4,234	**3,387**	4,234
Grants recycled from the recycled capital grant fund		**1,272**	4,290	**1,272**	4,290
Grant re staircasing sales		**(557)**	(346)	**(557)**	(346)
Grant re other property		**(274)**	(4,069)	**(274)**	(4,069)
Grant adjustment		**(2,355)**	411	**(2,356)**	411
Grant amortisation		**(2,601)**	(2,591)	**(2,601)**	(2,591)
At 31 March	25, 26	**292,632**	293,760	**292,344**	293,473

30. RECYCLED CAPITAL GRANT FUND AND DISPOSAL PROCEEDS FUND

	Note	Group		Association	
		2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Recycled Capital Grant Fund					
At 1 April		**22,829**	22,297	**22,829**	22,297
Reclassification		**669**	-	**669**	-
Grants recycled		**2,456**	4,736	**2,456**	4,736
Interest		**89**	86	**89**	86
New build		**(1,272)**	(4,290)	**(1,272)**	(4,290)
At 31 March	25, 26	**24,771**	22,829	**24,771**	22,829
Disposals Proceeds Fund					
At 1 April		**669**	666	**669**	666
Reclassification		**(669)**	-	**(669)**	-
Interest accrued		**-**	3	**-**	3
At 31 March	25, 26	**-**	669	**-**	669

31. PENSION ARRANGEMENTS

The Association participates in six 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)

Sovereign Housing Association participates in the Social Housing Pension Scheme (SHPS), a multi-employer scheme which provides benefits to some 500 non-associated employers. The scheme is a defined benefit scheme in the UK.

The Scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and Technical Actuarial Standards issued by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.

The last triennial valuation of the scheme for funding purposes was carried out as at 30 September 2017. This valuation revealed a deficit of £1,522m. A Recovery Plan has been put in place with the aim of removing this deficit by 30 September 2026.

The Scheme is classified as a 'last-man standing arrangement'. Therefore the Association is potentially liable for other participating employers' obligations if those employers are unable to meet their share of the scheme deficit following withdrawal from the Scheme. Participating employers are legally required to meet their share of the Scheme deficit on an annuity purchase basis on withdrawal from the Scheme.

For financial years ending on or before 28 February 2019, The Pensions Trust have not been able to supply the Association with sufficient information to enable it to account for the Scheme as a defined benefit scheme. This was the case for all employers within the Scheme.

The Association has accounted for the scheme as a defined contributions scheme and by recognising a liability within creditors equal to the discounted deficit payments over the agreed repayment term.

For financial years ending on or after 31 March 2019, it is possible to obtain sufficient information to enable the Association to account for the Scheme as a defined benefit scheme.

For accounting purposes, two actuarial valuations for the Scheme were carried out with effective dates of 31 March 2018 and 30 September 2018. The liability figures from each valuation are rolled forward to the relevant accounting dates, if applicable, and are used in conjunction with the Association's fair share of the Scheme's total assets to calculate the Association's net deficit at the accounting period start and end dates.

The impact of moving to defined benefit accounting on 1 April 2018 is shown below:

	£'000
Liability as previously calculated based on the net present value of deficit contributions payable	(22,970)
SHPS opening balance adjustment recorded in Oct	(15,629)
Liability re-stated using the full valuation method at 31 March 2018	**(38,599)**

The table below gives a summary of the plan asset and benefit liability under the defined benefit basis:

Present values of defined benefit obligation, fair value of assets and defined benefit liability	**2019 £'000**	2018 £'000
Fair value of plan assets	**129,291**	122,016
Present value of defined benefit obligation	**(173,924)**	(160,615)
Deficit in plan	**(44,633)**	(38,599)
Unrecognised surplus	-	-
Defined benefit liability to be recognised	**(44,633)**	(38,599)

The Net defined benefit liability to be recognised is £44.633m.

31. PENSION ARRANGEMENTS (CONTINUED)

A reconciliation from previous accounting date to the current accounting date is shown below for the pension benefit obligation and associated pension asset:

Benefit obligation	**2019 £'000**
Defined benefit obligation at the beginning of the year	**160,615**
Expenses	**107**
Interest expense	**4,108**
Change in financial assumptions	**11,908**
Change in demographic assumptions	**475**
Actuarial losses due to scheme experience	**605**
Benefits paid and expenses	**(3,894)**
Defined benefit obligation at the end of the year	**173,924**

Asset reconciliation	**2019 £'000**
Fair value of scheme assets at the beginning of the year	**122,016**
Interest income	**3,158**
Experience on plan assets (less interest income) - gain	**4,117**
Contributions by employer	**3,894**
Benefits paid and expenses	**(3,894)**
Fair value of scheme assets at the end of the year	**129,291**

The Trustee of the Scheme commissions a full actuarial valuation of the Scheme every three years. The actuarial valuation assesses whether the Scheme's assets at the valuation date are likely to be sufficient to pay pension benefits obligation by members as at the valuation date. Asset values are calculated by reference to market levels. Pension obligations are valued by discounting expected future events discount rate calculated by reference to the expected future investment returns.

The following table sets out the assumptions used to arrive at the pension asset and liability for 31 March 2019 and 31 March 2018 (using market conditions as at the respective date).

SHPS Defined Benefit

Major assumptions	**2019 £'000**	2018 £'000
Price increases RPI	**3.26**	3.16
Price increases CPI	**2.26**	2.16
Discount rate	**2.34**	2.59
Salary increase	**3.26**	3.16
Allowance for commutation of pension for cash at retirement	**75%**	75%

31. PENSION ARRANGEMENTS (CONTINUED)

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

	2019 £'000
Retiring today	
Males	**21.8**
Females	**23.5**
Retiring in 20 years	
Males	**23.2**
Females	**24.7**

Below is a summary of the overall impact of the defined cost recognised in the other comprehensive income

	2019 £'000
Defined benefit costs recognised in other comprehensive income	
Experience gain on plan assets (less interest income)	**4,117**
Experience losses arising on plan liabilities	**(605)**
Effects of changes in demographic assumptions underlying the present value of the defined benefit obligation - (loss)	**(475)**
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligations - (loss)	**(11,908)**
Total amount recognised in other comprehensive income - (loss)	**(8,871)**

SHPS Defined Contributions

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 £3,108k (2018: £2,735k).

31. PENSION ARRANGEMENTS (CONTINUED)

(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 2017 and was updated to 31 March 2019 by a qualified independent actuary.

Future pension increases have been assumed to be at CPI.

It was agreed that an employer contribution rate of 24.7% of pensionable pay would apply in the year ended 31 March 2019 (2018: 21.9%). An additional allowance is payable each year in respect of past service deficits. The allowance for the year ended 31 March 2019 was £438k (2018: £412k).

(c) Local Government Pension Scheme administered by Dorset County Council (Dorset – legacy Sovereign Housing Association Limited)

This is a statutory, funded, occupational final salary scheme which is now closed to new members. The assets of the scheme are held in separate trustee administered funds.

The last full actuarial valuation was carried out as at 31 March 2018 and was updated to 31 March 2019 by a qualified independent actuary.

Future pension increases have been assumed to be at CPI.

It was agreed that an employer contribution rate of 16.3% of pensionable pay would apply in the year ended 31 March 2019 (2018: 16.3%). Past service deficit payments of £146k were made during the year (2018: £147k)

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

The last full actuarial valuation was carried out at 31 March 2017 and was updated to 31 March 2019 by a qualified independent actuary.

There were no past service deficit payments (2018: £nil). The scheme was closed on 31 August 2014.

Future pension increases have been assumed to be at CPI.

The fund was exited during the year and a cessation deficit value of £1,001k was calculated by the actuary as at 31 May 2018. This deficit was settled by the Association.

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

The last full actuarial valuation was carried out at 31 March 2017 and was updated to 31 March 2019 by a qualified independent actuary.

An employer contribution rate of 30.4% of pensionable pay applied for the year ended 31 March 2019 (2018: 30.4%). An additional allowance is payable each year in respect of past service deficits. The allowance for the year ended 31 March 2019 was £354k (2018: £342k).

Future pension increases have been assumed to be at CPI.

(f) Local Government Pension Scheme administered by Dorset County Council (Dorset – legacy Spectrum Housing Group Limited)

The last full actuarial valuation was carried out at 31 March 2017 and was updated to 31 March 2019 by a qualified independent actuary.

An employer contribution rate of 17.3% of pensionable pay applied for the year ended 31 March 2019 (2018: 16.3%). Past service deficit payments of £250k were made during the year (2018: £250k).

Future pension increases have been assumed to be at CPI.

(g) Local Government Pension Scheme administered by Isle of Wight Council (IOW)

The last full actuarial valuation was carried out at 31 March 2017 and was updated to 31 March 2019 by a qualified independent actuary.

An employer contribution rate of 26.9% of pensionable pay applied for the year ended 31 March 2019 (2018: 26.9%). An additional allowance is payable each year in respect of past service deficits. The allowance for the year ended 31 March 2019 was £139k (2018: £139k).

Future pension increases have been assumed to be at CPI.

31. PENSION ARRANGEMENTS (CONTINUED)

(h) Assumptions

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

	2019 % per annum						2018 % per annum					
Major assumptions	**Berks**	**Dorset**	**Oxford**	**Hants**	**Dorset**	**I.O.W.**	Berks	Dorset	Oxford	Hants	Dorset	I.O.W.
Price increases RPI	**3.5**	**3.5**	**n/a**	**3.3**	**3.5**	**-**	3.4	3.4	-	3.2	3.4	-
Price increases CPI	**2.5**	**2.5**	**n/a**	**2.2**	**2.5**	**-**	2.4	2.4	-	2.1	2.4	-
Pension increases	**2.5**	**2.4**	**n/a**	**2.2**	**2.4**	**2.5**	2.4	2.4	2.4	2.1	2.4	2.4
Pension accounts revaluation rate	**-**	**-**	**n/a**	**2.2**	**-**	**-**	-	-	-	2.1	-	-
Discount rate	**2.3**	**2.4**	**n/a**	**2.4**	**2.4**	**2.4**	2.5	2.6	2.6	2.6	2.6	2.7
Salary increase	**4.0**	**4.0**	**n/a**	**3.7**	**3.9**	**2.9**	3.9	3.9	n/a	3.6	3.9	2.8
Return assumptions												
Asset portfolio	**2.3**	**2.4**	**n/a**	**2.4**	**2.4**	**2.4**	2.5	2.6	2.6	2.6	2.6	2.7

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

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

	Berks	**Dorset**	**Oxford**	**Hants**	**Dorset**	**I.O.W.**
Retiring today						
Males	**22.0**	**22.9**	**n/a**	**23.3**	**22.9**	**22.3**
Females	**24.0**	**24.8**	**n/a**	**26.1**	**24.8**	**24.7**
Retiring in 20 years						
Males	**23.7**	**24.6**	**n/a**	**24.9**	**24.6**	**23.9**
Females	**25.8**	**26.6**	**n/a**	**27.8**	**26.6**	**26.5**

31. PENSION ARRANGEMENTS (CONTINUED)

(i) Historic Data

Berkshire	**2019 £'000**	2018 £'000	2017 £'000	2016 £'000	2015 £'000
Assets and liabilities value as at:					
Present value of funded obligation	**(17,944)**	(18,503)	(19,274)	(16,871)	(18,137)
Fair value of scheme assets (bid value)	**9,152**	8,814	8,810	7,844	8,321
Net Liability	**(8,792)**	(9,689)	(10,464)	(9,027)	(9,816)
Experience adjustments					
Experience adjustments on scheme assets	**-**	-	-	-	235
Experience adjustments on scheme liabilities	**-**	-	(73)	-	-

Dorset (legacy Sovereign Housing Association Limited)	**2019 £'000**	2018 £'000	2017 £'000	2016 £'000	2015 £'000
Assets and liabilities value as at:					
Present value of funded obligation	**(10,819)**	(10,948)	(11,217)	(9,210)	(9,706)
Fair value of scheme assets (bid value)	**5,439**	5,329	5,357	4,665	4,808
Net Liability	**(5,380)**	(5,619)	(5,860)	(4,545)	(4,898)
Present value of unfunded obligation	**(23)**	(25)	(27)	(31)	(29)
Net Liability (including unfunded obligations)	**(5,403)**	(5,644)	(5,887)	(4,576)	(4,927)
Experience adjustments					
Experience adjustments on scheme assets	**-**	-	-	-	176
Experience adjustments on scheme liabilities	**-**	-	(228)	-	-

31. PENSION ARRANGEMENTS (CONTINUED)

Oxfordshire	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000
Assets and liabilities value as at:					
Present value of funded obligation	-	(26,418)	(26,821)	(22,624)	(24,242)
Fair value of scheme assets (bid value)	-	27,188	27,017	23,127	23,864
Net asset/(liability)	-	770	196	503	(378)
Experience adjustments					
Experience adjustments on scheme assets	-	-	-	-	1,635
Experience adjustments on scheme liabilities	-	-	1,293	-	469

Hampshire	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000
Assets and liabilities value as at:					
Present value of funded obligation	(8,890)	(8,880)	(8,910)	(7,850)	(8,350)
Fair value of scheme assets (bid value)	7,330	6,600	6,370	5,460	5,670
Net liability	(1,560)	(2,280)	(2,540)	(2,390)	(2,680)
Experience adjustments					
Experience adjustments on scheme assets	-	-	-	-	410
Experience adjustments on scheme liabilities	-	-	-	-	60

31. PENSION ARRANGEMENTS (CONTINUED)

Dorset (legacy Spectrum Housing Group Limited)	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000
Assets and liabilities value as at:					
Present value of funded obligation	(24,562)	(24,841)	(25,640)	(20,378)	(21,398)
Fair value of scheme assets (bid value)	13,893	13,521	13,401	11,066	11,317
Net liability	(10,669)	(11,320)	(12,239)	(9,312)	(10,081)
Present value of unfunded obligation	(70)	(74)	(78)	(70)	(74)
Net liability (including unfunded obligations)	(10,739)	(11,394)	(12,317)	(9,382)	(10,155)
Experience adjustments					
Experience adjustments on scheme assets	-	-	-	-	-
Experience adjustments on scheme liabilities	-	-	-	-	-

Isle of Wight	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000
Assets and liabilities value as at:					
Present value of funded obligation	(14,759)	(13,041)	(12,734)	(11,057)	(11,751)
Fair value of scheme assets (bid value)	10,995	9,918	9,599	8,361	8,000
Net liability	(3,764)	(3,123)	(3,135)	(2,696)	(3,751)
Experience adjustments					
Experience adjustments on scheme assets	-	-	-	-	-
Experience adjustments on scheme liabilities	-	-	-	-	-

31. PENSION ARRANGEMENTS (CONTINUED)

Consolidated (Group and Association) Local Government Pension Schemes	Note	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000
Assets and liabilities value as at:						
Present value of funded obligation		**(76,974)**	(102,631)	(104,596)	(87,990)	(93,584)
Fair value of scheme assets (bid value)		**46,809**	71,370	70,554	60,523	61,980
Net liability		**(30,165)**	(31,261)	(34,042)	(27,467)	(31,604)
Present value of unfunded obligation		**(93)**	(99)	(105)	(101)	(103)
LGPS net liability (including unfunded obligations)		**(30,258)**	(31,360)	(34,147)	(27,568)	(31,707)
Social Housing Pension Scheme net liability	31(a)	**(44,633)**	-	-	-	-
Total net liability (including unfunded obligations)		**(74,891)**	(31,360)	(34,147)	(27,568)	(31,707)

This is the first year the Social Housing Pension Scheme has been included in the financial statements using defined benefit pension scheme accounting.

(j) Analysis of Pension Costs in the Statement of Total Comprehensive Income – SHPS and LGPS

	2019 £'000	2018 £'000
Charged to operating costs		
Current service cost	**857**	911
Administration costs	**128**	19
Oxfordshire LGPS cessation charge	**1,771**	-
Total charged to operating costs	**2,756**	930
(Credit)/charge to other finance costs		
Expected return on pension fund assets	**(1,132)**	(1,828)
Interest on pension scheme liabilities	**2,890**	2,682
Net charge to other finance costs	**1,758**	854

31. PENSION ARRANGEMENTS (CONTINUED)

(k) Asset and Liability Obligation Reconciliations - LGPS

Benefit obligation	2019 £'000	2018 £'000
Defined benefit obligation at the beginning of the year	**102,730**	104,701
Service cost	**857**	911
Interest cost	**1,940**	2,682
Change in financial assumptions	**3,152**	(2,195)
Change in demographic assumptions	**(2,893)**	-
Experience gains	**-**	-
Estimated benefits paid (net of transfers in)	**(2,462)**	(3,543)
Past service cost	**8**	19
Contributions by scheme participants	**159**	161
Unfunded pension payments	**(6)**	(6)
Exit Oxfordshire LGPS	**(26,418)**	-
Defined benefit obligation at the end of the year	**77,067**	102,730

Asset reconciliation	2019 £'000	2018 £'000
Fair value of scheme assets at the beginning of the year	**71,370**	70,554
Interest on assets	**1,132**	1,828
Return on assets less interest	**1,466**	539
Other acuarial gains	**460**	40
Administrative expenses	**(21)**	(19)
Contributions by employer	**1,899**	1,816
Contributions by scheme participants	**159**	161
Estimated benefits paid (net of transfers in)	**(2,468)**	(3,549)
Exit Oxfordshire LGPS	**(27,188)**	-
Fair value of scheme assets at the end of the year	**46,809**	71,370

31. PENSION ARRANGEMENTS (CONTINUED)

(l) Guaranteed Minimum Pensions

In October 2018 the High Court published its judgement on the case of Lloyds Banking Group and the equalisation of Guaranteed Minimum Pensions ('GMP'). This has consequently been assessed against the Group's defined benefit schemes. The impact of GMP Equalisation in respect of the Social Housing Pension Scheme has been recognised in the year.

Local government pension schemes

The Group has reviewed the impact of GMP Equalisation in respect of its five Local Government Pension Schemes and identified that a range of approaches has been adopted by the three scheme actuaries for those schemes. These approaches range from a detailed assessment of the impact of the requirements in 2019 through to limited recognition of the impact as the scheme actuaries wait for guidance from the Government on the methodology to be applied in calculating the full liability. No further adjustments have been made to the present value of obligations as the effect is not considered material.

In December 2018, the Court of Appeal ruled that 'transitional arrangements' protection in respect of benefit changes to the Judicial and Fire Fighter Pension scheme amounted to unlawful discrimination ('McCloud case'). Due to similar pension reforms to the LGPS in benefits the judgement is expected to be applicable to the LGPS.

The directors have considered the potential impact of the McCloud case on the Group and Association's LGPS defined benefit liability as at 31 March 2019. No additional liability has been recognised given the profile of the scheme members and assuming a very cautious outcome on the LGPS scheme liability (gross obligation: £77,067k) the directors are satisfied that when fully accounted in the financial statements the impact will not be material to the Group or Association Financial Statements as at 31 March 2019.

32. FINANCIAL INSTRUMENTS

(a) Carrying Amount of Financial Instruments

The carrying amount of the financial assets and liabilities includes:

	2019 £'000	2018 £'000
Assets measured at amortised cost	**5,720**	6,176
Liabilities measured at fair value through income statement (derivatives)	**(92,598)**	(88,550)
Asset measured at fair value through income statement (derivatives)	**4,106**	5,115
Liabilities measured at amortised cost (housing loans)	**(1,706,278)**	(1,592,734)
	(1,789,050)	(1,669,993)

(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.

32. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Hedge Accounting

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

	2019						2018					
	Carrying amount £'000	Expected cash flows £'000	1 year or less £'000	1 to <2 years £'000	2 to <5 years £'000	5 years and over £'000	Carrying amount £'000	Expected cash flows £'000	1 year or less £'000	1 to <2 years £'000	2 to <5 years £'000	5 years and over £'000
Interest rate swaps												
Liabilities	**88,491**	**98,959**	**7,494**	**7,271**	**20,400**	**63,794**	83,900	99,008	7,409	6,693	18,352	66,554
	88,491	**98,959**	**7,494**	**7,271**	**20,400**	**63,794**	83,900	99,008	7,409	6,693	18,352	66,554

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 (Group and Association)	2019 £'000	2018 £'000
Recognised through other comprehensive income	**(11,148)**	10,998
Recognised through the income statement	**2,611**	(886)
(Decrease)/increase in fair value	**(8,537)**	10,112

32. FINANCIAL INSTRUMENTS (CONTINUED)

(d) Fair Values

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

	2019 £'000	2018 £'000
Derivatives measured at fair value through income statement	**88,492**	83,435
	88,492	83,435

33. CALLED UP SHARE CAPITAL

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

	2019 £'000	2018 £'000
Allotted issued and fully paid		
At 1 April	**119**	120
Issued in the year	**3**	6
Cancelled during the year	**(4)**	(7)
At 31 March	**118**	119

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

34. 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.

35. CAPITAL COMMITMENTS

	Group		Association	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	**412,979**	300,185	**398,614**	246,952
Capital expenditure that has been authorised by the Executive Board but has not yet been contracted for	**81,382**	138,930	**81,793**	131,575

At 31 March 2019, the Group had cash and short term deposits of £45,228k (2018: £26,213k) and a further £370m of undrawn committed funding (2018: £320m), of which £197m was secured and available immediately (2018: £215m). These funds, along with cash generated from operating activities are expected to fund the above capital expenditure.

Subsequent to the reporting period, a further £250m credit facility has been agreed, syndicated across five major lenders.

36. OPERATING LEASES

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

	Group		Association	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Land and buildings				
- within one year	**45**	209	**45**	209
- between two and five years	**3,626**	262	**3,538**	130
- in over five years	**23,701**	1,360	**23,239**	847
Temporary social housing initiatives				
- between two and five years	**107**	142	**107**	142
Other				
- within one year	**1,153**	1,665	**1,124**	1,163
- between two and five years	**1,389**	2,643	**988**	2,243
- in over five years	**-**	-	**-**	-
	30,021	6,281	**29,041**	4,734

37. GROUP COMPANY INFORMATION AND RELATED PARTY

	Status	Activity	Holding
Sovereign Housing Association Limited	Registered Co-operative and Community Benefit Societies	Non-charity housing registered provider	
Subsidiary			
Doubloon Developments Limited	Private Limited Company	Design and build	100%
Florin Homes Limited		Commercial investment	100%
Sovereign Living Limited	Registered Co-operative and Community Benefit Societies	Non-charity housing registered provider	100%
Pennyfarthing Building Services Limited	Private Limited Company	Joint Venture holding company	80%
Sovereign Advances Limited	Private Limited Company	Capital funding	100%
Sovereign Westinghouse Development Limited	Private Limited Company	Joint Venture holding company	100%
Spectrum Property Care Limited	Private Limited Company	Repairs and maintenance	100%
Spectrum Property Ventures Limited	Private Limited Company	Capital funding	100%
Spectrum Premier Homes Limited	Private Limited Company (by guarantee)	Development and sale of housing properties	100%
Sovereign Housing Capital PLC	Public Limited Company registered	Capital funding	100%
Joint Venture			
Sovereign BDW (Newbury) LLP	LLP registered	Development and sale of residential accommodation	50%
Linden Homes Westinghouse LLP	LLP registered	Development and sale of residential accommodation	50%
Kier Sovereign LLP	LLP registered	Development and sale of residential accommodation	50%
Sovereign BDW (Hutton Close) LLP	LLP registered	Development and sale of residential accommodation	50%
Linden Homes (Sherford) LLP	LLP registered	Development and sale of residential accommodation	50%

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%.

37. GROUP COMPANY INFORMATION AND RELATED PARTIES (CONTINUED)

Sovereign Housing Association Limited also owns a non-charitable company Points West Housing Limited which is dormant and its net assets are not material. Points West Housing Limited is not consolidated within the Group's financial statements. Sovereign Housing D1 Limited, Sovereign Property Care Limited and Sovereign Maintenance Limited are dormant and net assets are zero in each.

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

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

Lee Bambridge is a non-executive Board member, a member of the Audit and Risk Committee and a member of the Treasury Committee of the Association, and a member of the senior management Board of Newbury Building Society. The Association has loans of £2.5m outstanding with Newbury Building Society. Mr Bambridge has no direct influence in the decision making process regarding loans with the Association.

Related Parties

(a) Inter-company

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

	2019 £'000	2018 £'000
Payment of interest at commercial rates	**21,936**	21,935
Purchase of Design and Build Services at cost plus commercial mark-up	**122,590**	119,719
Repairs and maintenance service at costs agreed during competitive tender	**37,305**	26,642
Management charges on a cost sharing basis	**(2,798)**	(2,099)
	179,033	166,197

The related transactions consist of interest payment on intercompany loans and management services.

(b) Pension schemes

FRS 102 considers defined benefit pension schemes for the benefit of the reporting entity as related parties. During the year Sovereign Housing Association Limited had transactions with the below pension providers. All but one of the pension providers are Local Government Pension Schemes (LGPS)

Social Housing Pension Scheme
LGPS - Dorset County Council
LGPS - Royal Berkshire Pension Fund
LGPS - Hampshire County Council
LGPS - Isle of Wight Council
LGPS - Oxfordshire County Council

Please refer to the pension note 31, which provides the full details of the pension providers and impact on the Statement of Total Comprehensive Income.

38. ACCOUNTING ESTIMATES AND JUDGEMENTS

There were no estimates, judgement and assumptions which had a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities or income and expenditure within the financial period. Below are the key judgement and estimate which management has applied.

Pension liability (LGPS)
Assumptions for the Local Government Pension Schemes have been obtained from the annual reports performed by qualified actuaries. An estimate of the Group's future cash flows is made using notional cash flows based on the estimated duration. These estimates are then used to derive a Single Equivalent Discount Rate (SEDR). The discount rate derived is such that the net present value of the notional cash flows, discounted at this single rate, equates to the net present value of the cash flows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve (where the spot curve is assumed to be flat beyond the 30 year point). The approach has changed from the "spot rate" approach adopted in the previous year.

Pension liability SHPS
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
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.

Investment properties
Investment properties were valued on the basis of open market value as at 31 March 2019 and commercial properties were similarly valued 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.

Measurement of stock
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.

Basis and estimate for overhead allocation
Overhead costs that can be directly linked to a business stream (cost centres) are recognised against them. For general overheads, these costs are allocated to the business streams based on number of properties. Management deem property number a key driver for the level of overhead cost incurred in the business and therefore provides an appropriate and realistic basis for allocating overhead. Other allocation basis under consideration and continuously reviewed are turnover, expenses level and employees time analysis.

Estimates and judgements for tax
The tax payable for the year comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as Other Comprehensive Income or to an item recognised directly in equity is also recognised in Other Comprehensive Income or directly in equity respectively. Deferred tax is estimated using the current tax rate. Management have made this judgement with the understanding that the application of a discounted tax rate will add little or no value to the reader of the Financial Statements.

38. ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Estimates and judgements for recognising stock
An element of completed and work in progress Shared Ownership properties are recognised as stock at each balance sheet date. This is the disposable first tranche portion. Management have estimated the first tranche portion held in stock as 40% of the total cost incurred at the balance sheet date, this is a realistic estimate as it is consistent with current trend of first tranche equity sale pattern.

Estimate on useful life of housing properties
Housing properties other than investment properties are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets are based on the NHF guidance and may vary slightly depending on a number of factors that are relevant to the underlying asset. Fixed assets are expected to come to a nil value at the end of its usefully economic life. However, management reviews the estimate of the useful lives at each reporting date to ensure they are consistent with survey report, making changes to individual units or component as appropriate. Such changes could impact insignificantly the surpluses for the year.

Grant amortisation
Deferred capital grants are amortised over the economic useful life of the structure of housing properties. Although shared ownership properties tend to have a shorter actual life span compare to their expected useful life (EUL) of their structure, management deem the current approach of amortisation to be prudent and not distorting the business performance.

Judgement on provisions
Provisions are recognised in the financial statement based on the likelihood of a liability occurring and an appropriate estimate is known for such liability. In estimating provisions, judgement on likelihood of occurrence is determined by expert opinion and past indicative trend of similar items. The value of provisions are arrived at considering the worst case scenario. The amounts recorded in note 28 are continually evaluated by management.

Estimates and judgements on pension
Estimates and judgements applied to the pension deficit are based on the pension estimate and assumptions provided by the pension provider. Please refer to note 31 for the underlying assumption.

Discounted items
Assets and liabilities with cashflow implications more than one year are recognised in the accounts at fair value which is arrived at by applying a discount rate that reflects the level of risk relevant to those items.

Judgement on the risk level and rate is informed by expert opinion and item with similar risk profile. Discounted items include long term debtor and financial instrument.

Judgement on capitalised major repairs
The Group's capitalisation policies align with FRS 102 principles, in applying this, management take an aggregated view in making capitalisation decision which match the accounting standard criteria requirement.

Judgement on mixed tenure split
Where a development relates to two or more tenures, construction cost is allocated to the different tenures using a dynamic apportionment basis. The dynamic approach applies a mix of standard apportionment basis to reflect substance of the development. Management deem this allocation basis effective as it results in a similar cost where the tenures are built independently. Cost allocation methods are reviewed annually for effectiveness. This basis for apportionment impacts depreciation charged for the year and the profit of sale of fixed asset.

Impairment
In determining any possible impairment of the Group's assets, factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and, where it is a component of a larger cash-generating unit, the economic viability and expected future financial performance of that unit. Where impairment is found, the carrying value of the properties in the cash generating unit is reduced to depreciated replacement cost