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ANNUAL REPORT AND FINANCIAL STATEMENTS 2018

Annual Report 2018

Sovereign Housing Association Limited

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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 with the Homes and Communities Agency no. 4837. Registered office: Woodlands, 90 Bartholomew Street, Newbury RG14 5EE

Our performance this year

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A major business

- £378m turnover
- £104m surplus
- £181m invested in new properties
- 56,782 homes for 130,000 people
- £90 cost per unit reduction on 2016/17
- Strong credit ratings (A+ S&P, A2 Moodys)
- Regulatory rating G1/V1 (Governance/Viability)

A great landlord

- £146m social value created
- 9 out of 10 residents find Sovereign easy to do business with
- 209,749 repairs completed, with 95% resident satisfaction
- 1.78% current tenant arrears
- 212 residents supported into work or better work

A leading developer

- 1,208 new homes built, of which 93% are sub-market rent or shared ownership
- £54m sales income
- 1,900 new homes a year to be built by 2022

A great place to work

- Investors in People Gold standard employer
- 24 apprentices employed or training with us
- 7.2% median gender pay gap

Our year in review

The view from the Chair

The communities where we work are under pressure. There's a housing crisis. There's a recognised need for far more new, and especially affordable, homes. New homes that help communities and economies grow stronger.

There's an affordability crisis too. Although unemployment remains low, ongoing welfare reform and often insecure low-paid work is putting stress on many households' finances, even those in affordable homes. Meanwhile, the ability to rent and buy on the open market continues to move out of reach of those who aspire to have a place of their own.

As one of the UK's biggest housing associations, delivering one of the largest affordable housing development programmes and providing a range of added value services, Sovereign has a crucial role to play in meeting these challenges.

Strong foundations

We're in great financial and operational shape to achieve our social purpose. Being better able to meet the challenges facing our communities was the driving force behind Sovereign and Spectrum Housing Group's decision to merge in November 2016. Having created a new, stronger, 57,000-home housing association, we've been working hard to realise the benefits for our residents, our communities and our business.

And with our growth focused in our core geographic area, we've been able to invest in providing better, more efficient services, while achieving an outstanding surplus of £104m. This enabled us to invest over £180m in new homes, along with improving services to create great places to live and helping our residents achieve their aspirations where we can.

Making the difference

Last year, we built 1,208 new homes, with the vast majority affordable, but we know we can go further and have recently approved a more ambitious development programme which will see us growing to build around 1,900 homes a year by 2022. We expect over 80% of that programme to be affordable.

Meanwhile, in addition to investing £45m on maintenance. we have invested £13.4m in improving our existing homes, whether that's installing new kitchens or bathrooms, or upgrading boilers, windows and doors.

We supported 212 people into work, provided money advice to thousands more and, as part of our commitment to our communities, are working with other local partners such as local authorities and schools to help create even better places to live.

Resident involvement

Following the tragedy at Grenfell Tower, our residents' safety – and ensuring we listen and act on their feedback – has been even more of a priority. While we do not manage many tall buildings, and none have the ACM cladding that was used on Grenfell Tower, we've ensured all of our properties have up-to-date Fire Risk Assessments and our residents are familiar with the safety arrangements for their properties. Any ongoing works are clearly explained and undertaken as quickly as possible.

Meanwhile, our award-winning approach to resident involvement means our residents are at the heart of what we do. Members of our Resident and Board Partnership, Scrutiny Coordination Group and Sovereign Communities reviewed policies, helped to formulate our values and strategic review, and shared their opinions on social housing with high-profile government ministers. This was on top of organising the scrutiny of our repairs service, our lettings service in the south, setting up new community groups and holding our first Residents' Conference.

Outstanding performance

Managing homes for over 130,000 people takes a lot of work and Sovereign has over 1,800 talented and motivated people who are committed to doing the best job they can.

We've brought even more of our property maintenance services in-house, taking more responsibility for the services we provide, as well as driving down costs. Our Sovereign Response and Spectrum Property Care teams have ended the year with 100% gas safety compliance and an outstanding 95% satisfaction rating for repairs.

Meanwhile, our housing teams have again delivered a sector-leading performance. Arrears stand at just 1.78%, down from 1.93%, and relets are turned around in under 17 days. This all means that people waiting for a Sovereign home can move in quickly, and that our customers are supported - where they need it - to sustain their tenancies.

A recent In-Depth Assessment (IDA) from the Regulator of Social Housing saw us achieve a G1/V1 rating - the highest award possible - demonstrating the strength of governance and business viability of our new organisation.

While it's been a great full first year for Sovereign, we know we need to continue to do more to tackle anti-social behaviour (ASB) and dealing with complaints, when things don't go as well as we'd like. Satisfaction with how we deal with ASB remains around 80%, but given the impact it can have on the quality of life of those nearby, it remains a priority.

Our new specialist resolution team is working hard to improve how we manage complaints, taking ownership of problems and making sure we communicate clearly throughout the process.

A modern, connected business

In order to provide an even better customer experience in the future, we're on our way to becoming a more modern, connected business. It is not only more efficient to provide a digital service, it's also what our customers are telling us they want.

Our sector-leading social media team helps residents get in touch and get things done in a way that works best for them. Meanwhile, our new MySovereign customer portal means

customers can pay rent, check their account or log a repair 24 hours a day, seven days a week. We'll continue to invest in the systems we need to provide a great service.

However, as it's about providing residents with a choice, we also value personal relationships and face-to-face conversations. Making it easy to do business with us frees up our time to focus on those that may need a little bit of extra help and support.

Looking ahead

Not only has Sovereign had a tremendous year, it's a business that has grown sustainably through some difficult economic and political times. I'd like to thank our Board and committee members, as well as all of Sovereign's employees, who are delivering our merger promises.

Our new-look, award-winning approach to resident involvement is also placing the voice of our residents at the heart of our decision-making and scrutiny processes. I'd like to thank all those involved for their time, insight and hard work to make Sovereign even better.

While it's, of course, a team effort, I want to recognise the contribution of Ann Santry, our Chief Executive, who retired earlier this year. Ann joined the business in 1999, growing Sovereign from around 11,000 to 57,000 homes, building thousands of new and affordable properties and successfully leading the organisation through a number of mergers. Under her inspirational leadership, Sovereign has developed the capacity, financial strength and influence to really make the difference and created a place where people wanted to come to work.

Ann ensured that Sovereign never lost sight of the reason it exists – our residents and our communities – and thanks to her thousands of people now have safe, affordable homes in places they want to live. Her impressive contribution to housing was, quite rightly, recognised through the award of a CBE in 2012.

I want to thank her on behalf of the Board, the employees, our shareholders and most importantly our residents for growing Sovereign into the successful organisation it is now. She will be missed and we all wish her well.

As we look to the future, I'd like to welcome Mark Washer as our new Chief Executive. Mark, who joined us from Clarion, brings extensive experience of managing large transformation programmes, fresh thinking and high energy to Sovereign, as well as strong leadership. I know he'll help us continue to transform the business and make a real difference to people's lives.

Gordon Holdcroft, Chair

Sovereign's future

I'm delighted to lead Sovereign as it embarks on the next stage of its evolution.

And while Sovereign will continue to grow, our long-term commitment to the places where we work remains. The acute housing and economic challenges in the south and south west of England mean that what we do is more important than ever.

However, with strong financial and operational foundations, and a refreshed strategy for the next five years, Sovereign is in a great position to meet those challenges.

I'd like to thank Ben Denton, our Executive Director, Development and Commercial, for his work in reshaping our development strategy, putting in place the foundations for us to build around 1,900 homes a year, including exploring the benefits of modern methods of construction. Ben moves on to new challenges in July 2018, but his efforts have been crucial to Sovereign's evolution.

We'll continue to take an innovative approach, modernising our services, providing a great customer experience and building stronger, more influential partnerships so we're able to do more and have an even greater impact locally. That is, after all, what we're here for.

And, with a new Strategic Partnership agreed with Homes England, as well as an innovative Joint Venture with West Berkshire Council, we're already taking major steps to build more of the homes our communities need, even more quickly.

To deliver our ambition, we'll continue to invest in our current employees, as well as attracting the brightest and the best. It's clear that Sovereign has a fantastic reputation, enviable track record and immense potential – and I'm looking forward to leading the next chapter in Sovereign's story.

There are exciting times ahead.

Mark Washer, Chief Executive

What makes us unique?

We're one of the biggest housing associations in the country, committed to meeting housing need in the diverse communities where we work, from our rural villages to growing cities.

We provide nearly 57,000 quality, affordable places for 130,000 people to call home – whether that's young people starting out, expanding families, key workers or older people. For those at risk of homelessness, we also have specialist homes and support to help them get back on their feet, in Basingstoke and on the Isle of Wight.

And we're investing in building much-needed new homes too. We oversee one of the largest affordable housing development programmes in England, with nine out of ten of our new homes available to rent or buy below market levels.

Where it makes sense, we build homes for outright sale and continue to grow our portfolio of private rent with surpluses reinvested in services and more affordable properties.

Through our skilled Sovereign Response and Spectrum Property Care teams, we take care to maintain and improve our homes, as well as providing a service for commercial customers.

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

How we do it

Although we're a not-for-profit organisation, we have a sector-leading reputation and the financial clout of a FTSE-250 business (based on net asset value).

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

Responding to our customers' needs and expectations, 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.

Our people

Our talented and motivated employees enable us to achieve our social and commercial objectives and deliver an outstanding service to our residents.

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

We are well on the way to being an even better place to work, where talented people come to realise their potential and deliver outstanding results. A diverse and inclusive culture is central to our success and during the year we re-set our values to provide a touchstone for how we work, make decisions and guide the business into the future. These are:

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.

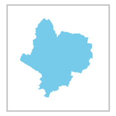
Adaptable
We embrace change, think ahead and find new ways of delivering a better customer experience.

Where we work

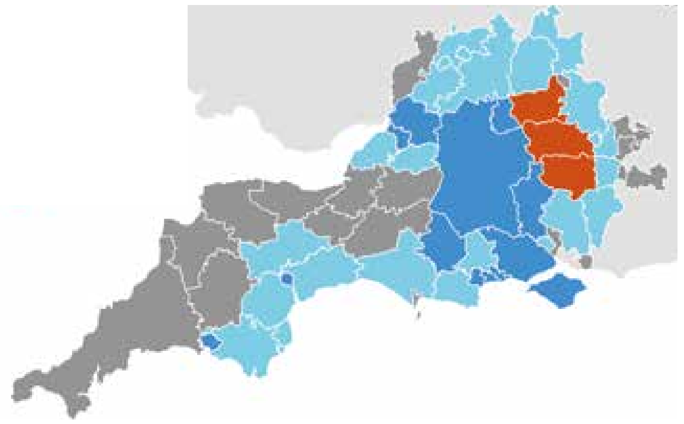
Our investment and activity is focused in a core area covering Berkshire, Hampshire, Oxfordshire, Gloucestershire, Dorset, Devon, Wiltshire, the West of England and the Isle of Wight.

Number of properties
- 1 - 100
- 101 - 1000
- 1001 - 4000
- 4000 +

Not on this map



City of Leicester



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Regional focus, national influence

To build the homes we need and create thriving communities, we know we need 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.

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

We believe in providing homes that people can afford

Of our 57,000 homes

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

14% support people into **home ownership**

3% are for **key workers**

2% are for **private rent**

Our new strategy unites everything we do, providing clarity for our people and our partners, and ensuring that Sovereign continues to thrive in an uncertain world.

OUR GOALS

1. Modernising our services and providing safe and secure homes

2. Maximising our social impact locally

3. Rethinking our approach to how we set rents and let our homes

4. Making the most of our assets

5. Growth to provide more homes and greater efficiency

6. Creating new partnerships

7. Influence with impact

8. Innovation for deployment at scale

9. Great people and a great place to work

A long-term view

Our new five year strategy, launched in 2018, reaffirms our commitment to provide a safe, secure and good quality home to people in need; using our enlarged, financially robust organisation to do more; and being brave in a business that we know well.

Since our merger in 2016, our integration programme has delivered significant financial savings and we'll continue to focus on delivering more value for every pound we spend, while maintaining our commitment to providing a great customer experience.

This efficiency and strength means we can seek to increase our development programme and we've aspirations to build around 1,900 homes a year by 2022. This will include more market sale and private rented homes, but the majority of our new homes will continue to be available at sub-market rates.

Besides our main development programme, we'll look at how we can maximise the value of our own land, and work with partner local authorities to acquire underused sites alongside our own land to optimise potential.

In particular, we aim to develop new responses to the needs of young single people, and older people, including owner occupiers who want to downsize to more suitable homes. We'll use our own profits and grants or Recycled Capital Grant Funding to achieve high standards, while keeping a focus on social housing, and delivering other forms of social value.

While we build more, we will also retain our long-standing commitment not to convert our social rented homes to higher rents on re-let. While this creates a financial constraint, we know the value of our social rented homes and believe that protecting them is the right thing to do.

Our community investment will be focused in our priority neighbourhoods, where people struggle to gain work and a good level of education. Over the next four years, we plan to increase our investment to £3m annually, on programmes that support learning, development and employment.

We will continue to be committed to making homes more affordable, by reducing running costs for our residents. By attracting external funding for affordable warmth in some of our more deprived areas and partnering with our suppliers to help them deliver on their corporate social responsibility, we will find ways to benefit our residents and help them manage their household costs.

As we transform our business, we will form a new, single-branded, modern maintenance division, bringing together existing teams of trade, technicians and engineers who will all be digitally connected, allowing for seamless remote working. We are also expanding the maintenance work we do in-house with our own trades and engineers, not only making us more efficient, but also adding value through a more direct connection to our residents, providing a close link for wider service issues and safeguarding support.

The world we work in

As the sector awaits government's social housing green paper, housing associations are at risk of being pulled in conflicting directions. Seen as a solution to building the homes the country needs – as well as helping local communities grow – housing associations are also under the spotlight because of the way they listen to their residents and maintain the standards of their homes.

Demand for affordable homes continues to rise

The National Housing Federation (NHF) and Crisis estimate that nearly 4m homes need to be built in England by 2031 to meet demand. As well as being above the current government target of building 300,000 homes a year by the mid-2020s, this is far beyond the 217,000 built in 2016/17, which includes conversions.

While unemployment is low, the type of jobs that people have are often low paid and insecure, and so, alongside increasing welfare reform, the affordability of new homes is crucial. The NHF also estimates that, of the 340,000 homes to be built, 90,000 should be for social rent, 30,000 for intermediate affordable rent and 25,000 for shared ownership.

To achieve these challenging numbers, a new approach to investment and land will be required. Government has set aside £2bn for social rented homes and Homes England are working to unlock strategic sites and public sector land.

Due to be published shortly, the green paper will set out the government's proposals for future funding and regulation. It's unclear if this will also tackle welfare reform, as the roll out of Universal Credit continues across the areas where we work.

As well as a potential impact on the economy and costs, Brexit is a distraction for government and, with around 10% of the UK construction sector's work force from outside the UK, there is also uncertainty over how the capacity of the construction industry to build the new homes will be affected.

Listening to residents

Last year's tragedy at Grenfell Tower rightly focused media and public attention on safety standards in housing as well as the importance of the resident voice and the stigmatisation of people living in social housing.

These topics, along with welfare reform, were the main concerns from social housing residents who attended a series of events organised by the Ministry of Housing to inform its social housing green paper.

Our new approach to resident involvement, which is just over a year old, picked up the Excellence in Tenant Engagement Award in the Tenant Participation Advisory Service (Tpas) South Awards 2018.

Created by our residents, and based on a 'triangle of involvement', residents are able to influence our strategy at Board level, and scrutinise the services that matter to them, while making sure local communities have a strong voice.

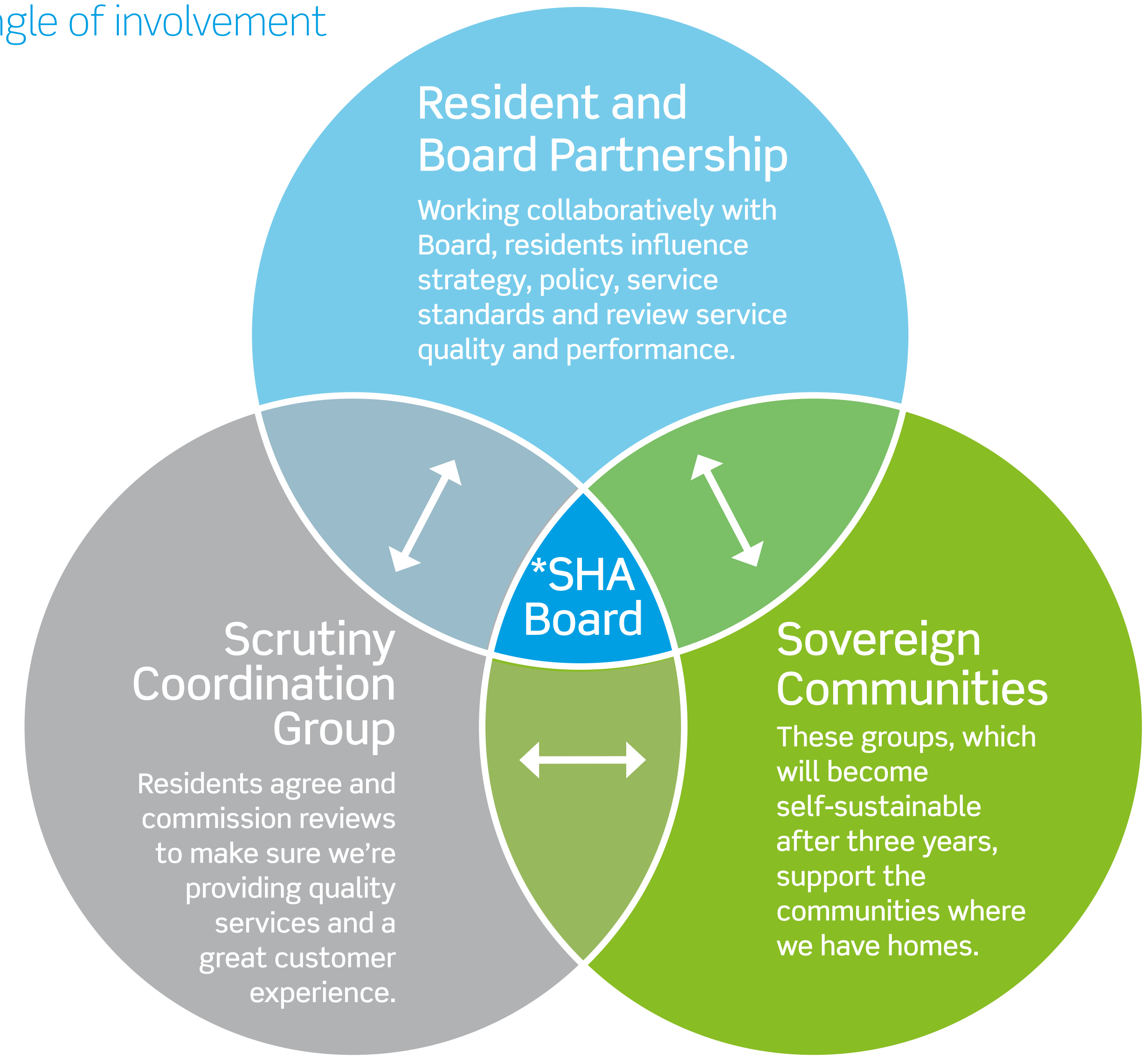
A changing sector

To overcome political and economic challenges, as well as delivering new homes and a good, value for money service, housing associations are changing and adapting.

The most visible differences are the continuing mergers of large housing associations to create scale and deliver operating efficiencies for investment in new homes and services. This trend looks set to continue, as even more substantial housing associations are formed.

Our residents can talk to us about their concerns via social media, drop-in sessions, over the phone or by joining community groups in the heart of the neighbourhoods where they live.

Triangle of involvement



* Sovereign Housing Association Board

A strong, efficient organisation

An outstanding performance

Sovereign has delivered a strong operational performance with operating surplus up 1% to £137.3m (2017: £135.9m), reflecting strong performance from the Group's core housing management operations and property sales activity.

The surplus before tax of £103.9m is up £14.8m on last year (2017: £89.1m), and reflects the surplus made on the sale of properties as we continue to rationalise our stock outside of our core geography, and lower interest and financing costs.

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

Measure	2018	2017
Operating surplus £m	137.3	135.9
Operating margin %	36.3	36.6
Surplus for the year before tax £m	103.9	89.1
EBITDA MRI £m	146.8	151.4
EBITDA MRI %	45.7	46.3

Earnings before interest, tax, depreciation, amortisation and major repairs included

Turnover

Our income increased, up £6.6m (1.8%) to £378.2m, primarily through an increase in receipts from open market sales of £7.0m to £16.1m.

Our social rent income has also increased by £2.7m (0.9%), despite the requirement to reduce rents for existing social and affordable tenancies by 1%. This is mainly due to building more homes as well as maintaining our upper quartile rent collection rates and re-let times. We also provide property maintenance services to other outside organisations. As we are doing more internal work in 2017/18 this means a lower capacity for external contracts, explaining the 12% reduction in income on last year.

Turnover £m	2018	2017	Change
Social housing rent	291.3	288.6	0.9%
Other social housing income	4.2	2.9	44.8%
Shared ownership first tranche sales	38.2	42.0	(9.1%)
Open market sales	16.1	9.1	77.1%
Private rent	9.5	9.0	5.2%
Keyworkers	8.7	8.4	3.6%
Other non-social housing activities	10.2	11.6	(12%)
Total	**378.2**	**371.6**	**1.8%**

By building and maintaining our financial and organisational strength, we'll maximise our social and economic impact in the communities where we work.

Operating costs

Our operating costs have increased by 2.2% to £197.8m.

£m	2018	2017	Change
Management costs	56.9	59.9	(5.0%)
Maintenance costs	83.4	83.7	(0.4%)
Depreciation	39.2	37.1	5.7%
Exceptional one off operating costs	4.1	-	-
Other costs	14.2	12.8	11.0%
Total	**197.8**	**193.5**	**2.2%**

The increase reflects one off costs of £4.1m, increased depreciation of £2.1m and other costs of £1.4m offset by reduced operational and maintenance costs of £3.0m and £0.3m respectively. The operational cost reductions reflect net savings across our management and maintenance functions of £4.3m, through merger savings and also by improving the way we work, partially offset by the increased volume of properties in the year.

These activities are just the beginning and lay the foundations for more efficiencies as we realise the full benefits of our modernisation work and the merger.

The one-off costs of £4.1m relate to work to replace cladding and upgrade fire prevention systems on one block of flats and to provide for additional costs in respect of a development scheme.

Other costs and activities

The surplus from sales of housing assets (disposals of property, plant and equipment) increased by £6.4m to £18.4m (2017: £12.0m). This was mainly through increased asset management and stock rationalisation sales, as well as the final sales associated with the voluntary Right to Buy pilot.

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 £1.6bn.

At March 2018, fixed assets totalled £3,669m (2017: £3,561m), an increase of £108m on the previous year. The key elements of this increase include £181m invested in new developments, £13m of capitalised improvements on existing properties and revaluation gains of £2m on investment properties. These increases are partially offset by depreciation of £39m (2017: £37m) and disposal of properties to other housing associations with a total net value of £36m.

Cash and short-term investments have reduced to £26m (2017: £45m) which is sufficient to cover both short-term margin call fluctuations and operational cash requirements. Revolving bank facilities remain available to support ongoing funding requirements.

Total reserves strengthened to £1,647m, (2017: £1,529m) an increase of £118m.

Cash flow

The operating cash flow at £168m was up £4m on last year (2017: £164m) reflecting the strong operating performance. The main movements in the Group's cash flow are shown in the table below.

The net cash outflow from investing activities decreased to £117m in 2018 (2017: £150m). The reduction primarily reflects the lower levels of stock acquisitions from other housing associations (£nil vs. £44m in 2017) partially offset by new housing development where expenditure was slightly higher than the previous year at £176m (2017: £173m). Fixed asset sales income reduced by £13m reflecting lower levels of stock sales to other housing associations. Grant receipts increased slightly to £4m (2017: £3m) but remain low compared to historic levels.

During the year, Sovereign sold 413 properties for £57.3m, generating a gain of £18.4m (2017: £12.0m).

Interest paid reduced to £61m (2017: £67m) with £5m of hedge break costs being paid in the previous year. Net loans decreased by £11m (2017: £35m increase) with deposit withdrawals of £28m (2017: £nil). As a result of the above, the year ended with a net debt position of £1,567m, £3m higher than 2017 (£1,564m).

Cash flow £m	2018	2017
Net cash inflow from operating activities	168.0	164.3
Cash flow from investing activities		
Investment in jointly controlled entity	(4.4)	(6.9)
Purchase of tangible fixed assets	(175.6)	(216.9)
Proceeds from sale of tangible fixed assets	57.3	70.3
Grants received	4.5	2.7
Interest received	1.1	1.2
Net cash from investing activities	**(117.1)**	**(149.6)**
Cash flow from financing activities		
Interest paid	(61.1)	(67.2)
Movement in collateral deposits	2.4	(0.9)
Net new borrowings	(11.2)	34.6
Withdrawal from deposits	28.2	(0.3)
Net cash used in financing activities	**(41.7)**	**(33.8)**
Net change in cash and cash equivalents	**9.2**	**(19.1)**

A value for money business

A strategic approach

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

- **Financial value:** The value to Sovereign. This could be savings, through efficiencies or increased income, or delivering more with the same resources.
- **Resident value:** The value for our residents. This could be direct savings, or similarly reducing dependency on benefits, or improvements to wellbeing.
- **Social value:** The value to wider society and the economy. These are wide-ranging and involve the following key stakeholders:

Stakeholder	Example of value
Exchequer	Lower Housing Benefit bill as social rents are lower than private rents.
Economy	Spend on infrastructure stimulates growth and jobs.
Community	Provision of affordable homes where they are needed. Investment in communities where we operate.
Our employees	Invest in our employees and provide more jobs as we grow.
Environment	Build energy efficient new homes and make investments that improve the efficiency of existing homes.

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

Savings and efficiency

We see savings and efficiency improvements as being two different elements. Both support the drive to ensure that Sovereign is effective in delivering its value for money strategy:

- Savings are hard cash savings associated with actions such as reducing headcount, insourcing and saving VAT or negotiating discounts on large supply contracts. They are easily measurable and are a key part of budgeting and monitoring the performance and progress of the business.
- Efficiencies are the benefits delivered through economies of scale or changing the way we operate. Again, efficiencies are built into our plans and delivery is monitored and reported upon.

There is an element of cross over between the two but the distinction we draw helps us to track our delivery over a period of time and ensure we remain on track.

As we modernise and transform our new 57,000-home housing association, formed through a merger in November 2016, we can invest more in homes and services. A key part of this is ensuring that we deliver value for money in all areas of our business.

Savings targets and delivery to date

Prior to merger, Sovereign and Spectrum had saving targets to deliver a total annual saving of £24m. A further £10m annual saving target was attributed to the merger, giving a total saving to be delivered of £34m over a seven year period, of which £33m is due to be delivered in the five years to 2019/20. At the end of 2017/18, £26m has been delivered, with £5.2m being delivered in the year.

Operational efficiency

Our increased scale has allowed us to reduce cost per unit across a range of areas, including management costs. While these costs remain below our peer group, we'll continue to drive down costs where we can, without impacting on service quality or performance.

Using the cost per unit measures, as adopted and published by the Regulator of Social Housing (RSH), we can chart our own progress and also benchmark ourselves against the sector.

Cost per unit (CPU)	Sovereign 2018	Sovereign 2017	Peer group 2017	Sector benchmark 2017
Management	946	1,044	986	943
Service charge	248	265	614	551
Maintenance	883	906	1,174	991
Major repairs	717	674	661	747
Other social housing	64	59	543	467
Social housing total	**2,858**	**2,948**	**3,978**	**3,699**
Units managed (for calculations)	51,440	50,882		

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

Our CPU for management has fallen by £98 from £1,044 to £946, resulting in an overall efficiency saving of £5.1m. This follows a number of improvements to the way we work across our front and back office teams, and merger integration work. This continues to be higher than the sector benchmark and work is ongoing to drive further efficiencies as we realise the full benefits of the merger and modernising our services.

Our CPU for maintenance has fallen by £23 from £906 to £883, resulting in an overall efficiency saving of £1.2m. This has mainly been achieved from insourcing the provision of property services to our Spectrum Property Care (SPC) and Sovereign Response teams so that we will directly provide all repairs, gas servicing and voids work to all of our homes, providing a consistent service for all our residents, as well as bringing down costs.

Our CPU for major repairs has increased by £43 from £674 to £717. Overall, additional investment in 2018 of £2.2m results from the natural lifecycle for the replacement of prime components, such as heating and kitchens and informs a rolling programme that can result in some annual fluctuation in demand.

Our CPU for other social housing costs increased from £59 to £64. Although this is considerably less than the £543 per unit of our peer group, this can in part reflect different cost allocation methodologies.

Operational efficiency – future

We are underway with a major programme of investment in technology and digitalisation as part of our programme for:

- Going digital
- Bringing us all together
- Everything at our fingertips

This is focused on improving our customer experience, making it easier for residents to engage with us in a manner of their choosing and also ensures our employees have the tools to carry out their jobs in the most efficient and effective way. This will deliver operational efficiencies enabling us to target released resources to deal with issues such as Universal Credit and accommodating the pipeline of development growth in the business without proportional cost increase.

Two key elements of this project have been delivered: the new customer portal enabling residents to pay their rent, review statements and report repairs 24/7 and our new contact centre platform, bringing new technology to the heart of our customer engagement centre.

Regulatory value for money metrics

The Regulator of Social Housing (RSH) recently published a new value for money standard which must be adhered to by Registered Providers. This includes the need to publish nine measures in a standard form to enable comparison across the sector - accepting that there will be variances associated with each business's strategy and focus.

As these are new measures, there is little public information available at this stage to enable sector benchmarking. We will be looking to include this over the next year as more information becomes available, as well as reviewing our own value for money strategy to ensure that the new measures are fully embodied and suitable targets are established.

Sovereign's metrics for the last two years are shown in the table below:

Value for Money metrics	2018	2017
Reinvestment [1]	6.5%	6.5%
New supply delivered (social housing units) [2]	2.2%	2.2%
New supply delivered (non-social housing units) [2]	1.6%	1.8%
Gearing	45.1%	44.9%
EBITDA (MRI) interest cover	258%	238%
Headline social housing cost per unit	£2,858	£2,948
Operating margin - social housing lettings only	42.3%	41.5%
Operating margin - overall	36.3%	36.6%
Return on capital employed [3]	4.3%	4.1%

1. Reinvestment %: The investment in properties (existing stock as well as new supply) as a percentage of the value of total properties held.
2. New supply delivered %: The number of new social housing and non-social housing units that have been acquired or developed in the year as a proportion of total social housing units and non-social housing units owned at period end.
3. Return on capital employed: Compares the operating surplus to total assets less current liabilities to assess the efficient investment of capital resources.

We believe these are a strong set of results, maintained over a two year period. The key drivers of the reduced overall operating margin are the 1% rent cut affecting all social and affordable rent properties, along with the £4m provision made to support cladding works and issues with a development scheme.

Asset management

Our assets provide the foundation for our success. These include the homes our residents live in, and our infrastructure, which enables us to efficiently provide services and run the business. By ensuring we manage our assets effectively, we enable a more efficient operational performance, which means we are providing great services to our residents, and have the financial strength to build more homes.

We take a strategic approach to managing our homes to make sure we're consistent in our investment decisions. The basis of this approach is having a clear understanding of the performance of our assets from a financial, resident and social perspective, and using this information to make the right investment choice to improve the overall value.

All of our assets are held on our Geographic Information System (GIS). Using GIS, we can see at a glance the location of our assets and information such as tenure, Net Present Value (NPV) of the rent and NPV of major repairs. We are working towards having property-level detail on maintenance spend as well, as part of the development of our property maintenance system (SPINE).

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

This insight is vital for our Asset Management Review Group (AMRG), which is responsible for investment decisions on our assets. The AMRG uses a consistent options appraisal and tries to come up with imaginative solutions to issues, before looking at more traditional asset management options, such as change of use, refurbishment or redevelopment. Disposal is also an option, but for properties in our core geography this is always a last resort.

As well as reacting to queries, the group also looks strategically at housing issues - one of our key current projects involves using GIS to look at underutilised land across our geography, to see if there are opportunities to create more value. We can also use this tool to look at adjacent land holdings, for example, local authorities, to identify opportunities to combine land and provide more affordable housing.

Stock rationalisation

We continue to explore opportunities to rationalise our stock outside our core geography or increase our stock in our priority local authority areas. This supports the business in maximising the efficiency of operations but also helps ensure that we can deliver the best level of service to our residents. This year we disposed of 413 homes to other housing associations, generating £57.3m of proceeds which will be re-invested in new homes in our priority local authority areas.

Procurement

Supplier relationship and contract management is a key driver to delivering additional savings, as well as lower costs for Sovereign and our residents. It complements direct procurement savings and contributes to the corporate savings target. Procurement has delivered £3.2m of benefits against a target of £3m in the year, with significant contributing tenders including the Employers Agent Framework, Fuel Cards, Communal Cleaning, Electrical Supplies and IT Backup solutions.

Social value

We measure the social value of our homes - details of how this is calculated are provided on page 31. In 2018, our social value increased by £6m from 2017 to £146m, delivering increased savings to both the public purse and our tenants. We want to maximise our social impact locally and plan to increase our community investment to £3m annually, on programmes that support learning, development and employment.

Resident value

We look to deliver value to our residents, both in terms of direct savings and improvements to their well-being. In 2018, we invested in improving our customers' experience with the development of a new, digital-driven customer contact platform, saving time, money and the environment. We have continued to invest in our communities, providing employment and training initiatives to help residents sustain their tenancies. Some examples of the services we provide are included on page 30.

We will also continue to be committed to making homes more affordable, reducing running costs for our residents. We are seeking opportunities to obtain external funding for affordable warmth and we regularly partner with our suppliers to help them deliver on their corporate social responsibility targets.

Building the homes we need

We are committed to playing our part in solving the housing challenges where we work. Last year, we built 1,208 homes - one of the largest development programmes in the sector – with nine out of ten new homes being affordable, either to rent or buy.

It all starts with a home

Building new homes is central to our strategy. As well as meeting housing need, every new home generates significant value for money, as they increase our income potential and our asset value.

In a competitive market constrained by land and labour shortages, we delivered 1,208 new homes in 2018 (2017: 1,225). Of these, 701 were at sub-market rents and 423 were for shared ownership, demonstrating our commitment to delivering affordable homes to people across a range of incomes. New social housing represented 2.2% of our total social housing stock (2017: 2.2%).

We can't do this alone, so we have a number of joint ventures that we participate in to deliver affordable and market sale homes. In this year, four joint ventures were in start-up phase, delivering 17 new homes (2017: nine new homes). Collaborating to share expertise and risk, we will continue to pursue partnerships with public and private sectors where they add value.

We expect the number of homes developed with our joint venture partners to increase to 90 in 2018/19 as the four sites move into full scale production. We will be continuing to look for further partnership opportunities to grow our market in this area, both with private sector developers and contractors, but also with local councils. We have also recently established a joint venture with one local authority in our operating area, but we want to do more.

Building homes also generates wider social value; the capital investment stimulates the economy by providing jobs, new homes are generally more energy efficient and provide environmental benefits and the homes are let at subsidised rents which reduces pressure on the Housing Benefit bill.

There's also significant resident value that's less easy to quantify; for example, the well-being of having a new home to live in, providing security for the family, and the benefits of a more energy efficient home.

But providing new homes across a range of tenures isn't the only way our development makes a difference to people and communities. Where we can, we will maximise the social value of our investment, including creating job or training opportunities.

Number of properties completed

471	AFFORDABLE RENT
423	SHARED OWNERSHIP
230	SOCIAL RENT
53	OPEN MARKET SALES
17	JOINT VENTURE SALES
14	MARKET RENT

How we do it

DIRECT DELIVERY

Victory Oak, Christchurch

Built on a former WWII hospital site, Sovereign's £50m Victory Oak project will provide 210 new houses, 59 of which are affordable, with 25 shared ownership properties, alongside a 17-hectare nature reserve. The development has been supported by Homes England.

ASSET MANAGEMENT

Deeside, Basingstoke

This former county council owned care home adjoins existing Sovereign stock and as the access is shared we have negotiated the purchase of the property on a subject to planning basis. The scheme has been submitted for planning and is expected to deliver 15 new homes for affordable rent, together with improvements to the car parking and amenity space of the adjoining bungalows. It is anticipated that the redevelopment will be supported by funding from Homes England.

JOINT VENTURE

Hutton Close, Newbury

Planning permission was secured to redevelop this site of 57 flats and bungalows which were originally used for older persons housing. The site will be redeveloped to provide 80 new homes, 56 for private sale and 24 for affordable housing. It is proposed that the site will be redeveloped through our second joint venture with David Wilson Homes.

SECTION 106

Blackberry Hill Hospital, Bristol

A total of 346 new homes will be built by developers Galliford Try, including 129 refurbished properties inside the historic buildings of the former hospital in the Fishponds area of Bristol. Another 217 houses and apartments will be built in the hospital's grounds, along with space for shops and a community space.

Through viability the number of affordable homes was reduced to 20 via a Section 106 planning agreement. However, working in partnership with the developer we have attracted additional grant funding from a variety of sources, meaning a total of 100 much-needed affordable homes will now be built on this site.

PRIVATE RENT

Wapping Wharf, Bristol

We have 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.

Phase 1 of this development is complete and we have 55 apartments for market rent fully occupied.

An ambition to build

Our financial strength enables our ambitious development plans. As well as our strong surplus, we can borrow at very competitive rates. As we respond to the housing challenge we're aiming to increase our development programme to around 1,900 homes a year from 2021/22 – one of the largest development programmes in the sector. Underpinning this is a commitment to deliver a sustainable programme of affordable housing of around 1,600 new homes a year.

As well growing within our core operating area, we will consider expanding our development activity into areas where management and maintenance services can be delivered cost effectively.

Innovation at scale

While there is a growing need to build more homes, there's increasing pressure on the available skills and resources within the construction industry where we work. That's why we are piloting modular construction at scale. We believe modular homes can deliver a better quality product, that performs better, and is more cost effective to deliver, particularly on smaller sites.

We have a number of pilot sites, where we want to trial a variety of products to help grow this sector and deliver much needed new homes, more quickly.

Taking care of our homes

The quality of our homes matters to our residents, that's why we invest the time - and almost £60m - to keep our homes in good shape.

Our performance

Investing in our homes makes sense. It means better living standards for our residents as well as maintaining the value of our assets. We spent £13.4m in 2017/18 on major investments such as new kitchens, bathrooms, windows and heating systems. This was in addition to £35.3m on routine maintenance and £10.1m on planned maintenance.

Changes to the way we work are expected to save the business around £2m over the next five years.

WE INVESTED...	WE DELIVERED...	OUR CUSTOMERS SAID...	NEXT YEAR WE WILL...
£58.8m in routine maintenance and major repairs, up from **£56.6m** in 2017	**209,749** **repairs completed**	Over **95%** of residents **SATISFIED** with responsive repairs	Form a new single-branded and modern maintenance division
£10.1m in planned maintenance as we seek to maintain the quality of our existing properties	**93%** **completed within target** **1,099** new kitchens **515** new bathrooms **926** new windows		Expand responsibility for in-house teams, insourcing kitchens and bathrooms planned and cyclical work

We continue our efforts to improve the energy efficiency of our properties, reducing carbon emissions and energy costs for residents as well as making our homes warmer and more comfortable in winter.

A new-look maintenance service

We're transforming our property services, insourcing a range of activities and making the most of our skills in the Spectrum Property Care (SPC) and Sovereign Response teams.

In April 2017, Sovereign Response took over voids work in Hampshire and SPC started providing routine maintenance and gas servicing in Devon. Ultimately, we will provide all repairs, gas servicing and voids work to all of our homes.

This means we can take responsibility for our work, providing a consistent service for residents, as well as bringing down costs. In total, insourcing work delivered in year savings of £637,000 in 2017/18. Our cost per unit for routine maintenance has fallen by £23 from £906 to £883, resulting in a net efficiency gain of £1.2m.

We'll continue to invest in the technology and skills required to provide a quality service to our residents as well as commercial customers, under a new, single brand next year.

Increasing the energy efficiency of our homes

In partnership with SGN gas networks, as part of their 'Help to Heat' initiative, we received £550,000 of funding to add to our own investment of £530,000 to fund gas supply connections and gas heating installations.

As part of our strategy, we're setting ourselves an ambitious target to develop homes that can be run on just £10 a week.

Income generation from renewable energy

This year, we received over £125,000 (2017: £100,000) of renewable heat incentive (RHI) income from government and earned £9,500 (2017: £12,000) from our solar panels.

During the year we registered a further nine (2017: 31) air source heat pumps for RHI. We expect our current renewable installations to receive over £600,000 of income spread across the next five years.

WE INSTALLED

212 GAS FIRED CENTRAL HEATING SYSTEMS

35 RENEWABLE AIR SOURCE HEAT PUMPS

ENERGY EFFICIENT WINDOWS IN **816** HOMES

411 NEW EFFICIENT BOILERS

WE IMPROVED

INSULATION AT **346** HOMES

WE UPGRADED

90 HOMES WITH ELECTRIC HEATERS

A quality landlord, a great customer experience

Sector-leading performance

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

We managed 3,433 relets last year in a record average time of 16.9 days (2017: 18.1 days), delivered in partnership between housing and property teams. As well as maximising the value of a property – our void loss was just 0.54% (2017: 0.62%) – it also means residents can move into their new homes more quickly.

Meanwhile, a new, digital approach to lettings is also helping us to save time, money and the environment. Reducing paper-based contact meant that 250,000 fewer pieces of paper were sent out last year, and the hours spent signing-off hard copy tenancy agreements can now be spent with those vulnerable residents who do need a little extra face-to-face help.

And, when times get tough, a combined effort from our specialist tenancy support advisors (TSAs) and employment and training officers means that we can work with our residents to solve problems.

This year, we delivered an outstanding performance on rent arrears of just 1.78% on our 46,000 social and affordable rent properties, compared with 1.93% last year. This includes the increasing impact of the roll out of Universal Credit, where arrears average 6.3% - in line with trends seen across the country. We continue to work with residents and key stakeholders to minimise the impact of Universal Credit on our residents and on the business.

As well as great services, we want to provide a great customer experience too.

3,433 RELETS

delivered in partnership between housing and property teams

a record average time of **16.9 DAYS**

Only **0.54%** loss of rent through **VOIDS**

so residents can move into their new home more quickly

Our digital lettings approach is saving time, money and the environment

250,000 fewer pieces of paper were sent out last year

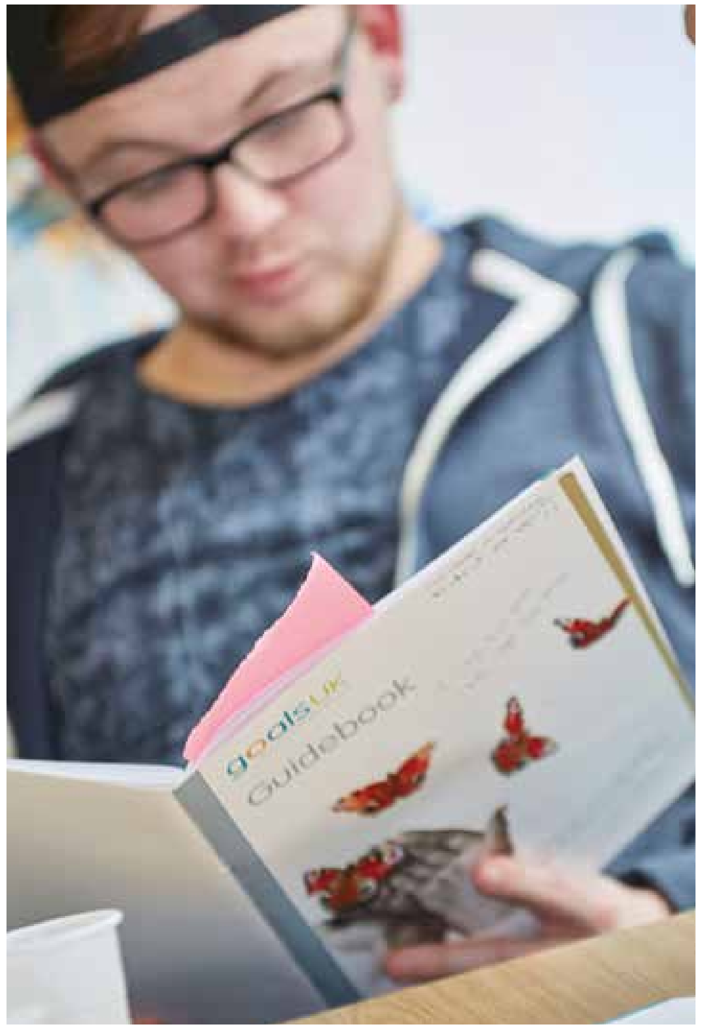
Helping a range of people

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. We do this by forging long-term relationships with partners such as schools, colleges and community groups and brought people together through almost 5,000 events and workshops last year.

We also provide more than 1,600 safe and secure homes for key workers, making a difference to the lives of people who do vital jobs, such as nurses, teachers, police officers and fire fighters. With sites including Reading, Southampton and Leicester, the team managed around 5,000 relets last year with a 97% customer satisfaction rate.

In Basingstoke, we provide temporary homelessness accommodation and support services at the Joshua Tree and Oakley Lodge. We turned around 93% of vacant properties within 24 hours, which not only helps those in urgent need of a home, but also reduces the need for the local authority to use bed and breakfast accommodation.

Finally, on the Isle of Wight, The Foyer offers a home and support for young people coming out of care. Last year, we helped over 100 young people, with many moving on into further education, full-time work or into apprenticeships.



A modern, connected business

We are on our way to providing a great customer experience all day, every day. We're investing in and modernising our services to make us more responsive and better able to resolve issues first time. We've invested £1.0m in a new contact centre platform to support our teams in answering and effectively managing more than 706,000 contacts.

However, many people now want to get in touch with us online and interacting with the new social media team in our contact centre continues to be an increasingly popular way of doing business with us. They handled more than 25,000 contacts throughout 2017, an increase of 500% year on year.

Using social media enables residents to send us photos of necessary repairs or issues, which helps our team to find the right tradespeople to resolve the issue more quickly. Using chat methods also means that our customer service team can keep track of previous conversations with our residents. This cuts time spent getting back up to speed with existing issues, resulting in an average response period of 50 seconds.

We also launched a new customer portal in 2018. The new MySovereign allows residents to carry out tasks such as reviewing their tenancy or rent balance, making a payment, reporting or tracking a repair. The number of users now stands at more than 10,000 compared to around 7,000, previously. The portal will deliver annualised savings of over £500k from 2018/19 onwards.

With our Enhanced Housing Platform, ActiveH, due in summer 2018 and a project to procure and implement a CRM system, 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.

Customer views

What our customers think is very important to us and we ask them regularly for their views. While we're proud of these outcomes, we are not complacent and know we need to continually meet our customer expectations:

Resident satisfaction	**2018**	2017
New home	97.1%	
Mutual exchange	98.1%	
Repairs	95.0%	
ASB service	78.8%	
Complaints	64.6%	
Ease of doing business	90.0%	

Thriving communities

It's not just about a home; we also want to invest in our communities, providing employment and training initiatives to help residents sustain their tenancies.

Aspirational communities

We provide targeted services to help build aspirational communities and support residents, both into sustainable work and to progress their careers.

This means focusing our investment on the areas where we can make the greatest difference, helping new communities grow or supporting established priority communities which contain a high concentration of our homes.

Our dedicated Communities team works with residents, community groups, schools and partners, to help build attainment and aspiration. We are a lead member of Give us a Chance, a consortium of social landlords who are committed to helping their residents into long-term and genuinely sustainable employment.

Meanwhile, our specialist tenancy support advisors work with residents to help them sustain their tenancies, whether that's by giving money or welfare advice, or by actioning referrals to other services, including our own employment and training teams.

We're also creating work opportunities for residents on our construction sites and through our supply chain, helping more people to find meaningful employment.

730
residents engaged with the employment and training service

212
residents supported into work or a better job

215
employment and training grants provided to residents

524
participants in our priority communities met an education or skills goal

A long-term commitment

Sovereign is committed to working with new and existing communities to ensure they are places where residents feel safe, supported and able to maximise their potential.

As part of our strategy, we plan to increase our investment to £3m annually in a broader range of neighbourhoods. To maximise the impact, we'll use our funding as a lever for further external investment and work with communities and local agencies to ensure our investment meets local challenges and all our residents have access to support when they need it.

Measuring the social value of our homes

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

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

In 2018, Sovereign's social value by this measure was £146m (2017: £140m). Of this £60m (2017: £57m) was a direct saving to the public purse – the difference between our residents' housing benefit payments, and the sums they would have been able to claim if they were housed in the private sector. The remainder, almost £86m (2017: £83m) represents extra cash in residents' pockets, supporting their financial independence, and flowing through into local economies. In total, social value was 39% of turnover (2017: 37.7%), compared to our annual surplus of 27% (2017: 24%).

Our dedicated Communities team works with residents, community groups, schools and partners, to help build attainment and aspiration.

A great place to work

We want Sovereign to be a great place to work, attracting and retaining the best talent to help us do the best job we can.

Bringing everyone together

Over the past year we have focused on creating one unified team to better enable a great service be delivered to our residents in an effective and efficient manner.

In 2018, we successfully delivered the following projects which ensured that all our people are on the same terms and conditions and working practices. We've:

- Aligned everyone's terms and conditions as part of an extensive consultation process which resulted in all employees voluntarily accepting the new harmonised contract
- Made sure that the new terms, conditions and benefits are competitive – helping us to attract and retain the best people
- Introduced a range of refreshed HR policies which provide support and guidance for our employees, and are reflective of our culture
- Integrated the HR and payroll systems, saving on external supplier costs and ensuring all employees benefit from a consistent experience.

During the year we reported on gender pay for the first time. Our median pay gap in favour of males is 7.2% and compares 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 a result, there are a number of actions we are taking to ensure that there are no unfair obstacles which prevent people from applying for - and potentially being appointed to - any position.

This year, we're reviewing our approach to pay and grading, as well as our reward offer for employees.

Investing in our people

We know providing learning and development opportunities for our people is an investment in our future.

Our learning and development service has expanded to oversee training across the whole of property services, including operational and health and safety training.

We're making best use of technology through more online learning and we'll use the Apprenticeship Levy to deliver professional qualifications to our employees.

This includes a partnership with the Chartered Institute of Housing to provide opportunities for housing and contact centre employees to develop their skills and progress their careers.

This year we recruited 16 apprentices and, including apprentices already in the business, converted eight into permanent roles with more planned for the future. Recruiting apprentices and trainees continues to be a great way to create a pipeline of valuable skills and knowledge and grow our own talent for the future.

We want to help employees progress within Sovereign and last year we filled 25% of vacancies internally. Whilst this compares well with many organisations, we want to do better and have plans for management and leadership development strategies to facilitate this, in conjunction with succession planning activity.

Our resourcing team filled 403 roles last year, compared to 272 the previous year, with 95% recruited directly without the need for agencies. The average cost - including staffing fees, advertising, branding and on-boarding - is substantially less than the cost of using an agency.

A modern, connected business

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

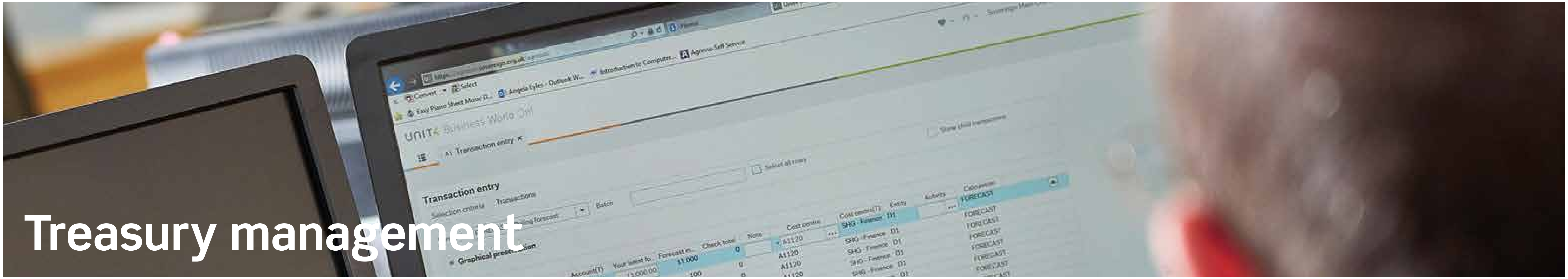
Our Transformation Board (previously Merger Integration Board) is made up from members of our Executive and senior operational leaders and continues to oversee integration and modernisation projects, making sure business cases deliver value for money.

Our working environment

A key aim of our new strategy is to deliver a workplace and office portfolio that is fit for the future and a key enabler for achieving a modern connected business. Through a review of our offices, we'll take a different approach to our working environment, ensuring use of the most modern technology delivers an inviting and efficient place to work.

We'll need to work differently if we're to achieve our strategy and fully realise the benefits of our transformation post-merger. An environmentally efficient portfolio of offices with a variety of styles of work zone, will support our people on this journey of change.

Project	Benefit
We have made considerable progress over the past year integrating our IT systems infrastructure, ensuring that we remain an effective and efficient digital organisation, able to support a flexible and scalable organisation.	The realisation of being a modern and better connected business, delivering annualised savings across IT of £0.5m.
In April 2018, we introduced a completely new, digital-driven customer contact system – our first step to modernising and digitising our business. The new platform enables us to offer seamless access through a choice of convenient self-service contact channels that are available around the clock. This replaces two legacy platforms and enables us to build one joined up team.	The new platform will: • Deliver a more consistent, cost effective platform to keep our customers happy and our business ahead of the curve • Offer improved interaction with the wider business • Reduce our risk • Reduce costs by approximately £300k over four years.
We have completed our project aligning our Finance, HR and Development systems across the organisation.	Being on one system will provide greater control and compliance, improve the efficiency of our processes and in turn, will deliver annualised savings of £450k from April 2018.



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.

The Treasury Management Policy sets the framework for managing 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, 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 six principal commercial lenders, together with the European Investment Bank (EIB).

All of Sovereign's bonds and bank debt is secured by way of charges on properties. At 31 March 2018, there were more than 16,000 uncharged properties available to be pledged as security for the remaining unsecured element of the EIB facility and for any new borrowing, with a value in excess of £1.0bn. Accordingly, considerable secured borrowing capacity remains available to support ongoing development.

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

Covenants

Sovereign's bonds and bank debt include various covenants and undertakings. The financial covenants are primarily in respect of interest cover, gearing and asset cover. Compliance with financial covenants is monitored on an ongoing basis. 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.

Our latest business plan has considerable headroom in relation to our interest cover and valuation-based gearing covenants. The headroom is tighter in relation to our one cost-based gearing covenant, but that covenant measure is predictable and it does not constrain our planned development levels.

Liquidity

Sovereign has a minimum liquidity policy that requires cash and confirmed finance facilities to be in place to cover the expected financing requirements for at least 18 months. For added prudence, an element of any forecast sales revenue is excluded for the purposes of this calculation. At 31 March 2018, Sovereign's undrawn loans totalled £320m. We also held £26m in cash including a small amount on notice deposit, reflected as a current asset investment in the statement of financial position. Since the year-end, a first drawdown of £45m has been made from the £150m facility with the EIB.

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.

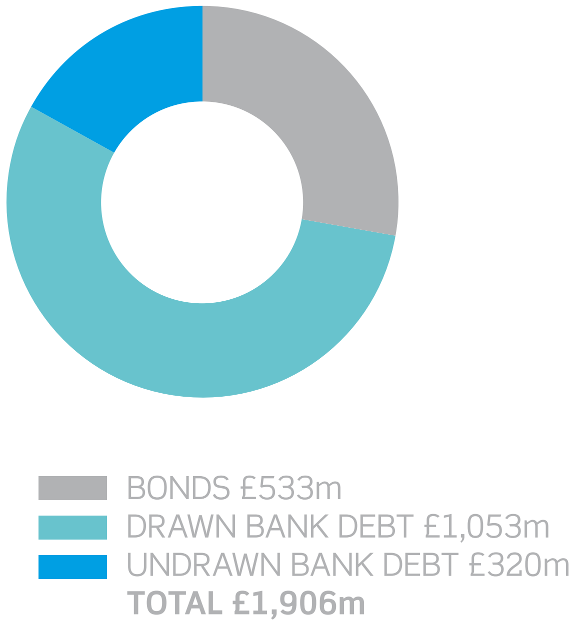
Sovereign's finance facilities have a weighted average term of 15 years with only £282m of Sovereign's total £1,906m finance facilities maturing within the next five years. Counterparty exposure is managed by keeping cash balances low and through retaining available facilities across a number of different funders.

Interest rates

Sovereign's bonds bear interest at fixed rates, as does our borrowing through The Housing Finance Corporation and Affordable Housing Finance. 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 standalone interest rate derivatives. The average interest rate payable in the year was 3.9% (2017: 3.9%). Sovereign's annual business plan is stress-tested to ensure it is not unduly exposed to risks associated with interest rate movements. The interest rate hedging strategy is adjusted as required. At 31 March 2018, 82% of drawn debt was at fixed rates or at rates fixed through the use of derivative financial instruments.

Under FRS102 the value of standalone interest rate derivatives is reflected on the balance sheet. At 31 March 2018, the aggregate value of these derivatives was £83m negative (2017: £97m negative). This reduction reflects market expectations of higher average interest rates over the remaining lives of the derivatives, together with the regular swap payments made during the year.

Total facilities



Managing risk

Sovereign's risk management approach is to identify and assess potential risks and to put in place suitable mitigation strategies in the most effective way. Our risk management framework is continually evolving and improving as it responds to changing external events and our own business strategy.

Effective risk management also ensures that we exploit any potential opportunities that arise. We are committed to improving and embedding a mature risk culture across the organisation that enables us to grow whilst maintaining a 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.

At Sovereign, we ensure that risk management is considered at all levels, from strategy, through projects and at operational levels. The more prepared we are for risks, the more effective and efficient we can be at mitigating them should they arise. Our risk management and governance framework is overseen by the Board through the Audit and Risk Committee. It is based upon the 'three lines of defence model': operational management, risk and compliance oversight, and internal audit, with the roles and responsibilities of each being clearly defined and monitored.

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 deliver in the future. Operationally, the risks we face are the day-to-day challenges that could lead to an impact on our ability to deliver our strategy.

Our risk appetite

This year, our Audit and Risk Committee and Board have undertaken more work around our risk appetite in parallel to developing our new corporate strategy. Our appetite represents the amount of risk we are willing to take in pursuit of the achievement of our strategic and business objectives.

By categorising all of our strategic risks into ten key areas, we are able to determine a risk appetite for each and as such we can 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.

Emerging risks

Emerging risks are risks that we predict could have an effect on Sovereign. They might be sector/industry specific or they could be other politically, economically, socially, technologically, legally or environmentally driven issues. Recent examples, which we are already factoring into our controls and risk management processes, include:

- IT security, or rather IT vulnerability, with many reported cyber attacks and ransomware attacks
- The collapse of large contractors and their impact on the housing and sub-contractor supply chain
- Impact of Brexit, especially on the construction labour supply chain
- House prices stalling and/or falling at a time when we are increasing our development programme.

Top strategic risks and response - as at March 2018

The risk	Response/comment
Detrimental impact on income streams due to changes in the rent policy environment and other government initiatives.	We manage and mitigate the impact of such changes through improving our operating efficiencies, reviewing service delivery and looking for other income streams. As part of the business planning process, we run stress tests against further negative outcomes.
Welfare benefit reform changes impact on rental income streams.	We work with residents to keep them informed of changes and help them access support and benefits. We assist with moves to more affordable accommodation and will help with training and employment opportunities. We continually monitor arrears and have an active management process.
Significant rise in pension costs and liabilities.	Risks include increased pension costs arising from low investment returns and increasing longevity along with deficit crystallisation risks in closed schemes. Mitigation is through closure of schemes to new members and future accrual, long-term business planning and negotiations over longer-term funding requirements.
Inadequate preparation in anticipation of the implementation of General Data Protection Regulation (GDPR).	Sovereign has established a Data Protection Steering Group made up from employees from all areas of the business, with a clear Terms of Reference. This group acts as the governance forum for the Data Protection Project Plan to ensure delivery of the defined objectives of the implementation of the Data Protection legislation requirements.
Failure to maintain business applications, systems and IT working practices, which meet the needs of the business.	Significant investment in core IT infrastructure is in place to ensure our employees are equipped with the most appropriate tools to work effectively, and customers can be served both face-to-face and electronically. We're working hard to migrate to one system solution across our merged IT architecture.
Failure to identify and respond to external change (PESTLE), particularly in respect of government policy.	The Executive Board and the Strategy team monitor changes externally and are active on a number of government working parties. This gives Sovereign influence, early warning, and insight into potential changes that may impact us and the housing sector generally.
Ineffective leadership and change management.	Merger has brought significant change to the business which is being managed through an organisational culture and harmonisation programme. Our performance monitoring, training and development support and employee engagement are all being updated for the new organisation.
Failure to prevent an IT security breach causing data loss and/or system failure.	Sovereign handles large volumes of data, some of which is confidential or sensitive. Our data protection policies and procedures, and IT security, including cyber risk controls, are part of our management measures.
Inability to attract and retain talented employees.	An effective recruitment strategy in place, targeting, recruiting and retaining high calibre employees. A pay and grading project is underway to ensure a competitive market offer and organisational parity in terms of pay. Our management and talent development programmes are being refreshed.

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. Our primary business is the provision of housing at below market rates.

Going concern

The Board presents its report and audited financial statements for the year ended 31 March 2018. 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 the Group has adequate resources to continue to adopt the going concern basis, in preparing the annual financial statements.

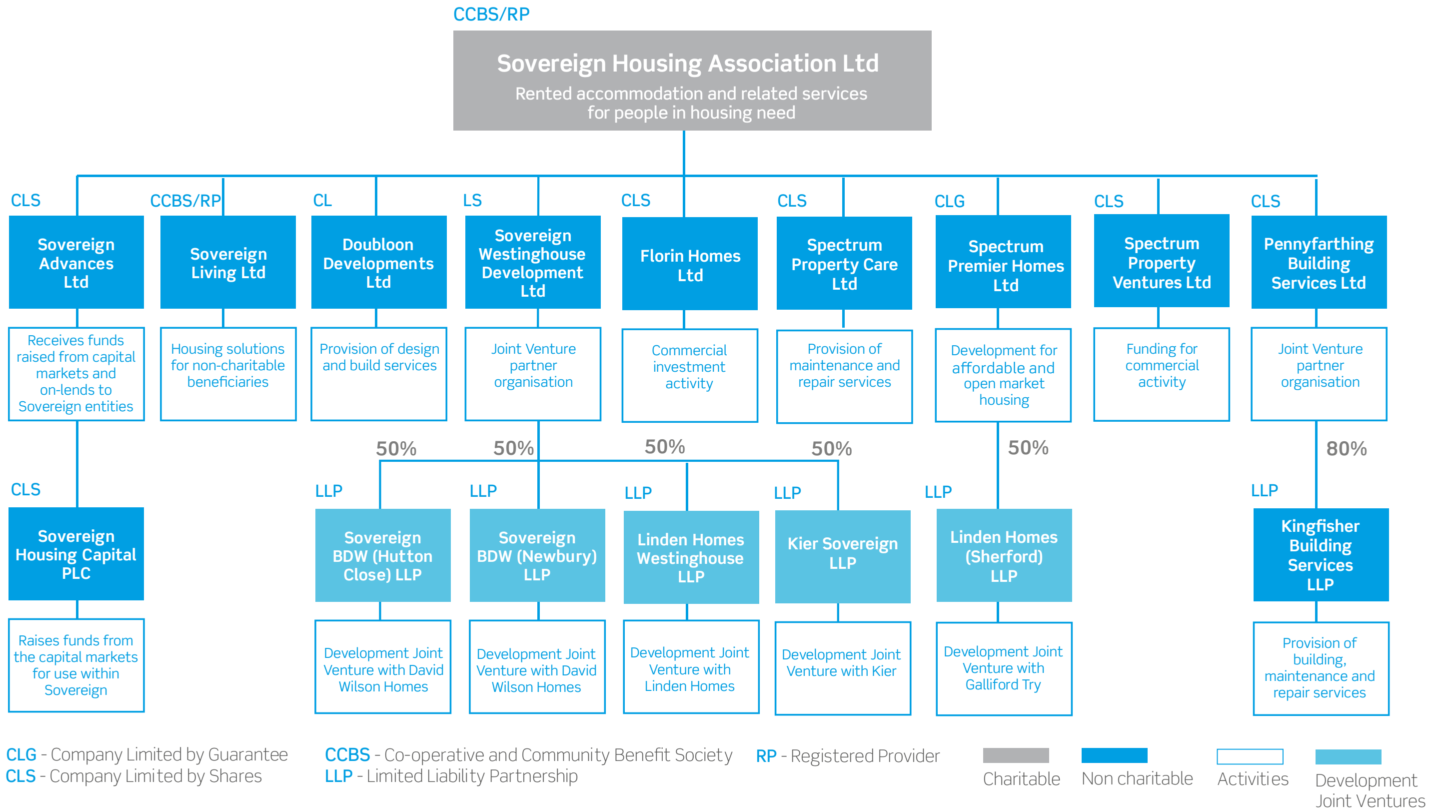
Group structure

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

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

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

Group structure



Advisors and Board Members

Company Secretary

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

External auditor

KPMG LLP
Tollgate
Chandler's Ford
Eastleigh
Hampshire
SO53 3TG

Principal bankers

National Westminster
Bank PLC
Abbey Gardens
4 Abbey Street
Reading
RG1 3BA

Principal valuers

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

Principal solicitors

Trowers & Hamlins LLP
3 Bunhill Row
London
EC1Y 8YZ

Board members as of July 2018

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 and Chair of Development Committee) 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 of 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 ten years, including within the housing sector, and as 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.

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.

Mark Hattersley (Chief Financial Officer) Joined 2015

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

Board responsibility and governance

Governance framework

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

In January 2017, following recommendations from the Resident Engagement Working Group, the Board agreed a new and innovative approach to Resident Engagement.

In its first year the Resident and Board Partnership has created the opportunity for a strategic conversation between Board and engaged residents. This has resulted in residents influencing Sovereign's strategy and policies as well as monitoring the quality and performance of services.

Despite some challenges in establishing the Scrutiny Coordination Group (SCG), it is now in a good place and has developed a well thought through framework, which gives a real opportunity for resident scrutiny to add value.

By the end of March 2018, six community groups were successfully up and running, focusing on local issues important to them.

The Residents' Conference in April 2018 gave engaged residents from the three groups, Board members and senior officers the opportunity to reflect on the last year and plan for 2018/19. The event was planned, organised and facilitated by residents, with officers in attendance in a purely supportive role.

The Resident and Board Partnership and the Scrutiny Coordination Group have agreed Terms of Reference that will be formally reviewed by engaged residents and the Board by the end of 2018/19.

Sovereign's innovative approach is attracting interest, with the chair of the Partnership presenting at the Accent Group Conference. Importantly, we've received external recognition through winning the Tpas South award for Excellence in Tenant Engagement and UK Housing Award shortlisting us for 'an outstanding approach to tenant engagement'.

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

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

Sovereign recognises excellence in governance as a priority for 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 Regulator of Social Housing. The NHF Code of Conduct (2012) was adopted as the basis for Sovereign's Code of Conduct. 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. We were compliant with the NHF code throughout the year.

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.

Into the future

The Board's focus in 2017/18 has been to manage continued integration, while continuing to oversee the delivery of sustained operational performance. Activity has centred on the transformation integration plan and the delivery of efficiencies, while maintaining business as usual.

The economic, regulatory and political environment presents ongoing operational challenges to housing associations, their residents and partners. Some of the challenges and risks include welfare reform, the roll out of Universal Credit and low inflation. This supports the need for a responsive and experienced Board that is committed to continuous development. A new strategic plan, 2018 – 2023, is supported by a robust business plan and includes a challenging new development strategy.

The Board undertakes annual performance reviews, both collectively and as individuals. The collective reviews of the Board and its Committees were independently facilitated by housing consultants Altair who 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. Actions were agreed which included the appointment of an HR expert to the Board and two finance experts to the Audit and Risk Committee. 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

A gap analysis was undertaken in May 2018, and an action plan to address any gaps was put in place and monitored by the Remuneration Committee. The concluding report was presented to the Committee in July 2018 declaring compliance. The report was forwarded to the Board on the Committee's recommendation.

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

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

Sovereign continues to develop its regulatory compliance framework, which is monitored by the Audit and Risk Committee. The framework allows the organisation to self-assess and provide evidence to demonstrate its compliance with the Regulatory Standards and identifies any gaps which can then be addressed.

The self-assessment was presented to the Audit and Risk Committee in July 2018, which demonstrated compliance.

Compliance with the Regulator of Social Housing's 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 Regulator of Social Housing regulatory standards during the reporting period ended 31 March 2018.

We review our performance with our shareholders each year at the Annual General Meeting. This year, the meeting will be held at Christchurch Harbour Hotel, Christchurch at 6pm on 13 September 2018.

Regulatory performance – In-Depth Assessment

The Regulator of Social Housing undertook an In-Depth Assessment of Sovereign during January to March 2018 which involved the detailed review of five key components; Strategy, Structure, Risk Profile and Mitigation, Financial Resilience and Governance. The process consisted of three stages: document review, on-site work, outcome and feedback.

The In-Depth Assessment confirmed that Sovereign meets the requirements on governance and viability set out in the Governance and Financial Viability standards and we maintained the G1 and V1 ratings - the highest of the four available grades.

Equality and diversity

People are the most important asset of any business. The Board recognises the importance of being an employer of choice by attracting and retaining the right skills and the best minds. We also recognise there is a clear link between equality, diversity and inclusion (ED&I) and successful organisational performance. We constantly review our approach to equality and diversity and have revised Sovereign's Equality Diversity & Inclusion Strategy, the implementation of which is closely monitored by our Equality and Diversity Forum. The Forum also takes an overview on ED&I issues relating to employees, customers, partners and contractors to support the organisation.

The Forum demonstrates the business benefits and opportunities ED&I provides and ensures the organisation meets its legal and regulatory requirements by advancing equality of opportunity. We also ensure the services we provide are fair and accessible to everyone and help to eliminate unlawful discrimination and foster good relations in the workplace and in the communities we serve.

Gender pay reporting

In line with legislation, Sovereign published its gender pay information in April 2018.

When considering our gender pay gap it is important to note that the data is now historical data. The data collection dates were in the period where Sovereign and Spectrum were merging and at the start of integrating our organisational structures.

It is also based on employees who are employed under two different sets of terms and conditions and where the pay approach is different. This will still be the case when we extract our next set of data in April 2018. The first time we publish a true reflection of our gender pay gap will be in 2019. Sovereign has a relatively small pay gap at median 7.2% compared with the national gap of 18.4%, but we are not complacent. We're committed to removing obstacles which may deter people from applying for all roles and are actively encouraging greater diversity throughout our organisation.

Health and safety

Post-merger in early 2017, Sovereign brought together key safety employees and developed a central and specialist Property Compliance team with the new role of Safety and Compliance Director appointed at Strategic Leadership Group level to lead the team.

The Property Compliance team brings together 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.

Both Sovereign and Spectrum had robust management procedures for controlling key safety activity, sitting under the objectives and commitments set out in the Health and Safety Policy. However, the scale of Sovereign offers the opportunity for a more focused management of safety and property risk, and the Property Compliance Policy confirms this focus through a new and formal Authorised Persons and Duty Holder framework.

As a registered social landlord, Sovereign operates within an important and valuable regulatory environment, where any deficiency in the letting of homes can impact on our relationship with the Regulator of Social Housing and the Health and Safety Executive. It can also impact the confidence of our residents and other stakeholders, and this Policy ensures an appropriate level of competence and procedure to maintain compliance at all times and across all levels.

The Property Compliance Policy 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.

Accident rates

We report employee accident rates which have remained low for the past four years.

Employees	2014	2015	2016	2017
RIDDOR	12	15	12	11
Total accidents	253	266	199	193
Accident incidence per employee	0.13	0.13	0.10	0.10

Fire safety

Post-Grenfell we undertook a desk-top review of all of our properties and blocks over four stories, which includes 228 blocks at four stories and above, three properties at ten stories and one property at 13 stories high.

We're in a good position, with no high rise blocks with ACM cladding of the type used at Grenfell Tower. However, in the past 12 months, we've grown our in-house fire safety team and had an in-depth independent fire safety audit, completed over 650 fire risk assessments, and undertaken more than 1,300 fire safety actions. Working closely with local fire services we are continuing to inspect our blocks, with further works being completed and planned.

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

Appointment of the external auditor

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

The Committees

An experienced and robust committee 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 also 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 two independent Non-Executive members who were both appointed during the year. It 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
"Our internal audit is led by an internal audit manager with external expertise procured for audits requiring specialist skills and knowledge. The internal audit plan has been agreed by the Committee and reported to the Board. The effectiveness of these arrangements will be monitored on an ongoing basis. Sovereign has a robust risk management and internal controls framework monitored by the Committee on behalf of the organisation throughout the year. An externally facilitated risk appetite session was run with the Board during the year to ensure the organisation's risk appetite is agreed and embedded in the business.

"The Committee reviews the operating and governance framework to ensure it meets the needs of the business and the RSH's regulatory requirements. During the year, the Regulator undertook an In-Depth Assessment (IDA) of the business which resulted in re-confirmation of the G1 and V1 ratings. 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. The Committee is also overseeing a tender process for the appointment of external auditors. The successful appointee will undertake the 2018/19 external audit."

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 comprises three Non-Executive Board members, an independent Non-Executive member and the Chief Financial Officer, and is supported by independent treasury advisers.

Chair's review
"Sovereign continues to enjoy a strong financial position, while also being a leading developer of new homes. The regulator has recently confirmed our V1 status for viability, whilst our Standard & Poor's rating stands at A+ and our Moody's rating at A2.

"Our liquidity position remains strong, with cash and undrawn committed facilities approaching £350m at the financial year end. In addition, there is uncharged collateral with an existing use value of around £1.0bn available to support further facilities, of which almost £400m is considered to be charge-ready.

"Sovereign remains one of the strongest and highest-rated associations in the sector. Ensuring Sovereign retains this strength and remains well-funded as it moves to action its updated strategy will continue to be our focus through the next year."

Lee Bambridge, Chair

Remuneration Committee

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

The Committee includes three Non-Executive Board members together with two independent Non-Executive members. The Executive Director for People and Change and the Company Secretary support the Committee.

Chair's review
"The focus has been the successful integration of the merged business and, as a result, the harmonisation of terms and conditions, adoption of new HR policies and the move to one HR system has been a priority. In addition, the Committee has overseen the introduction of a People Strategy with a clear focus on the values and culture that underpin our social purpose, and has led in the recruitment of a new CEO.

"Looking ahead we shall focus on modernising and aligning our approach to reward and recognition, developing our pension strategy and ensuring we have sufficient talented people to deliver our strategic plan."

Angela Williams, Chair

The Development Committee

The Development Committee oversees and scrutinises Sovereign's development programme. The Committee reviews progress and performance on all aspects of Section 106 delivery, commercial development, sales and marketing activity, joint ventures and commercially rented accommodation.

The Committee approves development schemes within its delegations. The Committee also considers and reviews strategic initiatives before recommending them to the Board for decision-making.

The Committee includes three Non-Executive Board Directors and two independent Non-Executives, both of whom have professional development experience. The Committee is attended by the Chief Financial Officer and the Executive Director for Development and Commercial.

Chair's review

"This year, the Development Committee has overseen a significant growth in the level of development activity – which will be reflected in the 2018/19 performance and beyond. Overall, completions and handovers in this year were behind target due to a number of reasons and the Committee is challenging the Executive to ensure handovers in future years are on target. Commercial projects have outperformed budgets and business plans and joint venture projects have largely performed well.

"Finally, the Development Committee has been actively involved in creating a more ambitious development programme for future years, made possible through the coming together of Sovereign and Spectrum in 2016."

Stuart Laird, 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 a small number of commercial customers.

The Board includes three Sovereign Board members and two independent Non-Executive Directors with appropriate industry experience and is further supported by the Executive Director for Property and the Chief Financial Officer.

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

The Board also provides an overview and scrutiny role across the wider repairs and maintenance function delivered by Sovereign Response, our in-house maintenance department, and in particular provides a governance oversight to the transformation and integration programme following merger.

Chair's review

"SPC has had an exceptional year, ending 2017/18 with sales marginally below budget and profit almost double budget expectations. Customer satisfaction and other key performance measures have exceeded expectations. As a result, there will be a record level of Gift Aid returned to Sovereign.

"Merger integration continues to progress well, and is on track to deliver by the summer of 2019. The new property operations framework has delivered a solid foundation for repairs and maintenance across Sovereign, positioning the function well for its next phase of transformation.

"The next phase of the property operations strategy will deliver a quality and value for money repairs and maintenance service that fully supports the 2018 - 22 Sovereign strategic plan."

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 as well as providing a great customer experience. The Executive Board 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 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 Sovereign Board and a member of the Sovereign Living Board. He is also a Director of Florin Homes Ltd, Sovereign Advances Ltd, Sovereign Housing Capital PLC and Spectrum Property Ventures Ltd.

Steve Barford
Executive Director, Property

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

Steve is also a director of Pennyfarthing Building Services Ltd, Westworks Procurement Ltd, Spectrum Property Care Ltd and was a member of the Executive Committee of Kingfisher Building Services LLP, which ceased trading in March 2018 when the work was transferred in-house.

Heather Bowman
Chief Operating Officer

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

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

Keith Astill
Executive Director
People and Change

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 is lead officer for the Remuneration Committee. Keith joined Sovereign in December 2017.

Mark Hattersley
Chief Financial Officer

Mark has previous experience as a finance director at Birmingham Airport and at Staffordshire University. He joined Sovereign in 2015 and his portfolio covers IT, treasury, governance and risk, legal services, as well as finance.

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

Dale Meredith
Interim Executive Director
Development and Commercial

Dale Meredith takes over from former Executive Director Ben Denton to oversee our development and sales programmes. He spent most of his career as Development Director at Southern Housing Group, working throughout London and the south east on large scale regeneration programmes including the Olympic Village at Stratford, innovative housing projects and estate renewal. Dale was Chair of the g15 Development Directors group during much of this time.

He then went to Peabody Trust as Executive Director, Regeneration & Development, before joining Sovereign in 2018. Dale is also lead officer for the Development Committee.

Financial statements

Contents

Statement of Board's responsibilities

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

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

Co-operative and Community Benefit Society law requires the Board to prepare financial statements for each financial year. Under those regulations the Board have elected to prepare the financial statements in accordance with 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 Officer, and members of Executive Board are responsible for reporting to ARC and the Board any significant changes affecting key risks.

Monitoring and corrective action

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

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

Control environment and control procedures

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

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

Information and financial reporting systems

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

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

This Strategic Report, Board Report and the Statement of Board's Responsibilities were approved on 19 July 2018 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 ("the association") for the year ended 31 March 2018 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 2018 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.

Going concern

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 twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other information

The association's Board is responsible for the other information, which comprises the Strategic Report, the Board's 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 53, 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 year ended 31 March 2018

	Note	**2018 £'000**	2017 £'000
Turnover	3	**378,198**	371,581
Cost of sales	3	**(43,054)**	(42,151)
Operating expenditure	3	**(197,821)**	(193,519)
Operating surplus	3	**137,323**	**135,911**
Gain on disposal of property, plant and equipment	7	**18,387**	11,998
Share of operating surplus in joint ventures		**149**	281
Interest receivable and similar income	8	**1,227**	1,164
Interest and financing costs	9	**(58,121)**	(64,264)
Movement in fair value of financial instruments		**2,499**	(637)
Movement in fair value of investment properties	10	**2,481**	4,831
Decrease in valuation of property, plant and equipment		**-**	(200)
Surplus before tax		**103,945**	**89,084**
Taxation	11	**232**	(50)
Non-controlling interest		**(147)**	(292)
Surplus for the year		**104,030**	**88,742**
Actuarial gain/(loss) in respect of pension schemes	30	**2,774**	(6,180)
Changes in fair value of hedged financial instruments	31	**10,998**	4,489
Total comprehensive income for the year		**117,802**	**87,051**

All the amounts above relate to continuing activities.

The financial statements were approved by the Board on 19 July 2018 and were signed on its behalf by:

Gordon Holdcroft	Mark Washer	Claire McKenna
Chair	Chief Executive	Company Secretary

Association Statement of Total Comprehensive Income For year ended 31 March 2018

	Note	2018 £'000	2017 £'000
Turnover	3	**349,818**	349,446
Cost of sales	3	**(31,104)**	(34,511)
Operating expenditure	3	**(188,643)**	(183,540)
Operating surplus	3	**130,071**	**131,395**
Gift aid		**9,987**	5,523
Gain on disposal of property, plant and equipment	7	**18,380**	11,788
Interest receivable	8	**2,691**	2,806
Interest and financing costs	9	**(59,525)**	(65,228)
Movement in fair value of financial instruments		**2,499**	(637)
Movement in fair value of investment properties	10	**1,077**	4,016
Decrease in value of property, plant and equipment		**-**	(200)
Surplus before tax		**105,180**	**89,463**
Taxation	11	**-**	-
Surplus for the year		**105,180**	**89,463**
Actuarial gain/(loss) in respect of pension schemes	30	**2,774**	(6,180)
Changes in fair value of hedged financial instruments	31	**10,998**	4,489
Total comprehensive income for the year		**118,952**	**87,772**

All the amounts above relate to continuing activities.

The financial statements were approved by the Board on 19 July 2018 and were signed on its behalf by:

Gordon Holdcroft	Mark Washer	Claire McKenna
Chair	Chief Executive	Company Secretary

Consolidated Statement of Financial Position As at 31 March 2018

	Note	2018 £'000	2017 £'000
Fixed assets			
Property, plant and equipment – housing	14	**3,480,904**	3,376,717
Property, plant and equipment – other	15	**39,372**	39,488
Investment properties	17	**130,481**	124,180
Investments – HomeBuy loans receivable	18	**12,036**	12,810
Investments in Joint Ventures		**-**	(1,193)
Financial assets	19	**6,176**	8,596
		3,668,969	**3,560,598**
Current assets			
Stocks	21	**52,566**	45,445
Debtors	22	**39,877**	35,924
Financial assets (short term)	23	**3,011**	31,176
Cash and cash equivalents	24	**23,202**	13,987
		118,656	**126,532**
Creditors: amounts falling due within one year	25	**(130,098)**	(98,643)
Net current (liabilities)/assets		**(11,442)**	**27,889**
Creditors: amounts falling due after more than one year	26	**(1,971,871)**	(2,023,270)
Provisions for liabilities			
- Pension	30	**(31,360)**	(34,147)
- Other	28	**(7,457)**	(1,888)
Total net assets		**1,646,839**	**1,529,182**
Capital and reserves			
Called up share capital	32	**-**	-
Income and expenditure reserve		**1,315,433**	1,203,388
Revaluation reserve		**364,563**	369,804
Hedging reserve		**(33,304)**	(44,302)
Non-controlling interest		**147**	292
Total reserves		**1,646,839**	**1,529,182**

The financial statements were approved by the Board on 19 July 2018 and were signed on its behalf by:

Gordon Holdcroft	Mark Washer	Claire McKenna
Chair	Chief Executive	Company Secretary

Association Statement of Financial Position
As at 31 March 2018

	Note	2018 £'000	2017 £'000
Fixed assets			
Property, plant and equipment – housing	14	**3,483,014**	3,381,345
Property, plant and equipment – other	15	**38,339**	38,373
Investment properties	17	**94,306**	89,410
Investments – HomeBuy loans receivable	18	**12,036**	12,810
Financial assets	19	**12,470**	14,890
		3,640,165	**3,536,828**
Current assets			
Stocks	21	**33,345**	31,793
Debtors	22	**90,015**	78,717
Financial assets (short term)	23	**3,011**	31,176
Cash and cash equivalents	24	**16,172**	11,049
		142,543	**152,735**
Creditors: amounts falling due within one year	25	**(122,706)**	(95,987)
Net current assets		**19,837**	**56,748**
Creditors: amounts falling due after more than one year	26	**(1,959,813)**	(2,013,685)
Provisions for liabilities			
- Pension	30	**(31,360)**	(34,147)
- Other	28	**(5,952)**	(1,819)
Total net assets		**1,662,877**	**1,543,925**
Capital and reserves			
Called up share capital	32	**-**	-
Income and expenditure reserve		**1,119,894**	1,006,699
Revaluation reserve		**576,287**	581,528
Hedging reserve		**(33,304)**	(44,302)
Total reserves		**1,662,877**	**1,543,925**

The financial statements were approved by the Board on 19 July 2018 and were signed on its behalf by:

Gordon Holdcroft	Mark Washer	Claire McKenna
Chair	Chief Executive	Company Secretary

Consolidated Statement of Changes in Reserves
For year ended 31 March 2018

	Income and expenditure reserve £'000	Revaluation reserve £'000	Hedging reserve £'000	**2018 Total excluding non-controlling interest £'000**	Non controlling interest £'000	**2018 Total including non-controlling interest £'000**	2017 Total including non-controlling interest £'000
As at 1 April 2017	**1,203,388**	**369.804**	**(44,302)**	**1,528,890**	**292**	**1,529,182**	1,442,131
Surplus from statement of comprehensive income	104,030	-	-	**104,030**	147	**104,177**	89,034
Transfer from revaluation reserve to income and expenditure reserve							
- on sale of revalued properties	717	(717)	-	**-**	-	**-**	-
- depreciation of revalued properties	4,524	(4,524)	-	**-**	-	**-**	-
Actuarial gain/(loss) in respect of pension schemes	2,774	-	-	**2,774**	-	**2,774**	(6,180)
Movement in fair value of financial derivatives	-	-	10,998	**10,998**	-	**10,998**	4,489
Distribution of non-controlling interest reserves in the year	-	-	-	**-**	(292)	**(292)**	(292)
As at 31 March 2018	**1,315,433**	**364,563**	**(33,304)**	**1,646,692**	**147**	**1,646,839**	**1,529,182**

Association Statement of Changes in Reserves
For year ended 31 March 2018

	Income and expenditure reserve £'000	Revaluation reserve £'000	Hedging reserve £'000	**2018 Total excluding non-controlling interest £'000**	Non controlling interest £'000	**2018 Total including non-controlling interest £'000**	2017 Total including non-controlling interest £'000
As at 1 April 2017	**1,006,699**	**581,528**	**(44,302)**	**1,543,925**	**-**	**1,543,925**	1,456,153
Surplus from statement of comprehensive income	105,180	-	-	**105,180**	-	**105,180**	89,463
Transfer from revaluation reserve to income and expenditure reserve							
- on sale of revalued properties	717	(717)	-	**-**	-	**-**	-
- depreciation of revalued properties	4,524	(4,524)	-	**-**	-	**-**	-
Actuarial gain/(loss) in respect of pension schemes	2,774	-	-	**2,774**	-	**2,774**	(6,180)
Movement in fair value of financial derivatives	-	-	10,998	**10,998**	-	**10,998**	4,489
As at 31 March 2018	**1,119,894**	**576,287**	**(33,304)**	**1,662,877**	**-**	**1,662,877**	**1,543,925**

Consolidated Statement of Cash Flows
For year ended 31 March 2018

	Note	2018 £'000	2017 £'000
Net cash generated from operating activities (see below)		**168,037**	**164,325**
Cash flow from investing activities			
Investment in Jointly Controlled Entity		**(4,388)**	(6,864)
Purchase of tangible fixed assets		**(175,595)**	(216,883)
Proceeds from sale of tangible fixed assets		**57,331**	70,328
Grants received		**4,499**	2,681
Interest received		**1,052**	1,166
Net cash from investing activities		**(117,101)**	**(149,572)**
Cash flow from financing activities			
Interest paid		**(61,084)**	(67,170)
Movement in collateral deposits		**2,403**	(895)
New secured loans		**106,836**	149,016
Repayment of borrowings		**(118,059)**	(114,423)
Capital element of finance lease rental payments		**18**	24
Withdrawal from deposits		**28,165**	(362)
Net cash used in financing activities		**(41,721)**	**(33,810)**
Net change in cash and cash equivalents		**9,215**	**(19,057)**
Cash and cash equivalents at beginning of the year	24	**13,987**	**33,044**
Cash and cash equivalents at the end of the year	24	**23,202**	**13,987**

Cash flow from operating activities			
Surplus for the year		**104,030**	88,742
Adjustments for non-cash items			
Depreciation of tangible fixed assets		**39,253**	37,133
Increase in stock		**(7,121)**	(9,857)
Decrease in trade and other debtors		**435**	1,641
Increase in trade and other creditors		**(6,446)**	(4,261)
Increase in provisions		**5,569**	885
Pension costs less contributions payable		**(867)**	(550)
Carrying amount of tangible fixed asset disposals		**35,953**	61,870
Impairment		**-**	500
Fair value movements in Investment Properties	17	**(2,481)**	(4,831)
Share of operating surplus in associate		**149**	281
Adjustments for investing or financing activities			
Proceeds from the sale of tangible fixed assets		**(57,331)**	(70,328)
Interest payable	9	**58,121**	64,264
Interest receivable	8	**(1,227)**	(1,164)
Cash from operations		**168,037**	**164,325**
Corporation tax		**-**	-
Net cash generated from operating activities		**168,037**	**164,325**

Notes to the Financial Statements
For the year ended 31 March 2018

1. Legal Status

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

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

2. Principal Accounting Policies

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

(a) Basis of Accounting

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

The financial statements are 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 Homes England, the proceeds of first tranche sales of shared ownership properties and open market property sales, 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 2014. Under this methodology it is recognised that a housing property will always comprise of several components with substantially different economic lives. Each major component will be accounted for separately and depreciated over its individual economic life.

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

(i) Pension Costs
The Association participates in six multi-employer defined benefit pension schemes contracted out of the State scheme, all of which are now closed to new members. The Association also participates in defined contribution money purchase pension schemes, the details of which are given in note 30.

Pension Trust Social Housing Pensions Scheme ('SHPS' Scheme')
The SHPS scheme is a multi employer defined benefit pension scheme, however, sufficient information is not available to identify the Group/Associations share of scheme assets and liabilities. The Group/Association has entered into an agreement with the multi-employer plan that determines how the entity will fund a deficit and has recognised a liability based on discounted future cashflows using an actuarial valuation tool. The expected cost of pensions is charged to the Statement of Total Comprehensive Income so as to spread the cost of pensions over the service lives of the employees. Pension costs are assessed triennially for each scheme in accordance with the advice of an independent qualified actuary.

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 30. In respect of the defined contribution schemes, employers' contributions are charged to the Statement of Total Comprehensive Income in the year incurred.

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

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 taken into account 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 2014 as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(q) Impairment
At each reporting date fixed assets that are held at cost are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset is estimated and compared with its carrying amount. If 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 2014.

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

(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) Inventories
Inventories of consumables are stated at the lower of cost and net realisable value.

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

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

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

(w) Disposal Proceeds Fund
The purpose of the fund is to provide replacement properties for rent, at no greater cost than properties provided through the approved development programme. If unused within a three year period it may be repayable to Homes England with interest. The development programme of the Group is such that the Disposal Proceeds Fund is likely to be used before it becomes repayable. Changes made by the Housing and Planning Act 2016 and associated regulations that come 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.

(x) 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.

(y) 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.

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

(aa) 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.

(bb) 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 Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

(cc) 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.

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

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

Group	Note	Turnover £'000	Cost of sales £'000	Operating costs £'000	**2018 Operating surplus £'000**	2017 Operating surplus £'000
Income and expenditure from social housing lettings						
Housing accommodation		273,659	-	(159,292)	**114,367**	111,750
Shared ownership accommodation		17,821	-	(8,866)	**8,955**	7,892
	4	291,480	-	(168,158)	123,322	119,642
Other social housing income and expenditure						
External income generated from development services		252	-	(238)	**14**	10
Community investment		-	-	(1,314)	**(1,314)**	(1,360)
Other		3,898	-	(2,115)	**1,783**	2,167
		4,150	-	(3,667)	483	817
Development for sale						
Shared ownership first tranche sales		38,168	(31,104)	(186)	**6,878**	7,249
		38,168	(31,104)	(186)	6,878	7,249
Total social housing activities		**333,798**	**(31,104)**	**(172,011)**	**130,683**	**127,708**
Non-social housing activities						
Market rented properties		6,668	-	(7,453)	**(785)**	3,122
Commercial properties		2,796	-	(427)	**2,369**	2,267
Outright sales		16,114	(11,950)	-	**4,164**	1,413
Keyworker		8,733	-	(8,182)	**551**	337
Other		10,089	-	(9,748)	**341**	1,064
		44,400	(11,950)	(25,810)	6,640	8,203
Total		**378,198**	**(43,054)**	**(197,821)**	**137,323**	**135,911**

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

Association	Note	Turnover £'000	Cost of sales £'000	Operating costs £'000	**2018 Operating surplus £'000**	2017 Operating surplus £'000
Income and expenditure from social housing lettings						
Housing accommodation		273,502	-	(160,410)	**113,092**	111,048
Shared ownership accommodation		17,821	-	(9,008)	**8,813**	7,903
	4	291,323	-	(169,418)	121,905	118,951
Other social housing income and expenditure						
Income from Group undertakings		2,135	-	-	**2,135**	2,043
External income generated from development services		252	-	(238)	**14**	10
Community investment		-	-	(1,314)	**(1,314)**	(1,360)
Other		1,799	-	(1,438)	**361**	1,217
		4,186	-	(2,990)	1,196	1,910
Development for sale						
Shared ownership first tranche sales		38,168	(31,104)	(186)	**6,878**	7,249
		38,168	(31,104)	(186)	6,878	7,249
Total social housing activities		**333,677**	**(31,104)**	**(172,594)**	**129,979**	**128,110**
Non-social housing activities						
Market rented properties		4,570	-	(7,136)	**(2,566)**	1,493
Commercial properties		2,796	-	(427)	**2,369**	2,267
Keyworker		8,733	-	(8,181)	**552**	337
Other		42	-	(305)	**(263)**	(812)
		16,141	-	(16,049)	92	3,285
Total		**349,818**	**(31,104)**	**(188,643)**	**130,071**	**131,395**

4. Income and Expenditure from Social Housing Lettings

Group	Note	General needs £'000	Shared ownership £'000	Supported housing £'000	**2018 Total £'000**	2017 Total £'000
Rent receivable net of identifiable service charges		257,066	15,470	2,438	**274,974**	272,546
Service charges		10,487	2,351	463	**13,301**	12,768
Supporting people block subsidy		117	-	497	**614**	669
Amortised government grant		2,591	-	-	**2,591**	2,605
Turnover from social housing lettings		**270,261**	**17,821**	**3,398**	**291,480**	**288,588**
Management		(41,835)	(5,838)	(973)	**(48,646)**	(51,498)
Service costs		(10,997)	(1,535)	(256)	**(12,788)**	(13,413)
Routine maintenance		(34,598)	-	(706)	**(35,304)**	(35,489)
Planned maintenance		(9,896)	-	(202)	**(10,098)**	(10,630)
Major repairs expenditure		(23,051)	-	(470)	**(23,521)**	(21,137)
Bad debts		(666)	(93)	(16)	**(775)**	(1,367)
Depreciation of housing property		(33,794)	-	(690)	**(34,484)**	(35,132)
Other costs		(1,119)	-	(23)	**(1,142)**	(280)
One off exceptional costs	6	-	(1,400)	-	**(1,400)**	-
Operating costs on social housing activities		**(155,956)**	**(8,866)**	**(3,336)**	**(168,158)**	**(168,946)**
Operating surplus on social housing activities		**114,305**	**8,955**	**62**	**123,322**	**119,642**
Rent receivable is net of void losses of		3,206	50	200	3,456	3,783

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

Association	Note	General needs £'000	Shared ownership £'000	Supported housing £'000	**2018 Total £'000**	2017 Total £'000
Rent receivable net of identifiable service charges		256,909	15,470	2,438	**274,817**	272,526
Service charges		10,487	2,351	463	**13,301**	12,768
Supporting people block subsidy		117	-	497	**614**	669
Amortised government grant		2,591	-	-	**2,591**	2,605
Turnover from social housing lettings		**270,104**	**17,821**	**3,398**	**291,323**	**288,568**
Management		(42,872)	(5,982)	(997)	**(49,851)**	(51,397)
Service costs		(10,983)	(1,533)	(255)	**(12,771)**	(13,413)
Routine maintenance		(34,668)	-	(708)	**(35,376)**	(36,262)
Planned maintenance		(9,896)	-	(202)	**(10,098)**	(10,630)
Major repairs expenditure		(23,051)	-	(470)	**(23,521)**	(21,137)
Bad debts		(668)	(93)	(16)	**(777)**	(1,371)
Depreciation of housing property		(33,794)	-	(690)	**(34,484)**	(35,132)
Other costs		(1,117)	-	(23)	**(1,140)**	(275)
One off exceptional costs	6	-	(1,400)	-	**(1,400)**	-
Operating costs on social housing activities		**(157,049)**	**(9,008)**	**(3,361)**	**(169,418)**	**(169,617)**
Operating surplus on social housing activities		**113,055**	**8,813**	**37**	**121,905**	**118,951**
Rent receivable is net of void losses of		3,206	50	200	3,456	3,783

5. Number of Units in Management

	Group		Association	
	2018 Units	2017 Units	**2018 Units**	2017 Units
Owned and managed				
General needs	**41,600**	41,236	**41,600**	41,236
Shared ownership	**5,669**	5,406	**5,669**	5,406
Housing for older people	**3,069**	3,133	**3,069**	3,133
Supported	**877**	877	**877**	877
Other social	**101**	106	**101**	106
Non-social: keyworker	**1,730**	1,730	**1,730**	1,730
Non-social: other	**774**	767	**639**	632
Managed not owned				
Owned by an external company: social	**124**	124	**124**	124
Owned by an external company: non-social	**2,579**	2,597	**2,579**	2,597
Total in management	**56,523**	**55,976**	**56,388**	**55,841**
Owned and not managed				
Managed by third parties	**250**	250	**240**	240
Freehold/Long leasehold (incl. Right to Buy leasehold)	**9**	9	**9**	9
Total owned not managed	**259**	**259**	**249**	**249**
Total owned or managed	**56,782**	**56,235**	**56,637**	**56,090**

6. Operating Surplus

	Group		Association	
Operating surplus is stated after charging	**2018 £'000**	2017 £'000	**2018 £'000**	2017 £'000
Depreciation				
- housing properties	**34,732**	33,449	**34,732**	33,445
- other owned assets	**4,517**	3,684	**4,136**	3,291
Impairment				
- housing properties	**-**	500	**-**	500
Rentals payable				
- plant, vehicles and machinery	**3,280**	2,229	**2,105**	1,540
- other assets	**262**	270	**262**	238
- operating leases	**36**	164	**36**	164
Auditor's remuneration				
- in their capacity as auditors	**165**	174	**121**	130
- in respect of tax advice	**31**	61	**12**	22
- in respect of other work	**13**	46	**13**	36
Exceptional costs				
- remedial and corrective property costs: social	**1,400**	-	**1,400**	-
- remedial and corrective property costs: non-social	**2,733**	-	**2,733**	-

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

	Group		Association	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
Proceeds from house sales	**54,100**	72,052	**54,093**	72,051
Cost of sales	**(37,501)**	(66,024)	**(37,501)**	(66,233)
Depreciation	**2,193**	6,061	**2,193**	6,061
Selling expenses	**(405)**	(91)	**(405)**	(91)
Net surplus	**18,387**	**11,998**	**18,380**	**11,788**

8. Interest Receivable and Similar Income

	Group		Association	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
On investments	**98**	89	**98**	89
On deposits	**1,146**	1,092	**413**	601
In respect of intra-group loans	**-**	-	**2,197**	2,133
Interest receivable	**1,244**	**1,181**	**2,708**	**2,823**
Amortisation of investment to nominal value	**(17)**	(17)	**(17)**	(17)
Interest receivable and similar income	**1,227**	**1,164**	**2,691**	**2,806**

9. Interest and Financing Costs

	Group		Association	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
In respect of loans				
Loans and bank overdrafts	**(53,306)**	(53,000)	**(31,956)**	(31,654)
On hedging arrangements	**(8,604)**	(8,373)	**(8,604)**	(8,373)
Loan and hedge break costs	**-**	(5,268)	**-**	(5,268)
In respect of other Group undertakings	**-**	-	**(21,936)**	(21,936)
Recycled capital grant and disposal proceeds funds	**(89)**	(70)	**(89)**	(70)
Finance leases	**(255)**	(253)	**(255)**	(253)
Interest payable	**(62,254)**	**(66,964)**	**(62,840)**	**(67,554)**
Less interest capitalised	**5,315**	4,252	**4,497**	3,878
	(56,939)	**(62,712)**	**(58,343)**	**(63,676)**
Unwind discounted cash flows	**(328)**	(601)	**(328)**	(601)
Other finance costs on pensions	**(854)**	(951)	**(854)**	(951)
Interest and financing costs	**(58,121)**	**(64,264)**	**(59,525)**	**(65,228)**

Interest is capitalised on active development schemes at 4% (2017: 4% - 5%).

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

10. Movement in Fair Value of Investment Properties

		Group		Association	
	Note	**2018 £'000**	2017 £'000	**2018 £'000**	2017 £'000
Fair value increase in investment properties	17	**2,481**	4,831	**1,077**	4,016
Fair value adjustments		**2,481**	**4,831**	**1,077**	**4,016**

11. Taxation

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

11. Taxation (continued)

	Group		Association	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
UK Corporation tax				
Current tax on income for the period	-	360	-	-
Prior year released	(232)	(315)	-	-
Adjustment in respect of prior periods	-	31	-	-
Total current tax	**(232)**	**76**	**-**	-
Tax (credit)/charge on profit on ordinary activities	**(232)**	**76**	**-**	-

Factors affecting the tax charge for the current period:
The current tax charge for the year is lower (2017: lower) than the standard rate of corporation tax in the UK of 19% (2017: 20%).
The differences are explained below:

	Group		Association	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
Current tax reconciliation				
Profit on ordinary activities before tax	103,945	89,084	105,180	89,463
Profit chargeable to corporation tax	103,945	89,084	105,180	89,463
Current tax at 19% (2017: 20%)	19,750	17,817	19,984	17,893
Effects of:				
Profits not within the scope of taxation due to charitable status	(19,750)	(17,457)	(19,984)	(17,893)
Other timing differences	(232)	(315)	-	-
Prior year adjustment	-	31	-	-
Adjustment to tax charge in respect of previous periods	-	(26)	-	-
Total current tax charge for the year	**(232)**	**50**	**-**	-
Current tax (see above)	(232)	76	-	-
Deferred tax	-	(26)	-	-
Tax (credit)/charge for the year	**(232)**	**50**	**-**	-

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 Group'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:

Position held as at 31 March	**2018 £**	2017 £
Chair	29,000	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
Non-Executive Board Members		
Steve Abbott (resigned 11 November 2016)	-	9,804
Barbara Anderson	18,000	15,727
Ian Baker (resigned 15 June 2016)	-	1,500
Lee Bambridge	18,000	15,375
Jennifer Dykes	13,000	10,583
Christine Higgins (resigned 10 November 2016)	-	8,819
Gordon Holdcroft (appointed as Chair on 20 July 2017)	25,683	15,731
Katherine Innes Ker (resigned 30 June 2017)	7,250	7,250
Mark Judge (resigned 11 November 2016)	-	13,359
Stuart Laird	18,000	14,612
Simon Lindley	18,000	16,250
Verity Murricane (resigned 30 September 2016)	-	5,500
Richard Organ (resigned 11 November 2016)	-	11,333
Claire O'Shaughnessy (appointed 15 June 2016)	13,000	8,406
Susan Rastrick (resigned 11 November 2016)	-	5,833
John Rees-Evans (resigned 30 September 2016)	-	5,701
Francesca Rhodes (resigned 7 October 2016)	-	7,000
Maureen Robinson (resigned 11 November 2016)	-	4,083
Howard Rose (resigned 11 November 2016)	-	4,083
Elizabeth Sabey (resigned 14 September 2017)	6,500	9,500
John Simpson (resigned 11 November 2016)	-	16,301
Robert Taylor (resigned 10 November 2016)	-	7,369
Christine Turner	18,000	15,083
Angela Williams (appointed 14 September 2017)	14,688	-
Total	**170,121**	**229,202**

Elizabeth Sabey is a leaseholder and Jenny Dykes is a resident, their lease and tenancy are on normal commercial terms and they cannot use their position on the Board to their advantage.

Ann Santry, Richard Hill and Mark Hattersley were appointed as members of the Board on 11 November 2016 and are remunerated in their capacities as members of the Executive Board.

Total expenses paid to Board members that are subject to income tax were £7,332 (2017: £5,231).

12. Board Members and Executive Officers (continued)

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

	2018 £	2017 £
Roger Avon (resigned 23 September 2016)	-	2,917
Robert Barton (resigned 31 October 2016)	-	2,333
Lin Cousins (resigned 23 September 2016)	-	2,333
Roger Davis (resigned 31 October 2016)	-	2,333
Peter Dean (resigned 31 October 2016)	-	2,333
John Earley (resigned 31 October 2016)	-	2,917
Christopher Garland (resigned 31 October 2016)	-	2,917
Martin Lawton	5,000	4,417
Robert Morrisey (resigned 31 October 2016)	-	2,333
Niall Morrow (resigned 31 October 2016)	-	2,333
Claire O'Shaughnessy (resigned 11 November 2016)	-	847
David Singleton (resigned 31 October 2016)	-	1,167
David Todd	5,000	4,417
Damian Ward (resigned 31 October 2016)	-	1,167
Glen Welsh (resigned 31 October 2016)	-	1,167
John Templeton (resigned 31 October 2016)	-	2,333
Total	**10,000**	**38,264**

Executive Directors' Emoluments

	2018 £'000	2017 £'000
Emoluments (including pension contributions and benefits in kind)	1,501	2,166
Total pension contributions to Executive Officers	79	95
Emoluments (excluding pension contributions and payments in lieu of pension contributions) including amounts paid to:		
The highest paid director	261	230

Pension contributions to the highest paid director were £nil (2017: £nil).

Mark Hattersley, Richard Hill and Ann Santry were appointed members of the Board on 11 November 2016. 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. Richard Hill resigned from Sovereign on 31 August 2017.

12. Board Members and Executive Officers (continued)

The level of emoluments to members of the Executive Board during 2017/18 is shown below:

	Taxable Pay £	Pension contributions £	In lieu of pension £	Benefits in kind £	PRP 2017/18 £	Accrued PRP 2017/18 £	**Total 2018 £**	Total 2017 £
Members of the Board:								
Ann Santry [1]	223,780	-	26,854	323	-	37,520	**288,477**	254,214
Mark Hattersley	175,000	-	21,000	323	-	28,321	**224,644**	207,547
Richard Hill [2]	76,125	7,613	-	-	-	-	**83,738**	213,762
Members of the Executive Board:								
Keith Astill [3]	43,476	-	5,217	-	-	6,600	**55,293**	-
Steve Barford	148,333	35,600	-	323	-	25,070	**209,326**	184,816
Heather Bowman	150,000	27,000	-	323	-	24,156	**201,479**	185,421
Paul Bryan [4]	40,000	2,800	-	-	-	-	**42,800**	236,910
Ben Denton [5]	87,803	5,268	-	-	-	11,875	**104,946**	-
Wendy Drinkwater [6]	-	-	-	-	-	-	**-**	170,540
Martin Lucas [7]	-	-	-	-	-	-	**-**	216,657
Phil Stephens [8]	121,875	-	14,625	-	-	19,416	**155,916**	185,608
Rob Webber [9]	-	-	-	-	-	-	**-**	184,325
Anne Wildeman [10]	128,962	990	-	-	4,000	-	**133,952**	126,337
Total	**1,195,354**	**79,271**	**67,696**	**1,292**	**4,000**	**152,958**	**1,500,571**	**2,166,137**

1 Resigned 18 June 2018
2 Resigned 31 August 2017
3 Appointed 1 December 2017
4 Redundant with effect from 31 July 2017 – aggregate payment of redundancy and notice amounted to £101,538 and included in 2016-17.
5 Appointed 8 October 2017, resigned 7 July 2018
6 Redundant with effect from 11 November 2016 – aggregate payment of redundancy and notice amounted to £66,494.
7 Redundant with effect from 11 November 2016 – aggregate payment of redundancy and notice amounted to £138,156.
8 Resigned 31 October 2017
9 Redundant with effect from 11 November 2016 – aggregate payment of redundancy and notice amounted to £108,961.
10 Resigned 31 December 2017 - aggregate compensation for loss of office amounted to £30,000.

Ann Santry, Heather Bowman, Phil Stephens and Anne Wildeman are deferred members of the Social Housing Pension Scheme (SHPS) which is one of the defined benefit schemes that the Association participates in (see note 30). Of the current Executive Board, Steve Barford 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 (2017: £nil).

13. Employee information

Highest paid staff

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

	2018 Number	2017 Number
Salary £1,000s		
>60 to 70	**56**	45
>70 to 80	**22**	26
>80 to 90	**12**	10
>90 to 100	**9**	8
>100 to 110	**4**	4
>110 to 120	**3**	5
>120 to 130	**4**	3
>130 to 140	**2**	1
>140 to 150	**1**	-
>150 to 160	**1**	1
>160 to 170	**1**	-
>170 to 180	**-**	1
>180 to 190	**-**	4
>200 to 210	**2**	1
>210 to 220	**-**	2
>220 to 230	**1**	-
>230 to 240	**-**	1
>250 to 260	**-**	1
>280 to 290	**1**	-

13. Employee information (continued)

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

	Group		Association	
	2018 FTE	2017 FTE	2018 FTE	2017 FTE
Expressed in full time equivalents (FTE)				
Central administrative services	**425**	455	**414**	440
Developing or selling housing stock	**84**	80	**84**	80
Managing or maintaining stock	**1,272**	1,284	**1,250**	1,243
Staff providing support	**45**	43	**45**	43
	1,826	**1,862**	**1,793**	**1,806**
Staff costs (for the above persons)	**£'000**	£'000	**£'000**	£'000
Wages and salaries	**60,790**	60,208	**59,911**	58,782
Social security costs	**5,822**	5,892	**5,735**	5,756
Pension costs	**3,816**	3,709	**3,795**	3,675
	70,428	**69,809**	**69,441**	**68,213**

14. Property, Plant and Equipment - Housing

Group	Housing properties held for letting £'000	Housing properties under construction £'000	Completed shared ownership properties £'000	Shared ownership properties under construction £'000	**2018 Total £'000**	2017 Total £'000
Deemed cost						
At 1 April	3,201,774	100,136	340,530	43,818	**3,686,258**	3,544,080
Reclassification of schemes	16	(2,666)	(16)	2,666	**-**	-
Transfer to investment properties	(1,914)	(2,145)	-	-	**(4,059)**	(2,738)
Schemes completed	41,568	(41,568)	28,293	(28,293)	**-**	-
Additions - new units	32,379	83,560	8,682	50,327	**174,948**	206,511
Additions - improvements to stock	13,386	-	-	-	**13,386**	13,168
Transfer to current assets	(2,553)	(715)	(1,805)	(6,626)	**(11,699)**	(8,492)
Impairment	-	-	-	-	**-**	(500)
Disposals	(30,996)	-	(8,528)	-	**(39,524)**	(65,771)
At 31 March	**3,253,660**	**136,602**	**367,156**	**61,892**	**3,819,310**	**3,686,258**
Depreciation						
At 1 April	297,619	-	11,922	-	**309,541**	285,849
Charge for year	32,753	-	1,983	-	**34,736**	33,449
Transfer to current assets	-	-	-	-	**-**	(1,135)
On disposals	(5,465)	-	(406)	-	**(5,871)**	(8,622)
At 31 March	**324,907**	**-**	**13,499**	**-**	**338,406**	**309,541**
Net book value at 31 March 2018	**2,928,753**	**136,602**	**353,657**	**61,892**	**3,480,904**	
Net book value at 31 March 2017	2,904,155	100,136	328,608	43,818	3,376,717	

Additions to housing properties under construction during the year include capitalised interest of £5,315k (2017: £4,252k) and major repairs capitalised of £13,386k (2017: £13,168k). Interest is capitalised on development schemes as set out in the accounting policy in note 2(l).

In the current year the Association entered into transactions with other social landlords. During the year, housing properties with a net book value of £26.9m were sold to other housing associations.

In 2016/17 housing properties with a fair value of £55,240k were purchased from other Housing Associations, funded by £11,060k in cash and £44,180k in property sales. This value included original government grant funding of £25,959k which has an obligation to be recycled in accordance with the original grant funding terms and conditions. The Association is responsible for the recycling of grant in the event of the housing properties being disposed.

Following purchases of housing properties from other Housing Associations in previous years, the Association has a contingent liability of £152.4m (2017: £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 2016/17 a detailed impairment review was carried out following the government policy announcement of decreases in rent for social housing tenancies, resulting in a write down in the value of housing properties by £500k.

In addition to the capital improvements to housing properties shown above, £35,304k (2017: £36,859k) was spent on routine maintenance.

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

Group	Housing properties held for letting £'000	Housing properties under construction £'000	Completed shared ownership properties £'000	Shared ownership properties under construction £'000	**2018 Total £'000**	2017 Total £'000
Cost or valuation at 31 March is represented by						
Gross cost	2,887,237	136,602	342,918	61,892	**3,428,649**	3,294,902
Historic cost depreciation	(295,366)	-	(12,060)	-	**(307,426)**	(283,108)
	2,591,871	**136,602**	**330,858**	**61,892**	**3,121,223**	**3,011,794**
Revaluation reserve	336,882	-	22,799	-	**359,681**	364,923
	2,928,753	**136,602**	**353,657**	**61,892**	**3,480,904**	**3,376,717**
Existing use value and properties under construction	2,908,077	136,602	344,532	61,892	**3,451,103**	3,204,639

Association	Housing properties held for letting £'000	Housing properties under construction £'000	Completed shared ownership properties £'000	Shared ownership properties under construction £'000	**2018 Total £'000**	2017 Total £'000
Deemed cost						
At 1 April	3,218,359	91,954	340,530	40,026	**3,690,869**	3,560,645
Reclassification of schemes	16	(2,666)	(16)	2,666	**-**	**-**
Transfer to investment properties	(1,914)	(2,145)	-	-	**(4,059)**	(9,055)
Schemes completed	41,568	(41,568)	28,293	(28,293)	**-**	-
Additions - new units	35,798	79,003	8,682	48,943	**172,426**	200,876
Additions - improvements to stock	13,386	-	-	-	**13,386**	13,166
Transfer to current assets	(2,553)	(715)	(1,805)	(6,626)	**(11,699)**	(8,492)
Impairment	-	-	-	-	**-**	(500)
Disposals	(30,996)	-	(8,528)	-	**(39,524)**	(65,771)
At 31 March	**3,273,664**	**123,863**	**367,156**	**56,716**	**3,821,399**	**3,690,869**
Depreciation						
At 1 April	297,602	-	11,922	-	**309,524**	285,836
Charge for year	32,749	-	1,983	-	**34,732**	33,445
Transfer to current assets	-	-	-	-	**-**	(1,135)
On disposals	(5,465)	-	(406)	-	**(5,871)**	(8,622)
At 31 March	**324,886**	**-**	**13,499**	**-**	**338,385**	**309,524**
Net book value at 31 March 2018	**2,948,778**	**123,863**	**353,657**	**56,716**	**3,483,014**	
Net book value at 31 March 2017	2,920,757	91,954	328,608	40,026	**3,381,345**	

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

Association	Housing properties held for letting £'000	Housing properties under construction £'000	Completed shared ownership properties £'000	Shared ownership properties under construction £'000	**2018 Total £'000**	2017 Total £'000
Cost or valuation at 31 March is represented by						
Gross cost	2,712,889	123,863	342,918	56,716	**3,236,386**	3,105,140
Historic cost depreciation	(312,717)	-	(12,060)	-	**(324,777)**	(300,442)
	2,400,172	**123,863**	**330,858**	**56,716**	**2,911,609**	**2,804,698**
Revaluation reserve	548,606	-	22,799	-	**571,405**	576,647
	2,948,778	**123,863**	**353,657**	**56,716**	**3,483,014**	**3,381,345**
Existing use value and properties under construction	2,907,798	123,863	344,532	56,716	**3,432,909**	3,192,299

15. Property, Plant and Equipment - Other

Group	Freehold offices and shops £'000	Leasehold offices £'000	Office furniture and equipment £'000	Scheme plant, furniture and equipment £'000	Computer hardware and software £'000	Plant £'000	Motor vehicles £'000	**2018 Total £'000**	2017 Total £'000
Cost or valuation									
At 1 April	27,163	2,202	8,764	10,654	27,644	333	1,794	**78,554**	79,848
Reclassification	-	-	(498)	-	498	-	-	**-**	-
Additions	-	11	68	262	4,035	63	294	**4,733**	2,596
Disposals	(125)	(148)	(188)	(48)	(220)	(4)	(380)	**(1,113)**	(3,890)
At 31 March	**27,038**	**2,065**	**8,146**	**10,868**	**31,957**	**392**	**1,708**	**82,174**	**78,554**
Depreciation									
At 1 April	5,067	420	7,056	7,216	17,748	239	1,320	**39,066**	38,996
Reclassification	-	-	(354)	-	354	-	-	**-**	-
Charge for year	365	60	562	321	2,957	36	216	**4,517**	3,684
On disposals	(40)	(78)	(89)	(9)	(215)	(4)	(346)	**(781)**	(3,614)
At 31 March	**5,392**	**402**	**7,175**	**7,528**	**20,844**	**271**	**1,190**	**42,802**	**39,066**
Net book value as 31 March 2018	**21,646**	**1,663**	**971**	**3,340**	**11,113**	**121**	**518**	**39,372**	
Net book value as 31 March 2017	22,096	1,782	1,708	3,438	9,896	94	474	**39,488**	

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

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

Group	Freehold offices and shops £'000	Leasehold offices £'000	Office furniture and equipment £'000	Scheme plant, furniture and equipment £'000	Computer hardware and software £'000	Plant £'000	Motor vehicles £'000	**2018 Total £'000**	2017 Total £'000
Cost or valuation at 31 March is represented by									
Net book value of assets held at valuation	7,395	-	-	-	-	-	-	**7,395**	7,395
Net book value of assets held at historic cost	14,251	1,663	971	3,340	11,113	121	518	**31,977**	32,093
	21,646	**1,663**	**971**	**3,340**	**11,113**	**121**	**518**	**39,372**	**39,488**

Association	Freehold offices and shops £'000	Leasehold offices £'000	Office furniture and equipment £'000	Scheme plant, furniture and equipment £'000	Computer hardware and software £'000	Motor vehicles £'000	**2018 Total £'000**	2017 Total £'000
Cost or valuation								
At 1 April	27,163	2,202	7,467	10,654	27,622	647	**75,755**	77,207
Additions	-	11	53	262	4,028	50	**4,404**	2,420
Disposals	(125)	(148)	(180)	(48)	(220)	(77)	**(798)**	(3,872)
At 31 March	**27,038**	**2,065**	**7,340**	**10,868**	**31,430**	**620**	**79,361**	**75,755**
Depreciation								
At 1 April	5,067	420	6,341	7,216	17,731	607	**37,382**	37,693
Charge for year	365	60	458	321	2,898	34	**4,136**	3,291
On disposals	(40)	(78)	(83)	(9)	(215)	(71)	**(496)**	(3,602)
At 31 March	**5,392**	**402**	**6,716**	**7,528**	**20,414**	**570**	**41,022**	**37,382**
Net book value as 31 March 2018	**21,646**	**1,663**	**624**	**3,340**	**11,016**	**50**	**38,339**	
Net book value as 31 March 2017	22,096	1,782	1,126	3,438	9,891	40	**38,373**	

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

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

Association	Freehold offices and shops £'000	Leasehold offices £'000	Office furniture and equipment £'000	Scheme plant, furniture and equipment £'000	Computer hardware and software £'000	Motor vehicles £'000	**2018 Total £'000**	2017 Total £'000
Cost or valuation at 31 March is represented by								
Net book value of assets held at valuation	7,395	-	-	-	-	-	**7,395**	7,395
Net book value of assets held at historic cost	14,251	1,663	624	3,340	11,016	50	**30,944**	30,978
	21,646	**1,663**	**624**	**3,340**	**11,016**	**50**	**38,339**	**38,373**

16. Property, Plant and Equipment - Valuation Methodology

Commercial properties were last professionally valued by Jones Lang LaSalle on the basis of open market value as at 31 March 2016 and in accordance with the RICS Appraisal and Valuation Standards. The valuer is neither an employee nor an officer of the Association. No valuation was undertaken as at 31 March 2018 as management believe the market to be stable with no material fluctuations in the intervening period.

17. Investment Properties

	Group		Association	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
Cost or valuation net of social housing grant				
At 1 April	**124,180**	121,070	**89,410**	80,798
Transfer from housing properties	**4,059**	-	**4,059**	-
Additions to new units	**1,729**	2,724	**1,728**	9,041
Disposals	**(1,968)**	(4,445)	**(1,968)**	(4,445)
Fair value increase	**2,481**	4,831	**1,077**	4,016
At 31 March	**130,481**	**124,180**	**94,306**	**89,410**
Historic cost net book value	**117,762**	112,839	**85,945**	82,175

Investment properties, which primarily comprise market rent properties, were professionally valued by Jones Lang LaSalle at open market value as at 31 March 2018. The valuation was undertaken in accordance with the RICS Appraisal and Valuation Standards.

18. Investments - HomeBuy Loans Receivable

	Group		Association	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
At 1 April	**12,810**	13,391	**12,810**	13,391
Loans repaid	**(774)**	(581)	**(774)**	(581)
At 31 March	**12,036**	**12,810**	**12,036**	**12,810**

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

19. Financial Assets

	Group		Association	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
Cost or valuation				
Bonds	**1,269**	1,277	**1,269**	1,277
Debt service reserve	**3,688**	2,748	**3,688**	2,748
Collateral deposits	**1,219**	4,571	**1,219**	4,571
Shares in subsidiary undertakings	**-**	-	**6,294**	6,294
	6,176	**8,596**	**12,470**	**14,890**

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

20. Group Company information

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

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

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

Sovereign Housing D1 Limited, Sovereign Property Care Limited and Sovereign Maintenance Limited are dormant and net assets are zero in each.

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

	2018 £'000	2017 £'000
Payment of interest at commercial rates	**21,935**	22,505
Purchase of Design and Build Services at cost plus commercial mark-up	**119,719**	102,762
Repairs and maintenance service at costs agreed during competitive tender	**26,642**	27,071
Management charges on a cost sharing basis (income)	**(2,099)**	(1,942)
	166,197	**150,396**

21. Stock

	Group		Association	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
Properties in construction	**36,267**	31,819	**17,589**	19,941
Completed properties	**15,319**	8,050	**15,319**	8,050
Consumable stock	**980**	5,576	**437**	3,802
	52,566	**45,445**	**33,345**	**31,793**

During the year, as part of the agreement in setting up a joint venture with Kier Group, properties in construction to the value of £3,482k were transferred out of the Group to the joint venture.

22. Debtors

	Group		Association	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
Rental income due				
Gross	**8,460**	10,316	**8,434**	10,300
Discounted repayment schedules	**(655)**	(655)	**(655)**	(655)
Less bad debt provision	**(5,871)**	(5,602)	**(5,858)**	(5,588)
Net rental income due	**1,934**	**4,059**	**1,921**	**4,057**
Social housing grant receivable	**3,692**	1,076	**3,692**	883
Prepayments and accrued income	**8,687**	8,428	**6,385**	7,491
Due from other Group undertakings	**-**	-	**74,744**	63,645
Other loans	**20,038**	18,351	**401**	695
Other debtors	**5,526**	4,010	**2,872**	1,946
	39,877	**35,924**	**90,015**	**78,717**
Amounts falling due within one year:	**36,126**	17,236	**25,940**	40,165
Amounts falling due after more than one year:	**3,751**	18,688	**64,075**	38,552
	39,877	**35,924**	**90,015**	**78,717**

Loans from the Association to other members of the Group are charged at a market rate of interest of 3.75% to 6% (2017: 3.75% to 6%).

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

23. Current Asset Investments

	Group		Association	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
Short term deposits	**3,011**	31,176	**3,011**	31,176
	3,011	**31,176**	**3,011**	**31,176**

Short term investments comprise sterling notice deposits.

24. Cash and cash equivalents

	Group		Association	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
Cash and cash equivalents	**23,202**	13,987	**16,172**	11,049
	23,202	**13,987**	**16,172**	**11,049**

25. Creditors - Amounts falling due within 1 year

	Note	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
Housing loans	27	**41,381**	25,191	**40,850**	25,191
Trade creditors		**11,421**	13,758	**11,742**	11,335
Social housing grant in advance		**1,531**	895	**1,531**	895
Social housing grant - properties		**4,981**	5,431	**4,981**	5,431
Due to Group undertakings		**-**	-	**10,701**	16,519
Other loans		**324**	1,191	**324**	1,191
Taxation and social security		**1,003**	1,618	**977**	1,024
SHPS pension deficit contributions	30	**3,799**	3,654	**3,799**	3,654
Recycled capital grant fund	29	**12,779**	5,620	**12,779**	5,620
Disposals proceeds fund	29	**642**	29	**642**	29
Rents received in advance		**6,585**	8,058	**6,550**	8,030
Other creditors		**8,242**	2,168	**7,442**	3,336
Accruals and deferred income		**37,410**	31,030	**20,388**	13,732
		130,098	**98,643**	**122,706**	**95,987**

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

	Note	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
Housing loans	27	**1,551,353**	1,582,797	**1,118,605**	1,148,961
Finance lease		**2,460**	2,449	**2,460**	2,449
Derivative financial instruments		**83,435**	96,932	**83,435**	96,932
SHPS pension deficit contributions	30	**19,171**	22,954	**19,171**	22,954
Social housing grant - properties		**288,779**	288,756	**288,492**	288,469
Deferred income		**12,036**	10,883	**12,036**	10,865
Recycled capital grant fund	29	**10,050**	16,677	**10,050**	16,677
Disposal proceeds fund	29	**27**	637	**27**	637
Other		**4,560**	1,185	**537**	741
Long term Group loans	27	**-**	-	**425,000**	425,000
		1,971,871	**2,023,270**	**1,959,813**	**2,013,685**

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

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

	On demand £'000	Less than 12 months £'000	1 to 5 years £'000	More than 5 years £'000	**Total £'000**
March 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 Afforable Housing Finance	-	2,748	10,993	151,341	**165,082**
	-	**24,654**	**98,615**	**985,462**	**1,108,731**

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

27. Housing Loans

	Note	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'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	**41,381**	25,191	**40,850**	25,191
Repayable by instalments in more than one but less than two years	26	**78,713**	41,547	**77,625**	41,547
Repayable by instalments between two and five years	26	**162,343**	147,401	**160,904**	147,401
Repayable by instalments in more than five years	26	**790,297**	873,849	**785,076**	865,013
		1,592,734	**1,607,988**	**1,584,455**	**1,599,152**

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. Loan interest rates range from 0.72% to 10.75% per annum (2017: 0.50% to 10.75%). The average rate achieved over the year was 3.9% (2017: 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 2018 were £320m (2017: £331m).

28. Provisions

	Group			Association		
	Property £'000	Other £'000	**Total £'000**	Property £'000	Other £'000	**Total £'000**
As at 1 April 2017	69	1,819	**1,888**	-	1,819	**1,819**
Arising during the year	2,743	2,826	**5,569**	2,733	1,400	**4,133**
As at 31 March 2018	**2,812**	**4,645**	**7,457**	**2,733**	**3,219**	**5,952**
Current	2,812	1,400	**4,212**	2,733	1,400	**4,133**
Non-current	-	3,245	**3,245**	-	1,819	**1,819**
As at 31 March 2018	**2,812**	**4,645**	**7,457**	**2,733**	**3,219**	**5,952**

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 on 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. Recycled Capital Grant Fund and Disposal Proceeds Fund

		Group		Association	
	Note	**2018 £'000**	2017 £'000	**2018 £'000**	2017 £'000
Recycled Capital Grant Fund					
As at 1 April		**22,297**	21,425	**22,297**	21,425
Reclassification		**-**	314	**-**	314
Grants recycled		**4,736**	5,113	**4,736**	5,113
Interest accrued		**86**	65	**86**	65
New build		**(4,290)**	(4,620)	**(4,290)**	(4,620)
As at 31 March	25, 26	**22,829**	22,297	**22,829**	**22,297**
Disposals Proceeds Fund					
As at 1 April		**666**	910	**666**	910
Reclassification		**-**	(314)	**-**	(314)
Grants recycled		**-**	103	**-**	103
Interest accrued		**3**	5	**3**	5
New build		**-**	(38)	**-**	(38)
As at 31 March	26	**669**	**666**	**669**	**666**

30. 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)

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

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

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

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

The Association has closed its SHPS defined benefit scheme however £296k (2017: £293k) shortfall payments were made each month for the shortfall on the 2014 valuation. The shortfall payments are programmed for a further 9 years to clear the deficit by 2027. In addition an expense charge was levied for £9k per month (2017: £9k).

The Association paid employer's contributions up to 12% for the SHPS defined contribution scheme. The rate is variable dependent on the contributions rate selected by the employee. Total contributions amounted to £2,735k (2017: £2,663k).

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

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

	Note	**2018 £'000**	2017 £'000
As at 1 April		**26,608**	28,824
Deficit contribution paid		**(3,654)**	(3,516)
Unwinding of the discount factor		**328**	555
Remeasurements - impact of changes in assumptions		**(313)**	745
As at 31 March	25,26	**22,969**	**26,608**

30. Pension arrangements (continued)

SHPS defined benefit

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

(b) Royal Berkshire Pension Fund (Berkshire)

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

The last full actuarial valuation was carried out as at 31 March 2017 and was updated to 31 March 2018 by a qualified independent actuary.

Future pension increases have been assumed to be at CPI.

It was agreed that an employer contribution rate of 21.9% of pensionable pay would apply in the year ended 31 March 2018 (2017: 21.9%). An additional allowance is payable each year in respect of past service deficits. The allowance for the year ended 31 March 2018 was £412k (2017: £394k).

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 2017 and was updated to 31 March 2018 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 2018 (2017: 16.5%). Past service defecit payments of £147k were made during the year (2017: £nil).

(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 2018 by a qualified independent actuary.

There were no past service deficit payments (2017: £nil). The scheme was closed on 31st August 2014.

Future pension increases have been assumed to be at CPI.

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

The last full actuarial valuation was carried out at 31 March 2017 and was updated to 31 March 2018 by a qualified independent actuary.

An employer contribution rate of 30.4% of pensionable pay applied for the year ended 31 March 2018 (2017: 15.6%). An additional allowance is payable each year in respect of past service deficits. The allowance for the year ended 31 March 2018 was £342k (2017: £15k).

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 2018 by a qualified independent actuary.

An employer contribution rate of 16.3% of pensionable pay applied for the year ended 31 March 2018 (2017: 12.5%). Past service deficit payments of £250k were paid in 2018. A one off payment of £506k was made in 2014 to cover past service deficits for the following 3 years.

Future pension increases have been assumed to be at CPI.

30. Pension arrangements (continued)

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

The last full actuarial valuation was carried out at 31 March 2017 and was updated to 31 March 2018 by a qualified independent actuary.

An employer contribution rate of 26.9% of pensionable pay applied for the year ended 31 March 2018 (2017: 20.5%). An additional allowance is payable each year in respect of past service deficits. The allowance for the year ended 31 March 2018 was £139k (2017: £109k).

Future pension increases have been assumed to be at CPI.

(h) Assumptions

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

	2018						2017					
	% per annum						% per annum					
	Berks	Dorset	Oxford	Hants	Dorset	I.O.W	Berks	Dorset	Oxford	Hants	Dorset	I.O.W
Major assumptions												
Price increases RPI	**3.4**	**3.4**	**-**	**3.2**	**3.4**	**-**	3.3	3.5	3.5	3.1	3.6	3.4
Price increases CPI	**2.4**	**2.4**	**-**	**2.1**	**2.4**	**-**	2.4	2.6	2.6	2.0	2.7	2.4
Pension increases	**2.4**	**2.4**	**2.4**	**2.1**	**2.4**	**2.4**	2.4	2.6	2.6	2.0	2.7	2.4
Pension accounts revaluation rate	**-**	**-**	**-**	**2.1**	**-**	**-**	-	-	-	2.0	-	-
Discount rate	**2.5**	**2.6**	**2.6**	**2.6**	**2.6**	**2.7**	2.3	2.7	2.7	2.5	2.7	2.6
Salary increase	**3.9**	**3.9**	**n/a**	**3.6**	**3.9**	**2.8**	3.9	4.1	4.1	3.5	4.2	2.8
Return assumptions												
Asset portfolio	**2.5**	**2.6**	**2.6**	**2.6**	**2.6**	**2.7**	2.3	2.7	2.7	2.5	2.7	2.6

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

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

	Berks	Dorset	Oxford	Hants	Dorset	I.O.W
Retiring today						
Males	23.1	24.0	23.4	24.1	24.0	22.3
Females	25.2	26.1	25.5	27.2	26.1	24.7
Retiring in 20 years						
Males	25.3	26.2	25.6	26.2	26.2	23.9
Females	27.5	28.4	27.8	29.4	28.4	26.5

30. Pension arrangements (continued)

(i) Historical Data

Berkshire	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Assets and liabilities value as at					
Present value of funded obligation	**(18,503)**	(19,274)	(16,871)	(18,137)	(16,783)
Fair value of Scheme Assets (bid value)	**8,814**	8,810	7,844	8,321	8,337
Net liability	**(9,689)**	**(10,464)**	**(9,027)**	**(9,816)**	**(8,446)**
Experience adjustments					
Experience adjustments on scheme assets	**-**	-	-	235	(467)
Experience adjustments on scheme liabilities	**-**	(73)	-	-	(171)

Dorset (legacy Sovereign Housing Association Limited)	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Assets and liabilities value as at					
Present value of funded obligation	**(10,948)**	(11,217)	(9,210)	(9,706)	(8,466)
Fair value of Scheme Assets (bid value)	**5,329**	5,357	4,665	4,808	4,465
Net liability	**(5,619)**	**(5,860)**	**(4,545)**	**(4,898)**	**(4,001)**
Present value of unfunded obligation	**(25)**	(27)	(31)	(29)	(29)
Net liability (including unfunded obligations)	**(5,644)**	**(5,887)**	**(4,576)**	**(4,927)**	**(4,030)**
Experience adjustments					
Experience adjustments on scheme assets	**-**	-	-	176	313
Experience adjustments on scheme liabilities	**-**	(228)	-	-	(52)

30. Pension arrangements (continued)

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Oxfordshire					
Assets and liabilities value as at					
Present value of funded obligation	**(26,418)**	(26,821)	(22,624)	(24,242)	(21,346)
Fair value of Scheme Assets (bid value)	**27,188**	27,017	23,127	23,864	21,744
Net assets/(liability)	**770**	**196**	**503**	**(378)**	**398**
Experience adjustments					
Experience adjustments on scheme assets	**-**	-	-	1,635	2,350
Experience adjustments on scheme liabilities	**-**	1,293	-	469	1,185
Hampshire					
Assets and liabilities value as at					
Present value of funded obligation	**(8,880)**	(8,910)	(7,850)	(8,350)	(7,640)
Fair value of Scheme Assets (bid value)	**6,600**	6,370	5,460	5,670	5,150
Net liability	**(2,280)**	**(2,540)**	**(2,390)**	**(2,680)**	**(2,490)**
Experience adjustments					
Experience adjustments on scheme assets	**-**	-	-	410	120
Experience adjustments on scheme liabilities	**-**	-	-	60	240

30. Pension arrangements (continued)

Dorset (legacy Spectrum Housing Group Limited)	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Assets and liabilities value as at					
Present value of funded obligation	**(24,841)**	(25,640)	(20,378)	(21,398)	(18,009)
Fair value of Scheme Assets (bid value)	**13,521**	13,401	11,066	11,317	10,454
Net liability	**(11,320)**	**(12,239)**	**(9,312)**	**(10,081)**	**(7,555)**
Present value of unfunded obligation	**(74)**	(78)	(70)	(74)	(46)
Net liability (including unfunded obligations)	**(11,394)**	**(12,317)**	**(9,382)**	**(10,155)**	**(7,601)**
Experience adjustments					
Experience adjustments on scheme assets	**-**	**-**	-	-	-
Experience adjustments on scheme liabilities	**-**	**-**	-	-	-

Isle of Wight					
Assets and liabilities value as at					
Present value of funded obligation	**(13,041)**	(12,734)	(11,057)	(11,751)	(9,625)
Fair value of Scheme Assets (bid value)	**9,918**	9,599	8,361	8,000	6,807
Net liability	**(3,123)**	**(3,135)**	**(2,696)**	**(3,751)**	**(2,818)**
Experience adjustments					
Experience adjustments on scheme assets	**-**	**-**	-	-	-
Experience adjustments on scheme liabilities	**-**	**-**	-	-	-

Consolidated (Group and Association)	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Assets and liabilities value as at					
Present value of funded obligation	**(102,631)**	(104,596)	(87,990)	(93,584)	(81,869)
Fair value of Scheme Assets (bid value)	**71,370**	70,554	60,523	61,980	56,957
Net liability	**(31,261)**	**(34,042)**	**(27,467)**	**(31,604)**	**(24,912)**
Present value of unfunded obligation	**(99)**	(105)	(105)	(75)	(29)
Net liability (including unfunded obligations)	**(31,360)**	**(34,147)**	**(27,572)**	**(31,679)**	**(24,941)**

30. Pension arrangements (continued)

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

	2018 £'000	2017 £'000
Charged to operating costs		
Current service cost	**911**	649
Administration costs	**19**	34
Total charged to operating costs	**930**	**683**
(Credit)/charge to other finance costs		
Expected return on pension fund assets	**(1,828)**	(2,141)
Interest on pension scheme liabilities	**2,682**	3,092
Net charge to other finance costs	**854**	**951**

(k) Asset and Liability Obligation Reconciliations

	2018 £'000	2017 £'000
Benefit Obligation		
Defined benefit obligation at the beginning of the year	**104,701**	88,089
Service cost	**911**	649
Interest cost	**2,682**	3,092
Change in financial assumptions	**(2,195)**	18,510
Change in demographic assumptions	**-**	(402)
Experience gains	**-**	(2,517)
Estimated benefits paid (net of transfers in)	**(3,543)**	(2,877)
Past service cost	**19**	-
Contributions by scheme participants	**161**	163
Unfunded pension payments	**(6)**	(6)
Defined benefit obligation at the end of the year	**102,730**	**104,701**

30. Pension arrangements (continued)

(k) Asset and Liability Obligation Reconciliations (continued)

	2018 £'000	2017 £'000
Asset Reconciliation		
Fair value of scheme assets at the beginning of the year	**70,554**	60,523
Interest on assets	**1,828**	2,141
Return on assets less interest	**539**	8,441
Other actuarial gains	**40**	970
Administration expenses	**(19)**	(34)
Contributions by employer	**1,816**	1,233
Contributions by scheme participants	**161**	163
Estimated benefits paid (net of transfers in)	**(3,549)**	(2,883)
Fair value of scheme assets at the end of the year	**71,370**	**70,554**

31. Financial Instruments

(a) Carrying amount of Financial Instruments

The carrying amount of the financial assets and liabilities includes:.

	2018 £'000	2017 £'000
Assets measured at amortised cost	**6,176**	7,693
Liabilities measured at fair value through the income statement (derivatives)	**(83,435)**	(96,932)
Liabilities measured at amortised cost (housing loans)	**(1,592,734)**	(1,607,938)
	(1,669,993)	**(1,697,177)**

(b) Financial Instruments measured at fair value

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

31. Financial Instruments (continued)

(c) Hedge Accounting

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

Interest rate swaps

	2018						2017					
	Carrying amounts £'000	**Expected cash flows £'000**	**1 year or less £'000**	**1 to <2 years £'000**	**2 to <5 years £'000**	**5 years and over £'000**	Carrying amounts £'000	Expected cash flows £'000	1 year or less £'000	1 to <2 years £'000	2 to <5 years £'000	5 years and over £'000
Liabilities	83,435	96,534	7,381	6,625	18,408	64,120	96,932	117,331	8,354	8,222	23,701	77,054
	83,435	**96,534**	**7,381**	**6,625**	**18,408**	**64,120**	**96,932**	**117,331**	**8,354**	**8,222**	**23,701**	**77,054**

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

	2018 £'000	2017 £'000
Recognised through other comprehensive income	**10,998**	4,489
Recognised through the income statement	**2,499**	(637)
Increase in fair value	**13,497**	**3,852**

(d) Fair values

	2018 £'000	2017 £'000
The amounts for all financial assets and financial liabilities carried at fair values are as follows		
Hedging instruments	**83,435**	96,932
	83,435	**96,932**

32. Called Up Share Capital

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

	2018 £	2017 £
Allotted issued and fully paid		
At 1 April	**120**	146
Issued in the year	**6**	7
Cancelled during the year	**(7)**	(33)
At 31 March	**119**	**120**

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

33. Reserves

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

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

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

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

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

34. Capital Commitments

	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	**300,185**	264,312	**246,952**	239,155
Capital expenditure that has been authorised by the Executive Board but has not yet been contracted for	**138,930**	79,310	**131,575**	79,268

At 31 March 2018, the Group had cash and short term deposits of £26,213k (2017: £45,163k) and a further £320m of undrawn committed funding (2017: £331m), of which £215m was secured and available immediately (2017: £148m). These funds, along with cash generated from operating activities are expected to fund the above capital expenditure.

35. Operating Leases

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

	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Land and buildings				
- within one year	**209**	205	**209**	173
- between two and five years	**262**	1,578	**130**	981
- in over five years	**1,360**	546	**847**	546
Temporary social housing initiatives				
- within one year	**-**	36	**-**	36
- between two and five years	**142**	108	**142**	108
- in over five years	**-**	36	**-**	36
Other				
- within one year	**1,665**	1,526	**1,163**	1,444
- between two and five years	**2,643**	3,839	**2,243**	2,612
- in over five years	**-**	3	**-**	3
	6,281	**7,877**	**4,734**	**5,939**

36. Related Party Transactions

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

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

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

Spectrum Premier Homes Limited is a company limited by guarantee.

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

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

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

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

Lee Bambridge is a non-executive Board member, a member of the Audit and Risk Committee and 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.

37. Accounting Estimates and Judgements

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 cashflows is made using notional cashflows 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 cashflows, discounted at this single rate, equates to the net present value of the cashflows, 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 at the previous year to reflect national auditor preferences.

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

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

Investment properties were valued on the basis of open market value as at 31 March 2018, 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.

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

Estimation of cost of sales on first tranche shared ownership sales can include cross subsidy to the general rented element of mixed developments.

Provisions recognised by the Group are based on reliable estimates determined by management of the amounts payable based on available information. The amounts recorded in note 28 are continually evaluated by management.