Southern Housing Group

Annual Report and Group Financial Statements

2019/20

Principal advisors, secretary and registered office

External auditors	Principal bankers	Secretary & registered office
PricewaterhouseCoopers LLP	**National Westminster Bank PLC**	**Iain Mackrory-Jamieson**
Chartered accountants and statutory auditors	Corporate banking	Director of Governance - Group Company Secretary
1 Embankment Place London WC2N 6RH	Second Floor, County Gate 2 Staceys Street Maidstone Kent ME14 1ST	Southern Housing Group Fleet House 59-61 Clerkenwell Road London EC1M 5LA

The consolidated financial statements of:

- Southern Housing Group Limited
- Southern Home Ownership Limited
- Southern Space Limited
- Southern Development Services Limited
- Spruce Homes Limited
- Southern Housing Construction Limited

Southern Housing Group is a not-for-profit housing association – every penny we make and more is invested in providing good quality homes and services.

CONTENTS

CHAIR OF THE BOARD AND CHIEF EXECUTIVE'S INTRODUCTION

As we publish this report, the world is still dealing with the COVID-19 pandemic. We cannot underestimate the enormous changes this has forced on every one of us in such a short period of time. It does seem like another world away looking back on our financial year 2019/20.

Governance

We introduced some far-reaching changes to our governance structure. These changes are successfully bedding-in and reflect our desire for safety, greater resident involvement and scrutiny. We have created a new Customer Safety Committee, Finance Committee and a Community Investment and Care Committee.

Our building safety programme

This year we have reiterated our clear commitment to building safety and the numbers demonstrate our focus. We invested £260m in building new homes and acquiring stock and we invested a further £30m in enhancing the safety and quality of our existing homes. The introduction of the new Building Safety Regulator will be part of the biggest change in building safety for a generation and we have mobilised a huge investment of expertise, time and funds to meet the challenge. We are taking action and carrying out the building safety work needed.
This year, we completed the work to replace the cladding at St Lawrence House in Reading and embarked on a number of other substantial work programmes. This is likely to have an impact on our finances for some time to come, but we are prepared for this and we know that making safety our priority is always going to be the right thing to do.

Committed to our core purpose - a business with social objectives

We made the exciting move to bring our community investment and care and support services under one banner, Southern 360, which is making it easy to communicate the many ways we support our more vulnerable residents across the Group and enabling us to give our residents a bigger voice within the organisation.

Rising to meet the challenges

A serious fire in Barking in June 2019, in which fortunately no one lost their life, demonstrated just how professionally we deal with major incidents. A team of dedicated colleagues came together, working through the night to support our residents. Although none of our homes were damaged, the effect on residents made for an anxious time for everyone. The ramifications of that fire continue, and we have played a key role in ensuring that the responsible parties carry out remediation works at the development.

Outstanding customer service

The commitment of our customer service colleagues across the Group has resulted in some impressive improvements in our performance. A focused team worked together to reduce our empty homes letting time down from 22 to 16 days and our overall customer satisfaction level rose by 10% to 83%. A 100% record on gas safety and managing arrears below 4% are great achievements and all come from working together to get the job done.

We are immensely proud of our care and supporting independence team at our extra care home on the Isle of Wight for achieving an Outstanding CQC rating. The staff at 22 Argyll Street consistently excel with an innovative approach and stimulating activities and programmes for the adults with learning difficulties whose home it is.

A growing business

The seeds of our Growth Strategy are germinating as we focus on key areas where we can concentrate our support for communities, building and acquiring homes to form that critical mass that allows us to make a real difference. We issued the remaining £100m of retained bonds from our £300m bond issue last year to support our development programme. Our strategic partnerships with Homes England and the GLA have been a significant boost to our capacity. As part of our structured growth we acquired 379 homes and handed over 419 new homes

from our development programme. We celebrated bringing in a bumper crop of new opportunities with six new development sites coming into the Group in December 2019, representing an addition to our existing development programme of 474 new homes to be delivered over the next three years. Seventy-two percent of these will be affordable for the people and families who need them most. Across the year we had a total of 1,221 new homes either in development or completed.

Working together

We were delighted to make it into the Top 100 best not for profit companies at our first attempt this year. We achieved a star rating based on the nearly 70% of colleagues who took part in the survey.

There was some amazing fundraising work by teams throughout the year who amassed £41,428 for the Group's nominated four charities. That represents a lot of bake sales and dress down Fridays, sponsored walks and our first ever charity golf event.

This year we were saddened by the sudden deaths of two valued colleagues within a short time of each other. We remember Charlie Sargent, a Senior IT Engineer and Jason Laing, a Financial Skills Officer in our Southern 360 team. Both colleagues were young, hugely popular and are very much missed by everyone who knew them.

Pandemic response

Returning to where we started at the beginning of this introduction, we have been so proud of the determination, big heartedness, dedication and resilience colleagues have shown in responding to the challenges of the Coronavirus pandemic. Although this only hit at the end of the financial period it has, nevertheless, had a profound impact on our business. We moved the entire organisation to agile working over the course of just a few days.

Our performance

Our net surplus for the year was £23.3m compared with £38.6m in 2018/19, with an operating surplus of £62m which is a decrease of £10m compared with the prior year. Our operating performance was impacted by a number of factors, notably an increase in building safety spend of £8.2m, additional depreciation of £3.4m associated with higher levels of investment, and the recognition of impairments totalling £2.8m at two schemes where we have experienced rising build costs and unforeseen ground contamination. Our operating surplus was also adversely affected by economic uncertainty which resulted in a loss on revaluation of our commercial property portfolio of £5.9m.

Offsetting some of the pressure from operating cost increases and valuation losses, we achieved a £24m surplus from fixed asset disposals (2019: c. £10m). A little over half came from the sale of 474 properties to another registered provider in the last quarter of the year, linked to our asset management strategy and Value for Money Action Plan. The bulk of the remainder was made up of staircasing sales which continue to perform strongly.

In spite of some of the challenges evident in our financial performance during the year, our financial position remains very strong, with a large balance sheet (£2.1bn of housing assets, reserves of £0.64bn), low gearing (40%), high numbers of unencumbered assets (almost 9,000 units available for security), high levels of liquidity and an investment grade credit rating. We are well-positioned to meet the future challenges of building safety and sustainability and to capitalise on opportunities arising post-COVID, particularly in establishing new and innovative ways of working.

Looking forward

We had the results of the Regulator's In-depth Assessment at the end of the year. A re-grade to V2 was in line with our expectations and reflective of an expanded development programme. Receiving a governance downgrade to G2 was a disappointment, particularly as we had already taken so many positive steps to strengthen our governance as an organisation. The good news is that we have agreed an improvement plan with the Regulator and we are looking forward to meeting those objectives. We remain confident in our future as a business with social objectives.

We were delighted to welcome Crown Simmons to the Group on the first day of the new financial year – an exciting step in the next phase of the Group's story. We have ambitious plans to do our bit to fix the housing crisis. The economic shock of the pandemic and the significant additional costs of building safety works means that the days of large surpluses cross-subsiding our new homes programme are behind us for a while. But that doesn't mean that our plans for growth are on hold – far from it. It does mean that we must redouble our focus on value for money and take all the prudent steps required to ensure we maintain our financial resilience.

We have a vital role to play in the lives of people in housing need and the communities we serve and we will continue to fulfil our purpose through the difficult times ahead.

Arthur Merchant
Chair of the Board

Alan Townshend
Group Chief Executive


NEW RIVER CAFE
RESTAURANT
TAKE AWAY

01. Strategic review

WE ARE A BUSINESS WITH SOCIAL OBJECTIVES

Our social purpose

At our core, we exist to provide high-quality homes for people in housing need. Our purpose is to make our customers' and their communities' lives better.

Our vision

Our vision is clear – we want to be a trusted, caring landlord, listening to our residents, and building ever more high-quality homes in places people are proud to live.

About us

Southern Housing Group was established in 1901 and has grown to become one of the largest housing associations in the south east of England.

We house around 77,000 residents, own and manage over 30,000 homes and work with more than 40 local authorities. We employ over 1,000 people, offer a range of housing products for rent and sale, and undertake a wide range of activities to improve the lives of our customers.

Being a business with social objectives means we invest every penny we make and more into good quality homes and services for people in housing need. Over the last year we made a surplus for the year of £23.3m and invested £290m in existing and new homes.

Our strategy is to grow our business so that we can create value for our customers through the fulfilment of our social objectives.

BOARD KPIS

The Group's Key Performance Indicators help the Board to monitor progress against the Corporate Strategy.

The 2019/20 Board KPIs:

KPI	2019/20	2018/19
Overall customer satisfaction	83%	73%
Void turnaround time (days)	16	22
Rent arrears (%)	3.97%	3.90%
Gas servicing (% complete)	100%	100%
Emergency repairs completed	93%	99%
Reinvestment	12.9%	7.7%
New supply (social)	1.2%	1.1%

See page 67 for metric definitions.

New supply (non-social)

1.0%

2018/19

0.5%

Gearing

40%

2018/19

37%

EBITDA (MRI)

61%

2018/19*

136%

Social housing cost per unit**

£5,620#

2018/19

£5,044

Operating margin (social housing)

16%

2018/19

23%

Operating margin (overall)

26%

2018/19

31%

Return on capital employed

2.6%

2018/19

3.3%

* Prior year comparative restated from 158% to exclude surplus on fixed asset sales.

** Excludes any impairment charges as these relate to properties that are still under construction.

Adjusted SHCPU excluding 381 units acquired in February 2020 and including 472 units sold to another RP in March 2020 is £5,567.
Costs for the disposed units were incurred for the majority of the financial year and therefore, this adjusted metric is representative of the costs incurred during the year

OUR CORPORATE STRATEGY 2017-2020

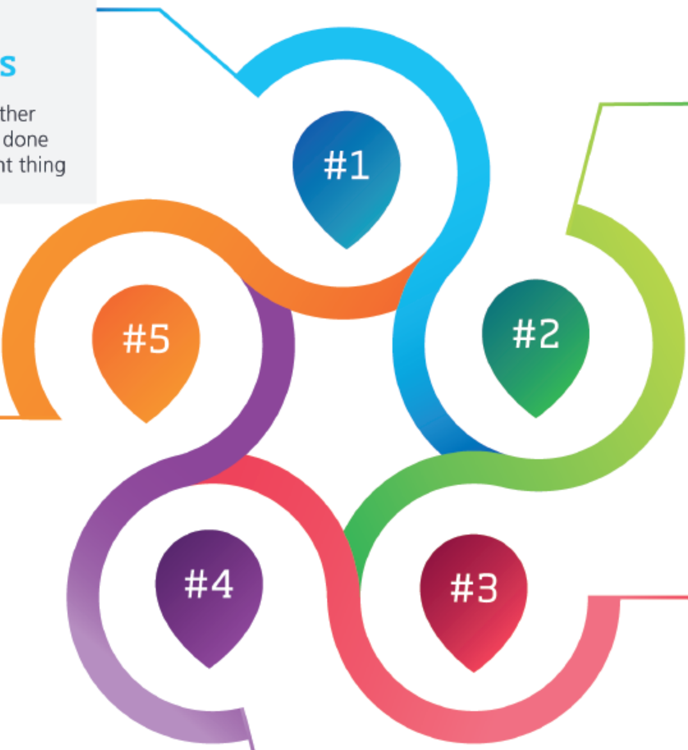
We launched our three-year Corporate Strategy in 2017. The financial year 2019/20 was the last year we operated to deliver the objectives set in this strategy. Our new Corporate Plan was launched in 2020. The new strategy builds on the work we have done and moves us into a clear framework for measuring success.

The challenges we face as an organisation and the way we deliver our Corporate Strategy are informed by the political, economic and social environment that we work in. Every year we review our progress against the objectives we have set ourselves.

Our five Corporate Strategy 2017-2020 objectives

Live by our values

- We work together
- We get things done
- We do the right thing



Provide more quality homes

- Use our capacity to build new homes
- Make sure we meet our design and sustainability standards
- Offer a range of homes and tenures to meet diverse customer needs
- Provide more homes for low income households

Stay safe and secure

- Maintain and improve the safety of our homes
- Improve our estates and living environments
- Keep our colleagues safe
- Be a great place to work

Excel at customer service

- Listen to our customers
- Do the basics brilliantly
- Make it easy to do business with us
- Provide products and services that meet the needs of our different customer groups

Remain financially strong

- Generate and reinvest our surplus
- Demonstrate value for money
- Grow the business independently
- Reinforce our cultural and digital transformation

Our five Corporate Strategy objectives are:

#1 Live by our values

We get things done, we work together and we do the right thing.

These values set out what colleagues expect of each other, and what our customers expect from us. When we are under challenging and changing circumstances, these values help us to deliver the best we can – because living our values is all in a day's work.

#2 Provide more quality homes

This objective builds, quite literally, on our previous strategy successes. London and the south east needs more new homes of all tenures and our social purpose is to help meet these needs. We proudly reinvest every penny of our surplus in new and existing homes to provide well-designed, quality, affordable, sustainable homes for our residents.

#3 Stay safe and secure

The safety of customers and colleagues has always been a priority, but after the Grenfell Tower fire and as we embrace agile working, we must ensure our residents and colleagues are safe and secure.

#4 Excel at customer service

Our focus this year has been on improving our resident involvement and customer satisfaction.

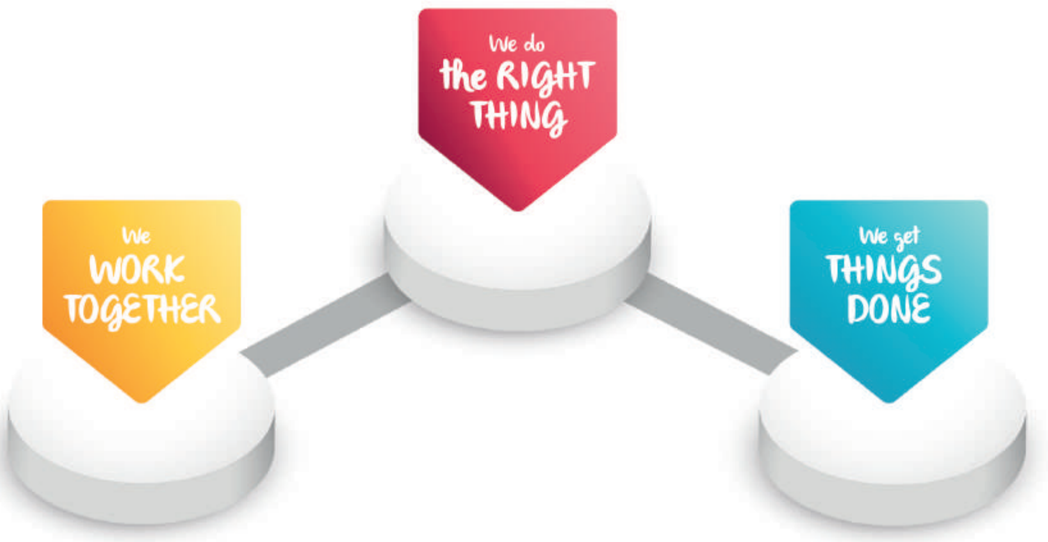
We continue to adapt to meet rising customer needs and expectations, and harness technological advances to benefit our customers to make doing business with the Group easier and more satisfying for everyone, especially as household budgets are under constant pressure.

#5 Remain financially strong

We are financially strong as a business, however, we operate in a tough financial climate that is affected by politics and economics. We need to balance being commercially astute so that we can deliver our social purpose – we are a business with social objectives. By operating commercially, we can generate a surplus to invest in new homes, maintain existing homes and offer services that make a meaningful difference to the quality of our customers' lives.

LIVE BY OUR VALUES

Our objectives



Meeting our objectives

Our values set out what is expected of colleagues across the Group and what our customers expect from us.

When we are under challenging and changing circumstances, these values are our framework for delivering the best outcomes we can.

Creating change doesn't just happen. We believe each of us needs to make choices which have the power to improve the way we work. Choosing what's right, not what's easy is true strength of character.

Tackling challenging situations is always easier when we share ideas and support each other. Working together is the difference between solving a problem after it's happened and staying one step ahead.

Keeping promises sometimes means going above and beyond to keep them. Finding solutions and making things happen is what sets us apart and helps keep our customers happy – it's when we're at our best.

Our values inform everything we do

We launched our corporate values three years ago and we make sure that everyone understands and engages with them.

These three simple phrases are easy to remember. They make sense to all our colleagues and work together, just as we work together to do the right thing and get things done.

We call our values: "All in a day's work" because working this way is what we do – they define how we behave and how we make decisions. Our values are at the core of the business and what it means to be part of the Group.

Our values mean much more to us than just words. They underpin our corporate DNA. We celebrated our shared values at an all colleague event held at Epsom Downs Racecourse in September.

Over 700 colleagues attended the conference to work together in a series of activities to demonstrate what it meant to be part of our team at Southern Housing Group.

A key focus for us was what we could do to improve our services to our residents. Over a hundred small groups of colleagues talked through possible ideas and our challenge was to develop the top three ideas which would have most impact and benefit to residents.

These included making improvements to the gas safety letters, streamlining the moving in process, and setting up a forum for raising and sharing ideas to improve the resident experience.

Focus on
awards for living our values

A highlight of the year for colleagues this year was the Group's OSCARS – Outstanding Southern Colleagues Achievement and Recognition Scheme, which recognised the fantastic achievements of teams across the Group who have demonstrated that they are living the Group's values on a daily basis.

Working Together award – Spire Court refurbishment team

The Horsham Facilities Team and the IT team were nominated for their collaborative approach which enabled the Group to maintain business as usual to customers and colleagues during the refurbishment of our Spire Court office over the previous 12 months.

The logistics of relocating colleagues between floors (and offsite) whilst maintaining a fully operational service centre and finance function in addition to the normal day jobs were managed smoothly and professionally with much of the work being undertaken at weekends and in the evenings to minimise disruption. The teams worked together – and with other colleagues across the Horsham office – to deliver a fantastic new office environment for everyone at Spire Court.

Getting Things Done award – Corporate Finance Team

This team spent the last two years helping the Group to unlock its financial capacity which allows us to develop and build new homes. They negotiated our existing borrowing arrangements with lenders, facilitated the Group's first ever public bond issue for £300m and introduced a number of ways to access additional short-term funding at highly competitive rates. They have also managed the Group's exit from the Social Housing Pension Scheme (SHPS) defined benefit scheme and transferred pensions in-house to our Group schemes which was both complex and challenging.

Going the extra mile award – Initial Response Team at the Samuel Garside House fire in Barking

Being directly affected by fire is a devasting experience for people and the initial response team that supported our residents following the fire at Samuel Garside House in Barking on Sunday 9 June certainly went the extra mile.

The team was on site within a few hours and then worked into the early hours. By midnight on the night of the fire, they had found temporary accommodation for all those 32 families that needed it.

Three days after the fire, our block was declared safe to return to. The team of staff assisted in supporting residents with their move home. That included getting shopping for those who might need it, accompanying people back to their home and ensuring they were ok to be left alone, with surveyors checking smoke detectors for peace of mind. That day, the team assisted 11 families to move back home.

During the following week, the team manned the rest centre, supported individual residents who were traumatised and upset, liaised constantly with the local authority, the managing agent, the Red Cross and lots of other agencies to ensure our residents were looked after and kept informed. We had a large team presence at the rest centre and on site for at least the first two weeks, including weekends. The team helped with visits to residents still in hotels, queries at the rest centre and kept on top of everything from media enquiries to last minute announcements of visits from the Mayor of London and the former housing minister, through to ensuring residents had access to halal food at hotels. The team certainly went above and beyond to support residents by going those extra few miles.

Focus on
awards for living our values

Doing the right thing award –
22 Argyll Street team

As part of the Southern 360 Care and Support Team, the team at 22 Argyll Street were nominated for always doing the right thing in their fantastic work supporting our residents. 22 Argyll Street is a registered care home and was awarded a Care Quality Commission outstanding rating for "the amazing care and support we provide to our residents with learning disabilities" there. It's about doing the right thing for our residents, for the way the team is led and for our innovation and we recently introduced Caddie, our resident pet dog into the scheme. It is very difficult to achieve an outstanding CQC rating so this is a really impressive outcome. The team has also supported a resident with a work placement in the scheme, with the fantastic outcome of the resident now working part time at the scheme.

Focus on
the Group's charity fundraising achievment

This was the Group's first year with a formal Group-wide Charity Challenge 2019/20 panel chaired by Paula Steel, Head of Digital Strategy and Delivery and the grand total raised was over £41,000.

Four charities formed the focus of the year's efforts, chosen by a poll of colleagues at the beginning of the year: the Amy Winehouse Foundation, Royal Marsden Hospital, Domestic Abuse Housing Alliance and Mind.

Colleagues across the Group took part in numerous fundraising activities, dress down Fridays, bake sales, tombolas, raffles and pub quizzes.

A sponsored Three Peak Challenge kicked off the goodwill and it grew from there.

The Group also ran its first ever charity golf day, which was very successful.

Special mention

One colleague in particular, Mike Janvrin, Senior Clerical Officer by day, ace charity fund raising pub quiz master by night, received an "Alan's Accolade" for helping to raise hundreds of pounds for the Group's charities. Mike was nominated by the entire Charity Challenge 2019/20 panel for working so hard to produce the most entertaining range of quiz questions and sharing his professional quiz skills. Mike's efforts meant the charity quiz nights held at the Group's Horsham offices and at Newport Cricket Club were a real experience for everyone taking part, as well as being fun and informative.

Mike's effort and time enabled the charity panel members who organised the quiz nights to raise several hundred pounds for the Group's four charities.

£41,428

Total amount of money raised for charity

PROVIDE MORE QUALITY HOMES

#2

Our objectives

- Use our capacity to build new homes
- Make sure we meet our design and sustainability standards
- Offer a range of tenures to meet diverse customer needs
- Provide more low rent homes for low income households

Meeting our objectives

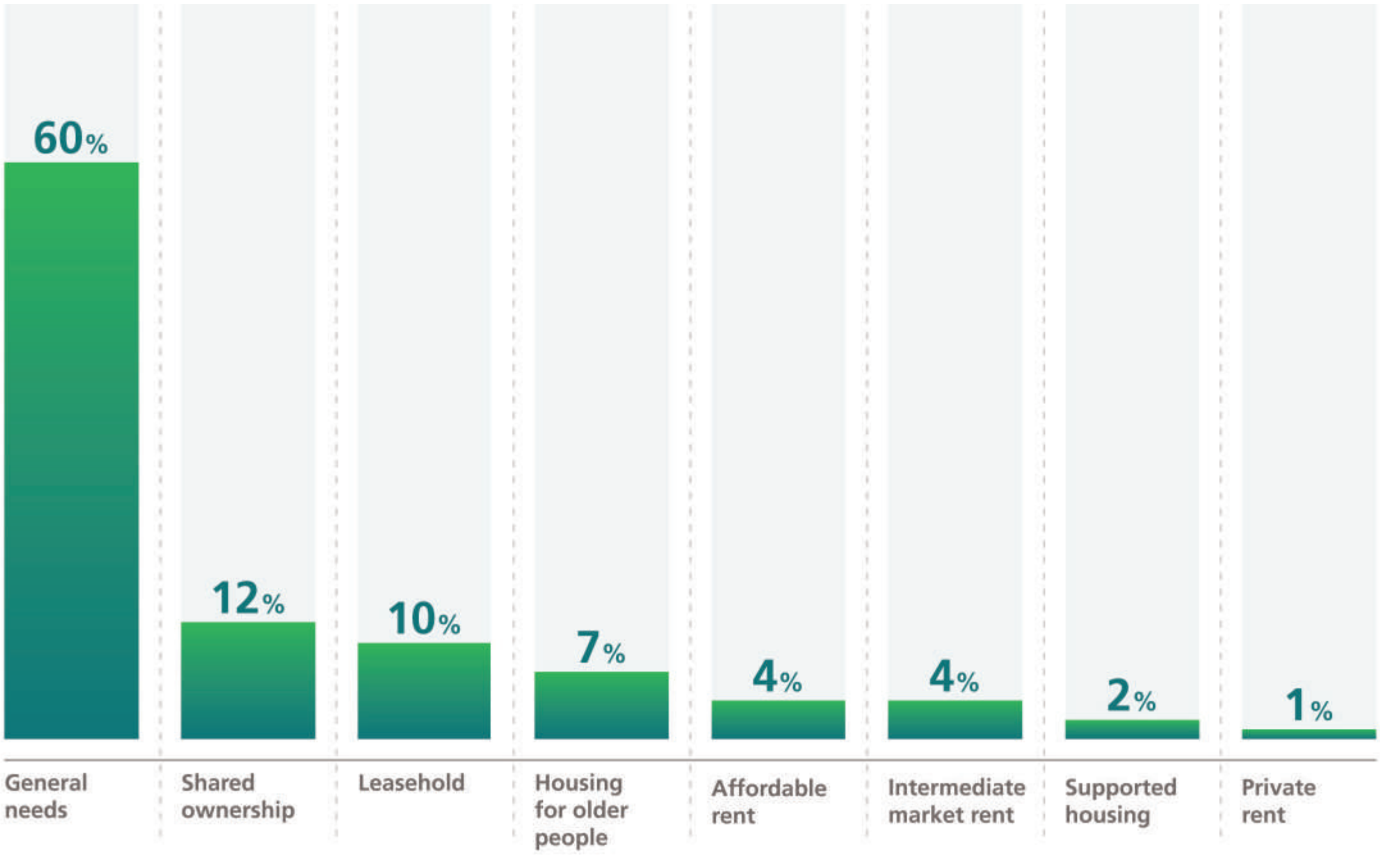
This objective builds, quite literally, on our previous strategy successes. London and the south east needs more new homes of all tenures, and our social purpose is to help meet these needs. We proudly reinvest every penny of our surplus in new and existing homes to provide well-designed, quality, affordable, sustainable homes for our residents.

Key facts and figures:

	2019/20
New households created	3,088
Total homes in construction	802
New homes handed over	419
Total homes managed by the Group	30,130

Tenure mix

The Group's homes managed by tenure type



As an organisation, our aim is to continue to provide the majority of our homes on an affordable basis. In order to be able to do this, we cross-subsidise the building of new low rent homes with the surplus generated from other affordable and market sale homes.

Using our capacity to build new homes and provide more low rent homes for low income households

This year has seen significant activity in the Group's development and growth programme as the Group ramps up its drive to provide 7,000 more homes by 2029. A minimum of 60% of these homes are intended to be for low income households.

Building new homes

This year we completed 419 new homes and began work on 799 further new homes.

New homes by tenure 2019/20

Acquisition

This year the Group acquired 379 homes from another housing association. The homes are located primarily in the Group's key target growth areas of West Sussex and Hampshire.

Hidden Homes programme

The Group's Hidden Homes programme is assessing all of the Group's stock to identify 500 'hidden homes' through developing under-utilised land on existing estates, or regeneration of estates where the buildings are no longer fit for purpose. Buying land for housing development is challenging. The Group's Hidden Homes programme is driven by the desire to:

- Improve the living conditions of our residents and create mixed-tenure communities.
- Create sustainable estates – socially, environmentally and economically.
- Grow the size of the Group's stock and be more cost-effective.
- Improve the quality and long-term value of our existing stock and public realm to the benefit of existing residents.
- Maximise the use of our existing land and buildings.

The programme has been in operation for two years and in that time has identified and gained approval to progress to consultation and planning for five schemes totalling 190 additional homes, including 166 new affordable homes.

The programme continues to assess potential sites. Customer and community consultation and support is key to the success of this programme. Consultation and community engagement for all hidden homes projects are carried out in accordance with guidance from the GLA and the Group's own processes.

Hidden Homes represents value for money because the Group doesn't have to buy the land. This allows us to develop a much higher proportion of affordable homes than would otherwise have been possible. The open market cost of land for the 190 Hidden Homes so far identified is estimated to be £13.7m.

Focus on a
Hidden Homes scheme

The Mannings
Shoreham-by-Sea, West Sussex

74 homes

The Mannings was originally a poorly designed estate suffering from damp and condensation.

The decision was taken to redevelop in consultation with the residents and planning permission was granted in November 2019.

Residents are being supported into new homes whilst the development is in progress. Everyone has a right to return.

"The Mannings is a great example of how brownfield developments that include genuine regeneration can deliver real benefits for Shoreham. This scheme will help to revive a local area, promote cleaner transport and improve housing options for local people."

Cllr Brian Boggis
Adur District Council's
executive member for regeneration

Focus on **adding value through the Strategic Partnership programme**

Britannia Music Site

Situated in Redbridge, a borough with a need for genuinely affordable shared ownership and rented homes and a target growth area for the Group, this development delivered 148 homes with 73 for affordable rent and 75 for shared ownership.

Acquired in December 2017 and completed in October 2019, this is part of a wider development by Durkan Ltd and M&G real estate.

The Group originally bought 93 homes and subsequently purchased an additional 55 homes for shared ownership adding further value into the GLA programme. These additional 55 homes had originally been destined for private sale by the developer.

The development delivered **148 homes** with 73 for affordable rent and 75 for shared ownership.

Outside London: **Longcross Phase 2 and Cranleigh**

The simultaneous and linked purchase of both Longcross Phase 2 and the Cranleigh developments in Surrey, presented an opportunity for the Group to add 25 affordable rented (AR) homes and 89 shared ownership (SO) homes in two strong sales areas with good employment outside London in locations where the Group aims to increase its stock.

Whilst the Group's preference is for land-led schemes, a small number of Section 106 schemes do provide a balanced risk approach across the Group's development portfolio and both the Longcross and Cranleigh developments are good examples of schemes which the Group is actively delivering well in excess of the requirements of the Section 106 agreements.

The combined portfolio in these sites provides a balanced mix of one, two, three and four bedroom homes, adding a total of 48 Section 106 homes to our build programme and providing an extra 66 shared ownership units in the Homes England Strategic Partnership programme.

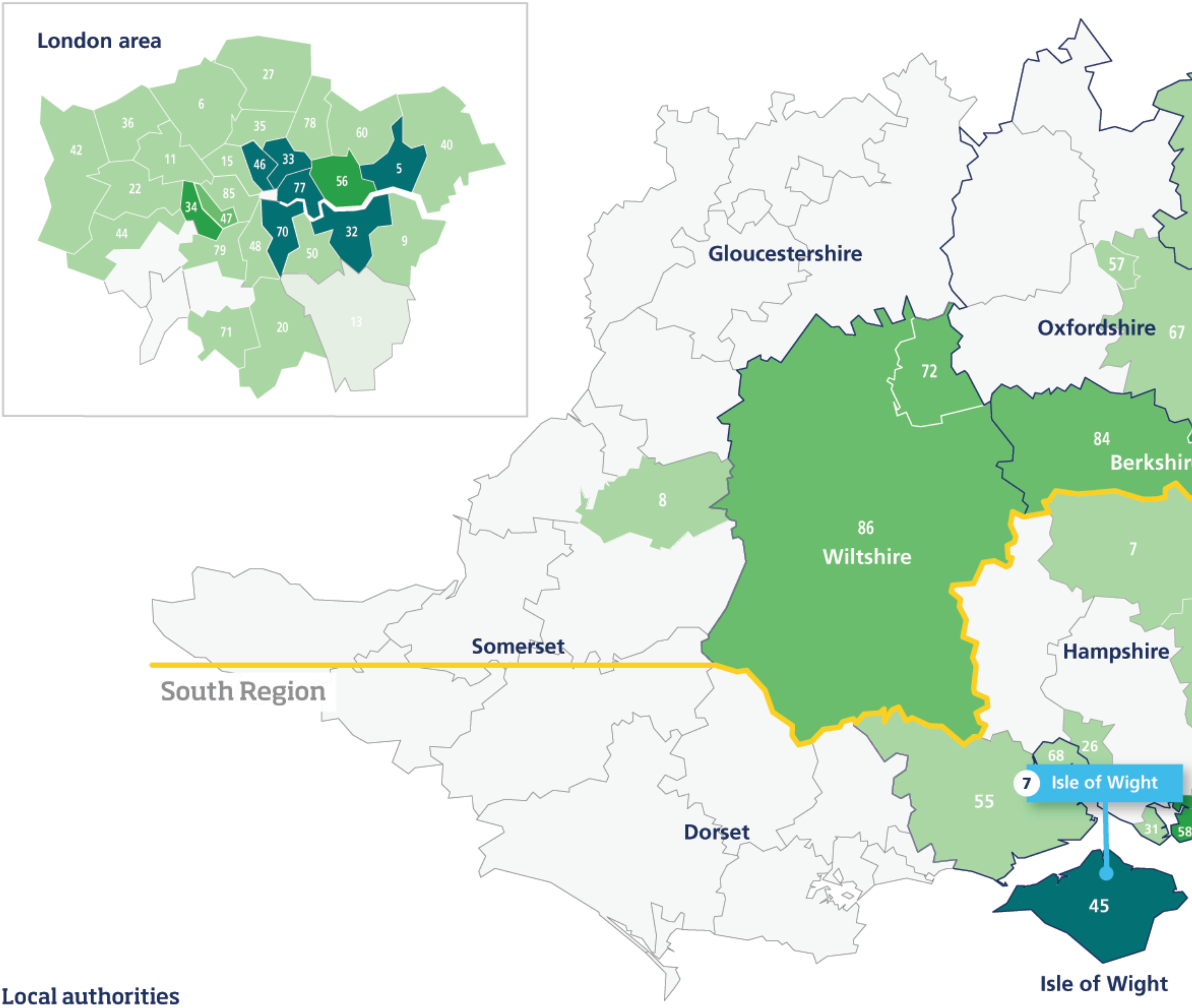
Longcross Phase 2 has a total of 35 units, with a mix of seven homes for affordable rent and 28 shared ownership homes, of which 23 are part of the Homes England Strategic Partnership programme. Cranleigh has a total of 79 new homes, with a mix of 18 homes for affordable rent and 61 shared ownership homes, of which 43 are part of the Homes England Strategic Partnership programme.

Both schemes are on site and the Group is looking to take handover of the first new homes in August 2020, with handovers continuing throughout the year and into early 2021.

Longcross Phase 2 has a **total of 35 units**, with a mix of seven homes for affordable rent and 28 shared ownership homes.

Cranleigh has a total of **79 new homes**, with a mix of 18 homes for affordable rent and 61 shared ownership homes.

Stock map



Local authorities

01. Adur
02. Arun
03. Ashford
04. Aylesbury Vale
05. Barking & Dagenham
06. Barnet
07. Basingstoke & Deane
08. Bath & Noth East Somerset
09. Bexley
10. Bracknell Forest
11. Brent
12. Brighton & Hove
13. Bromley
14. Broxbourne
15. Camden
16. Canterbury
17. Castle Point
18. Chichester
19. Crawley
20. Croydon
21. Dover
22. Ealing
23. East Hampshire
24. East Hertfordshire
25. Eastbourne
26. Eastleigh
27. Enfield
28. Elmbridge
29. Epping Forest
30. Folkestone & Hythe
31. Gosport
32. Greenwich
33. Hackney
34. Hammersmith & Fulham
35. Haringey
36. Harrow
37. Hart
38. Hastings
39. Havant
40. Havering
41. Hertsmere
42. Hillingdon
43. Horsham
44. Hounslow
45. Isle of Wight
46. Islington
47. Kensington & Chelsea
48. Lambeth
49. Lewes
50. Lewisham

New developments

01. Adur
Brighton Road
14 homes C
Free Wharf, Shoreham P
The Mannings P

02. Arun
Wings Nursery, Woodgate P

03. Brighton and Hove
Kings House, Hove
100 homes D
Montpelier Place, Brighton
5 homes C
Preston Road
28 homes D
The Downsman
33 homes D

04. Guildford
Old Portsmouth Road P

05. Hackney
Leagrave Street
48 homes D
Kennaway Estate redevelopment P

06. Hammersmith and Fulham
Lisgar Terrace phase 5
72 homes D
Palliser Road P
Vanston Place Laundry
6 homes D

07. Isle of Wight
Bucklers View P
Plean Dene O

08. Mid Sussex
Walstead Park P

09. Newham
Knights Road
76 homes C

10. Redbridge
Britannia Music site
phases 1 & 2 148 homes C

11. Runnymede
Longcross phase 2
35 homes D

12. Rushmoor
The Crescent, Farnborough
88 homes D

13. Southwark
New Kent Road P
Glengall Road O

14. Tonbridge and Malling
West Kent College E

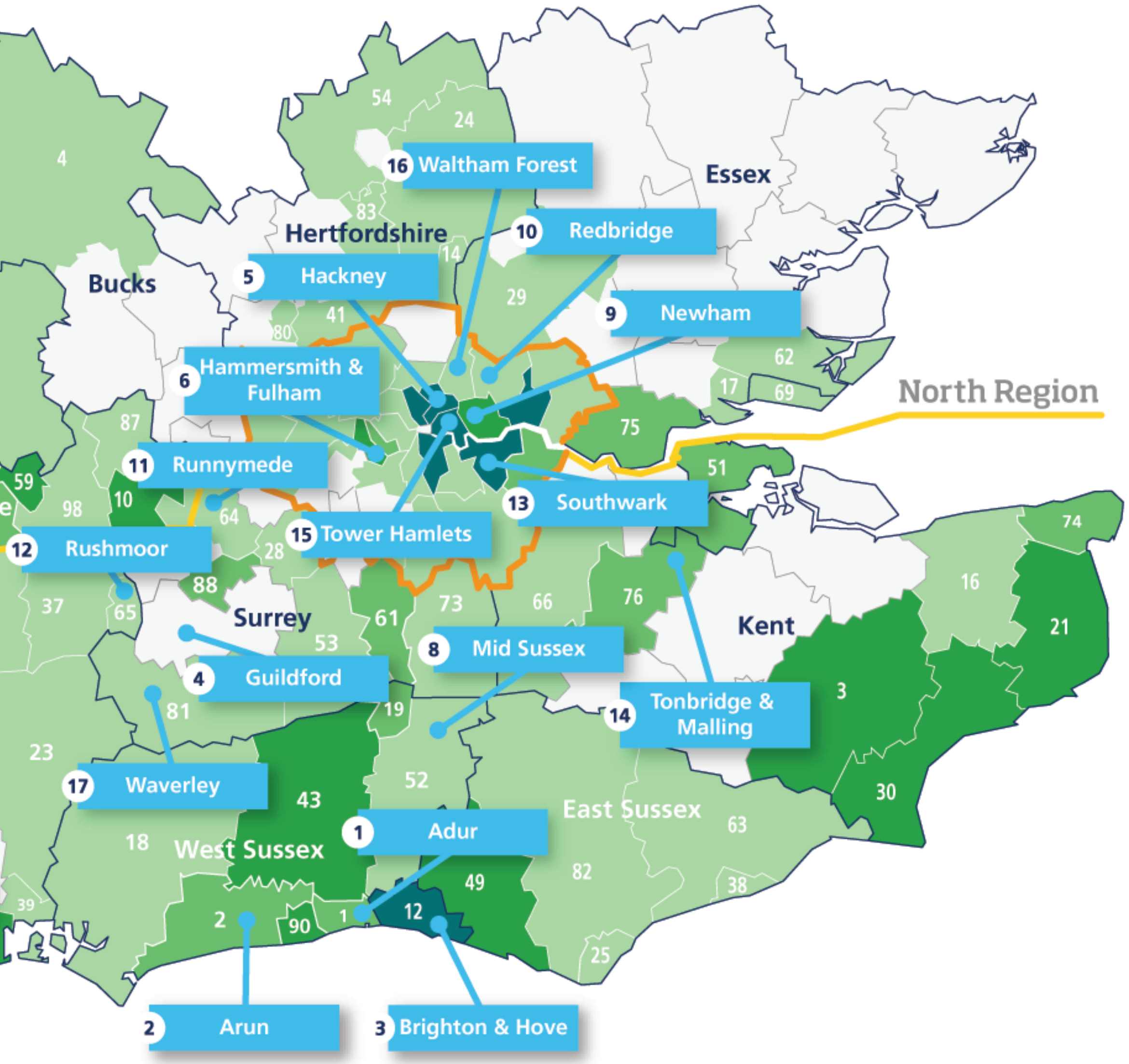
15. Tower Hamlets
Bow River Village phase 2
112 homes C
Dace Road
144 homes D
Herald Street
62 homes D
Scott Street O
Bow River Village phase 3 O

16. Waltham Forest
Essex Brewery
27 homes D
64 homes C

17. Waverley
159 homes D
Cranleigh (79)
Ockford Park (80)

Legend

- C Completed
- D Development
- P Land owned with planning
- O Land owned without planning
- E Exchanged



Stock size

- 1-250
- 250-500
- 500-1000
- 1000+
- Offices
- Hubs

51. Medway
52. Mid Sussex
53. Mole Valley
54. North Hertfordshire
55. New Forest
56. Newham
57. Oxford
58. Portsmouth
59. Reading
60. Redbridge
61. Reigate & Banstead
62. Rochford
63. Rother
64. Runnymede
65. Rushmoor
66. Sevenoaks
67. South Oxfordshire
68. Southhampton
69. Southend-on-Sea
70. Southwark
71. Sutton
72. Swindon
73. Tandridge
74. Thanet
75. Thurrock
76. Tonbridge & Malling
77. Tower Hamlets
78. Waltham Forest
79. Wandsworth
80. Watford
81. Waverley
82. Wealden
83. Welwyn Hatfield
84. West Berkshire
85. Westminster
86. Wiltshire
87. Windsor & Maidenhead
88. Woking
89. Wokingham
90. Worthing

Sustainability

We are committed to reducing our impact on the environment and to providing comfortable, energy efficient homes with low running costs for our residents. We do this through our Environmental Sustainability Strategy and Policy which helps us to ensure that we build high quality homes with low energy consumption, low maintenance costs, promote energy efficiency and contribute towards the elimination of fuel poverty by improving the thermal efficiency of our homes and properties.

Our current strategy runs until 2022, but in 2019/20 our Environmental Sustainability Strategy Group started to review it in response to the evidence base and mounting concerns about climate change.

Key facts and figures

- Average SAP rating for new homes built in 2019/20 was 84.7, a year on year increase of 1.6.
- The overall SAP rating for all SHG stock is 72.4, a year on year increase of 0.6.

Our target is to sustain an overall SAP rating of at least 71 annually between 2018 and 2022.

Fuel poverty advice service

Our Home Energy Advice service has been merged with our Financial Inclusion Service within our Southern 360 Community Investment Team, and a new role of Fuel Poverty Advisor was created in 2019/20, to support vulnerable residents at risk of fuel poverty.

Focus on **biodiversity and estate care**

Part of the Group's Environmental Sustainability Strategy is to encourage the development and use of green spaces, promote native species, and support biodiversity at our new and existing sites.

We have partnered with the UK Centre for Ecology & Hydrology to trial an 18 month project in order to increase biodiversity on our three estates in Bracknell. We have planted over 28 native plant species, installed 18 bird, bee and bat boxes and transformed over 1.5 acres of land to animal friendly habitat, such as wild flower meadows.

Lessons learned from this project will be shared across the Group's estates and with other housing associations across the country via an online toolkit.

"This is a great opportunity to work with experts in the field of biodiversity to learn how to maximise the use of our land. This work gives us an opportunity to assess what we are planting and ensure that we are being mindful and positively contributing to the ecosystem."

Patryk Szczerba
Sustainability Manager

Southern Housing Group
Streamlined Energy and Carbon Reporting (SECR) 2019/20

Under changes introduced by the 2018 Regulations, large unquoted companies are obliged to report their UK energy use and associated greenhouse gas emissions as a minimum relating to gas, electricity and transport fuel, as well as an intensity ratio and information relating to energy efficiency action, through their annual reports. Southern Housing Group is not a company but has opted to voluntarily disclose its energy use on a similar basis.

Carbon footprint in corporate offices, buildings and in communal areas

For the purpose of this SECR Carbon Report, the Group has included gas and electricity usage for the financial year 2019/20 for the offices listed below and included intensity ratios (kgCO_2e per office square meters) where available. Total CO_2e emissions for our offices from gas and electricity usage was 571.87 tnCO_2e. Energy efficiency actions taken included improving energy management of buildings through controls, data and staff behaviour change campaigns.

Office	Energy usage	Carbon Footprint	Intensity ratio
Fleet House, 59-61 Clerkenwell Road, London, EC1M 5LA	Electricity: **268,933** kWh Gas: None	**68.74** tnCO_2e	**18.48** kgCO_2e/m²
Spire Court, Albion Way, Horsham, West Sussex, RH12 1JW	Electric: **872,315** kWh Gas: **478,371** kWh	**310.91** tnCO_2e	**43.50** kgCO_2e/m²
The Courtyard, St Cross Business Park, Newport, Isle of Wight, PO30 5BF	Electricity: **57,942** kWh Gas: **34,480** kWh	**21.15** tnCO_2e	**22.91** kgCO_2e/m²
The Oasts, Newnham Court, Bearsted Road, Maidstone, Kent, ME14 5LH	Electricity: **67,573** kWh Gas: **478,371** kWh	**17.27** tnCO_2e	
Bow River Village, 2 Pintle Place, Hancock Road, London, E3 3UP	Electricity: **17,331** kWh Gas: None	**4.43** tnCO_2e	
Courtney King House, 169 Eastern Road, Brighton, East Sussex, BN2 0AP	Electricity: **38,230** kWh Gas: **695,805** kWh	**137.70** tnCO_2e	
Hooper Court, 4 The Hard, Portsmouth, PO1 3PU	Electricity: **16,330** kWh Gas: None	**4.17** tnCO_2e	
Mount Pleasant, 251 Mount Pleasant Lane, Mount Lane, Bracknell, RG12 9AB	Electricity: **29,334** kWh Gas: None	**7.50** tnCO_2e	
	Total emissions	**571.87** tnCO_2e	

Methodology

Carbon emissions from electricity = electricity usage in kWh x emission factor 0.2556 kg CO_2e.
Carbon emissions from gas = gas usage in kWh x emission factor 0.18385 kg CO_2e.

Carbon footprint from staff mileage

Total CO_2e emissions from staff mileage (for business use) was 383.42 tnCO_2e, that is 0.3064 kg CO_2e per mile.

This was calculated using the mileage and emissions factors below:

- Motorbike (125cc to 500cc) petrol = 1,712 miles x 0.16559 kg CO_2e emission factor
- Staff car (1.4L to 2.0L) petrol = 1,238,124 miles x 0.30945 kg CO_2e emission factor
- Pedal cycle = 11,268 miles x 0 kg CO_2e emission factor

Energy efficiency actions taken

- Promoting video conferencing
- Promoting cycling through campaigns
- Improving bike storage facilities in offices.

Carbon footprint from fuel used in fleet vehicles and company cars

Total CO_2e emissions from fleet vehicles and company cars mileage was 254.55 tnCO_2e, that is 0.3820 kg CO_2e per mile. This was calculated using the mileage and emissions factors below:

- Van Class I (up to 1.305 tonnes) petrol = 654,293 miles x 0.38207 kg CO_2e emission factor
- Company car (type Executive) petrol = 11,998 miles x 0.38075 kg CO_2e emission factor

No specific energy efficiency actions taken.

All of the conversion factors used in this report are in accordance with the Government's emission conversion factors for greenhouse gas company reporting:

https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2019

STAY SAFE AND SECURE

#3

Our objectives

- Maintain and improve the safety of our homes
- Improve our estates and living environments
- Keep our colleagues safe
- Be a great place to work

Meeting our objectives

The safety of our customers and colleagues has always been a priority, but after the Grenfell Tower fire and as we embrace agile working, we must ensure our residents and colleagues are safe and secure.

Maintaining and improving the safety of our homes

In November 2019 the Group's new Customer Safety Committee was formed with oversight of all safety related matters - buildings, staff and reportable incidents.

Key building safety actions

- Introduced a Primary Authority providing expert fire safety advice, undertakes joint inspections with the Group, works with the fire brigade on the Group's behalf to ensure the right level of safety is in place.

- The Group's Building Safety Programme is in place – in line with updated guidance we have enhanced our building safety works by commencing intrusive fire safety reviews (EWS1 and Type 4 FRAs) on all the Group's buildings over 18m.

- Budget – spent £8.2m more than was originally budgeted to enhance safety across hundreds of buildings.

- Ongoing data validation and reconciliation processes – enhanced reporting to better provide assurance on risk. Enhanced set of monthly KPI's produced.

- Developed risk-based matrix to enable us to prioritise the order in which we will undertake fire safety reviews across our business.

- Agreed an additional number of fire specific roles – to support the work we are undertaking – able to address the Hackitt Report and Fire Act outcomes

- Annual internal audit across each of the six key areas of compliance – to ensure we address changing risk robustly and maintain levels of statutory compliance.

Key facts and figures

	% complete
Fire safety	
Fire Risk Assessments (FRAs)	99%
FRA P0 (critical) actions	100%
Gas servicing	100%
Electrical - communal	99%
Water (legionella testing)	100%
Asbestos survey	99%

Focus on the Group's Building Safety Programme

Building safety is a key focus for the Group. In November 2019, the Group formed a Customer Safety Committee (CSC) as part of the new governance structure. The CSC has oversight of all safety related issues including buildings, staff, and reportable incidents.

Key actions by the Group have been the introduction of a primary authority which sets our national standard for building safety and the Group's Building Safety Programme.

Creation of the Group's Primary Authority

Principle aims of the services

The objectives of the Group's Primary Authority are to provide expert fire safety advice, undertake joint inspections with the Group and work with the fire brigade on the Group's behalf to ensure the right level of safety is in place.

Partnering with Hampshire Fire and Rescue Service, the Group has agreed to work together to improve our national fire safety policies and practices in our homes and buildings across the UK in a way that will:

- support the agenda for bespoke fire safety arrangements specific to the Group's requirements
- achieve better regulation through fewer routine inspections of the Group's premises
- be robust enough in its structure to meet robust challenge from other enforcing authorities.
- utilise and publicise assured advice within the scope of the statutory publicly available specification (PAS), as regulated by the Office of Product Safety and Standards.

The Group's Building Safety Programme

Background

Following the fire at Grenfell Tower in June 2017, the government issued a series of advice notes intended to provide guidance to building owners about how to make sure their properties are constructed and maintained safely. The government has asked the Health and Safety Executive (HSE) to establish a new building safety regulator in the wake of the Grenfell Tower disaster and following recommendations in the 'Building a Safer Future' report by Dame Judith Hackitt.

The new regulator will oversee the safe design, construction and occupation of high-risk buildings, so that residents are safe and feel safe. It will be independent and give expert advice to local regulators, landlords and building owners, the construction and building design industry and to residents.

Actions taken

In response to these evolving guidelines, Southern Housing Group has been systematically checking all its tall buildings to ensure that they comply with the government's building safety guidelines.

This has involved procuring and commencing intrusive fire safety reviews (EWS1 and Type 4 FRAs) on all of its tall buildings over 18m. The Group owns or manages 44 tall buildings and the programme will extend to approximately 1,400 buildings in total. Buildings are prioritised for survey using a risk-based analysis.

As well as providing the necessary assurance for lenders and identifying required remedial works, the programme begins the process of assembling the body of evidence required to support the building safety case for each of the Group's tall buildings, which will be needed by the new Building Safety Regulator.

Focus on the Group's Building Safety Programme

Existing homes

On top of the Group's existing safety works budget, a further £8.2m was included to enhance safety across hundreds of buildings.

The Building Safety Programme for existing homes provides:

- Ongoing data validation and reconciliation processes – enhanced reporting to better provide assurance on risk. Enhanced set of monthly KPI's providing clear ongoing controls.
- A risk-based matrix to enable the Group to prioritise the order in which it will undertake building safety reviews across our business.
- A specialist building safety team
- Annual internal audit across each of the six key areas of compliance, ensuring the Group addresses changing risk robustly and maintains levels of statutory compliance.

New homes

The Group is responding to the government's Building a Safer Future agenda proactively.

For example, in March 2020, the Group elected to install sprinklers in all new homes above 11m instead of 30m wherever feasible, nearly eight months ahead of any regulatory requirements. The Group has enhanced dozens of other technical fire precautions above and beyond regulations.

Cultural and process change is a key challenge identified in Building a Safer Future for the new Building Safety Regulator. Anticipating the changes that are coming, the Group is adopting a holistic view of the complex process of design and construction and exerting more control over its service providers.

We have clarified the scope of services we expect from our architects and engineers by describing responsibility matrices, naming the individuals who are accountable for designing various building elements and those responsible for detailed decisions affecting building safety. In addition, this will feature in the Group's build contracts and will include clear stipulation on the specialists who may install fire-stopping and provide the evidential standard required for future reference.

The "Golden Thread" of building information

To tie all of these activities together, we are adopting more advanced technology and processes. As innovators in the sector, we are rolling out Building Information Modelling (BIM) processes across the development programme to drive quality and the delivery of the "Golden Thread" of building information to ensure every new home is safe.

Improving our estates and living environments

Introducing our new Estate Care team

We know that customers are more satisfied in schemes where we have directly employed caretakers and cleaners. As part of a systematic review of our service delivery, we looked at providing more value through activities like cleaning and gardening via an in-house service.

Following the success of four innovative estate care pilot projects which focused on how we can better maintain and improve the living environments on our estates, provide better services and deliver excellent value for money, we have rolled out this in-house service across our London estates. The next phase is planning to extend coverage to all of our estates.

Our pilot projects included an innovative project addressing fly-tipping and bulky waste that saw significant improvements in recycling rates.

Benefits of the in-house team

- Mobilising resources to deal with emergencies or urgent issues – with the estate care service in-house, we are better equipped to react quickly when issues or emergencies arise. A good example of this arose during the year when we experienced a serious water outage. We were able to deploy staff at the weekend and early mornings to assist residents and contractors on site, as well as help with water tanker deliveries.

- Improving management of bulk rubbish – our in-house London team are able to react quickly and are working with much improved procedures.

- Creating a new team has meant that colleague engagement is higher and aligned with the Group's values – working together, doing the right thing and getting the job done. Team members have received accolades for stepping up when needed, working outside regular hours and in particularly difficult circumstances.

- Improving resident satisfaction, exceeding the targets that were set for the London team at the end of the quarter. The positive change in customer satisfaction across all three services has been significant – cleaning up 14% to 76%, gardening up 16% to 79% and communal repairs up 19% to 73%.

Keeping our colleagues safe and being a great place to work

Key facts and figures

	2019/20	2018/19
Number of employees	**1,085**	1,069
Employee engagement rate	Best Companies Index (BCI) score **661.9**	73%
Diversity	**BME 23%** **Female 59%** **Disabled 10%**	BME 17% Female 51% Disabled 5%
Gender pay gap summary	**15.6%**	18.8%

Our people are key to our success and we invest in activities and programmes to ensure we can attract, recruit, develop and retain talented people within our business.

In September, around 700 colleagues from across the Group came together for a staff conference entitled "All Together Now". The Chair of the Board and several board and committee members attended together with colleagues from Crown Simmons.

The theme of the conference was working together to understand our residents better.

During the group work, which focused on customers called "people like us", the customer insight team gathered hundreds of ideas and suggestions which form the core part of our service improvement project going forward.

We also celebrated the long service of colleagues across the Group with milestones ranging from 5 years to 40 years – some colleagues working at Southern Housing Group before others were born.

The Group's People Strategy

Our People Strategy has been developed to achieve our objective to be a great place to work for every colleague, no matter where they work across the Group.

This means more than ensuring that the right boxes are ticked. It's about making sure our plans fit with our culture and values and that we listen to feedback from colleagues which helps us to shape these plans. We want to work together to do the right thing for colleagues across the Group.

Our culture and values are really important to us. We are proud to be a business with social values. We want to attract people into the Group for whom this is as important as it is for us, and who want to be a part of what we are here for. We work hard to make this an exciting, rewarding and supportive place to work and one which encourages and celebrates a rich diversity of backgrounds, cultures and experience.

Our philosophy - it's ok to be you

Our approach to equality, diversity and inclusion is that "it's ok to be you" and colleagues are encouraged to feel confident to bring their whole selves to work.

Rewards and benefits

We know that people also like to feel rewarded properly for the work they do, so we are reviewing our pay and benefits to ensure that we are pitching our offer at the right level and supporting our culture and values by doing the right thing on pay and rewards.

Listening to our colleagues

Our values are about working together, doing the right thing and getting things done. It is really important that everyone has a voice and that there are many ways of getting views across and to feel heard. Communications are important so that no matter where colleagues are based, everyone can access the latest news and ideas and feel a part of the bigger team. The Group Staff Forum plays a key role in understanding and channelling feedback. Our survey feedback is also really open and honest – we acknowledge where we haven't got things right and we are open about learning by doing the right thing and making changes where we need to.

Growing talent

We really believe in growing our own talent. Our strategy focuses on helping people to fulfil their potential and ensure that we give everyone opportunities to learn and achieve. We have a huge range of training and development initiatives on offer, but we also want people to get involved in job shadowing colleagues across the Group and give something back through volunteering. We want to develop a coaching culture, with opportunities to learn from coaching and mentoring to ensure that all colleagues can take the next steps in their careers.

Empowering people

We know how frustrating red tape and rigid processes can be and so we are always looking for ways to empower our people in their day to day roles and enabling them to make the choices and decisions that make sense to get the job done. Having the right data and information is key to good decision making. We are working to ensure that the right information to help manage teams successfully is always accessible to managers digitally whilst maintaining privacy.

Wellbeing

Feeling part of a great place to work means looking out for everyone and supporting their wellbeing. We want our colleagues to be safe and feel safe whether in one of our offices or hubs, or working on an estate or a scheme. We know that people will sometimes need a little extra help and support with situations that happen both at work and in their home lives. We want to be there to listen and to help guide colleagues when they need it with support from leaders and managers across the Group, as well as professional specialist advice from the HR team.

We understand that everyone has a life outside work and it is important to make sure that people have that work life balance. We are keen to support this through opportunities to work more flexibly and on an agile basis for whatever works for individuals and their teams.

Benchmarking and oversight

The Board oversees Key Performance Indicators for our People Strategy which, in addition to oversight of monthly operational HR KPIs, includes progress with key initiatives. The focus for the current year has been on embedding our values and culture, as well as our approach to pay and rewards. We also benchmark the Group's performance compared to external kitemarks and awards.

Being part of the top 100 Best Companies to work for is part of this benchmarking.

Group Staff Forum

The Group Staff Forum (GSF) is the formal body that represents the interests of the staff on a range of consultative matters, as well as providing advice and guidance to individual colleagues as required or raising matters on their behalf. It is important that colleagues have a collective voice with the Group's Board and the Chief Executive attends all the GSF meetings and meets regularly with the Chair to discuss organisational issues.

The Group Staff Forum has increased its membership this year to ensure that the representative seats continue to reflect the structural changes of the Group. The Chair of the Forum also has a position on the Remuneration & Nominations Committee. The GSF continues to provide a valuable resource to the Group.

Focus on **equality, diversity and inclusion**

Our second equality, diversity and inclusion colleague conference

The Group has a clear focus on equality, diversity and inclusion. Diversity statistics are improving and the Group's gender pay gap is decreasing. But we know that there is still work to do to improve on this.

The Group held its second ED&I conference in November, attended by the Chief Executive and with the Group's Senior Independent Director, Carol Rosati OBE giving the keynote speech.

It was a positive day and diversity champions heard about the progress of the Group's five networks - Women's; Prism (LGBTQ+); Parents and Carers Together (PACT); Disability; and Black Asian and Minority Ethnic (BAME). The commitment we gave at our first conference last year was to support the creation of the network groups and it was great to see how the individual networks have developed and grown over the past year. The networks are supported by the ED&I Advisor but they are co-ordinated, managed and led by the network chairs to ensure that the focus remains on what is important to the relevant network members. One of the main outcomes of the conference was to develop action plans to take the work of the networks forward, drawing on the input and expertise of a diverse range of colleagues who shared their experiences and perspectives.

PARENTS&CARERS TOGETHER

PRISM NETWORK

BAME NETWORK

DISABILITY NETWORK

WOMEN'S NETWORK

Focus on **listening to colleagues and Best Companies survey results**

We launched our Best Companies employee survey at the staff conference in September. The response rate was 67% and raised over £700 for the Group's nominated charities as the Group donated £1 for every survey received.

The survey results revealed that most colleagues are very positive about working for the Group. Colleagues at all levels in the organisation believe that the Group is keen to help people from disadvantaged backgrounds and make a positive difference to the world we live in. Colleagues are proud to be a business with social objectives. They feel a connection to the Group, and believe that the Group cares about how satisfied individuals feel in their jobs. Colleagues think that training and development is of great benefit to them personally and there are further opportunities to improve on this by encouraging managers to help their teams to fulfil their potential. Colleagues also tell us that they have untapped skills or that they are keen do more to support the Group in different ways.

The Group was listed in the Best Companies Top 100 Not for Profit Employers for 2020, placing 83rd out of 100. This is a great achievement for the Group in its first year of completing the Best Companies survey and it provides a good external benchmark to compare with other companies in the not for profit sector.

BEST COMPANY 2020

THE SUNDAY TIMES 100 BEST NOT-FOR-PROFIT ORGANISATIONS TO WORK FOR 2020

EXCEL AT CUSTOMER SERVICE

#4

Our objectives

- Listen to our customers
- Do the basics brilliantly
- Make it easy to do business with us
- Provide products and services that meet the needs of our different customer groups

Meeting our objectives

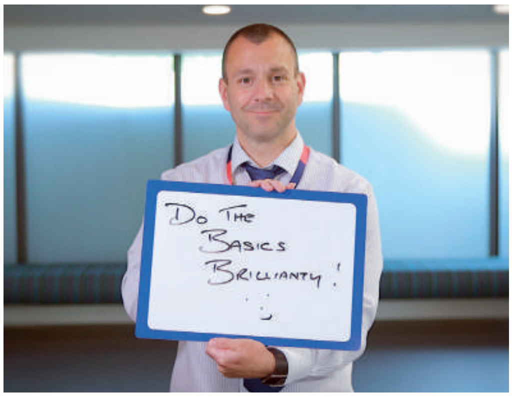
Customer service values

Our vision is to excel at customer service and our customer service values build on the Group's values to set out how we are working to achieve this.

Key facts and figures:

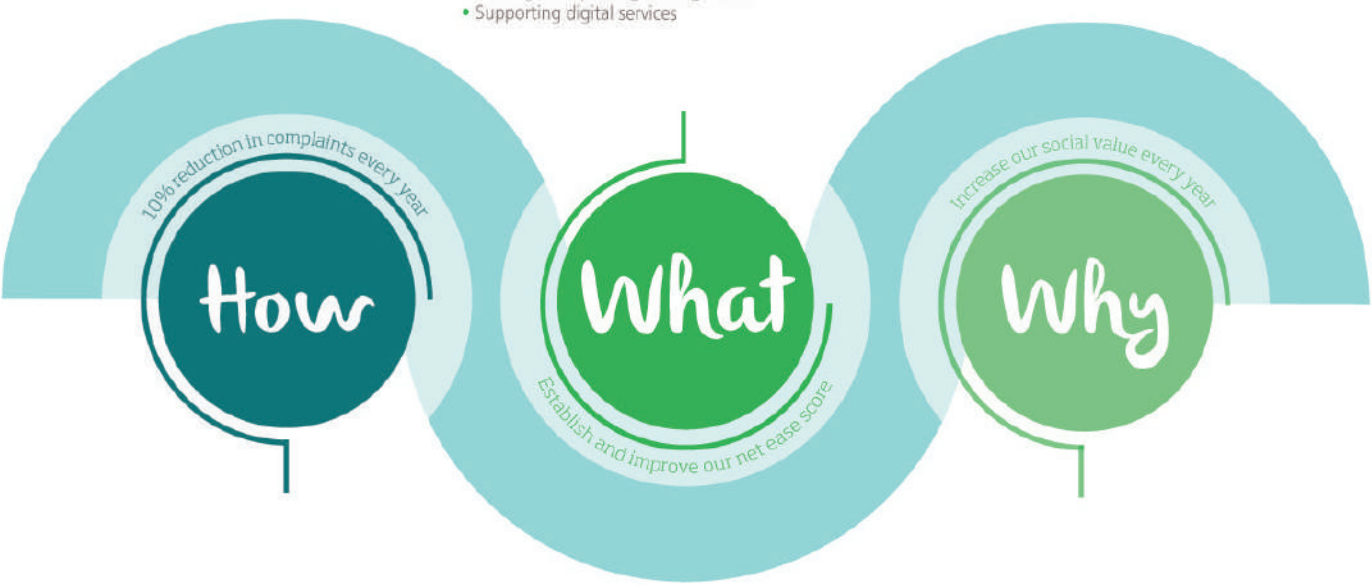
	2019/20	2018/19
Number of customer enquiries processed via phone, email, webchat and customer portal	**79,134**	79,035
Customers surveyed a month	**626**	600
Incoming calls handled	**224,963**	212,000
Net Promoter Score	**42**	26.1
Net Ease Score	**27**	19.1
Overall customer satisfaction	**83%**	73%
Satisfaction with repairs	**83%**	79%

A busy year in customer services saw demand rise and the Group improve in all of its customer service KPI's. The customer service strategy has lead to a significant increase in overall customer satisfaction, as well as a 61% increase in the net promoter score for the Group's net ease scores.



We work together so that we can MAKE IT EASY for our customers

- Listening to our customers
- Making it simple to get things done
- Supporting digital services



We get things done for our customers by doing the BASICS BRILLIANTLY

- Keeping our promises
- Doing what we say we will
- Owning it when it goes wrong
- Keeping customers updated

We do the right thing so that we can give our customers VALUE

- Spending our time and money wisely
- Supporting customer aspirations
- Increasing the supply of quality homes

Listening to residents

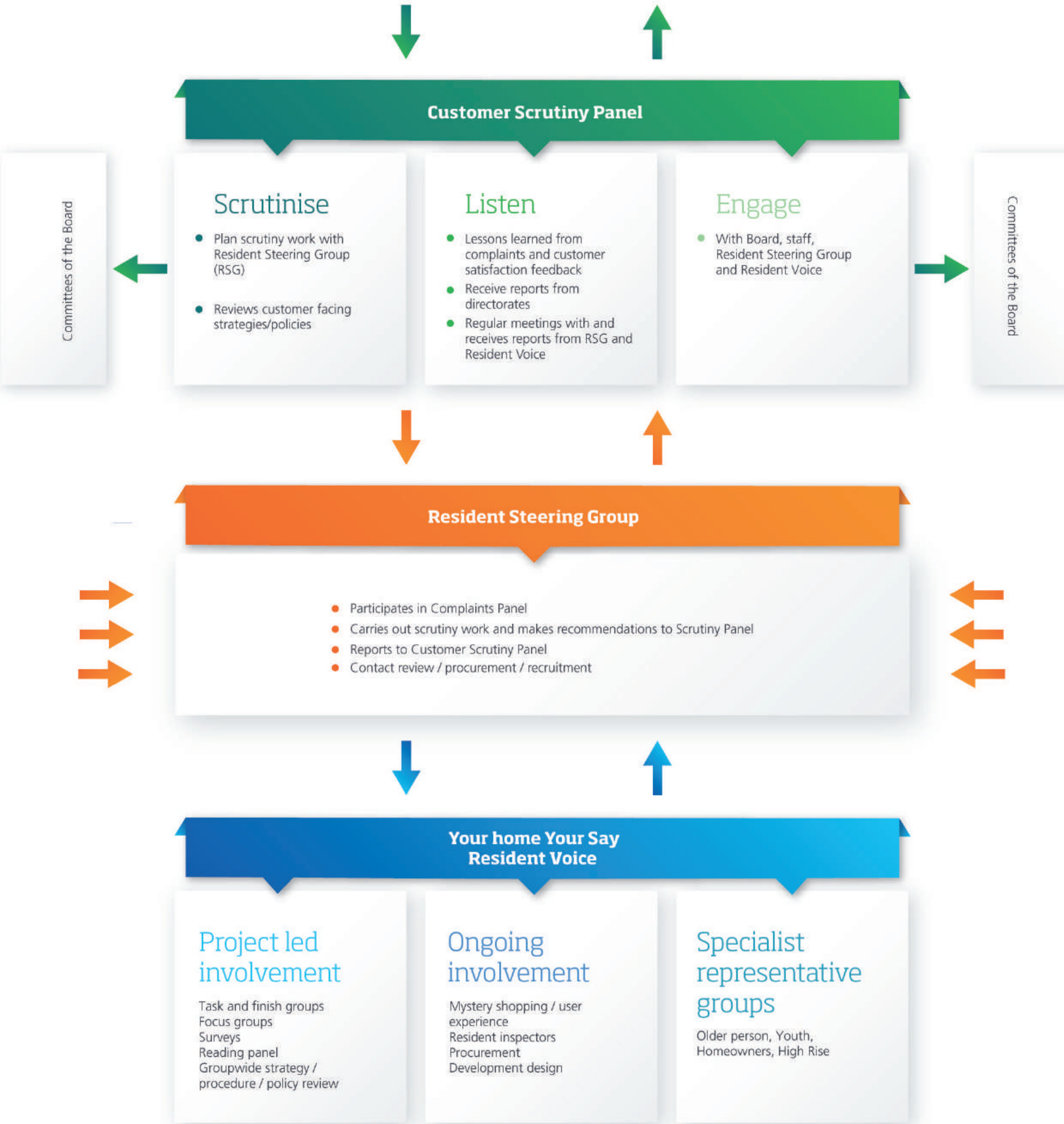
Committed to resident involvement across the Group

This year we have reviewed our approach to how we involve our residents and developed a new involvement model, strengthening the voice of residents in improving our services.

Resident Involvement Strategy

The Group's Resident Involvement Strategy has been revised and strengthened. It prioritises communication, repairs, service and respect.

The new structure is designed to reflect greater Board oversight. Based on the outcome of extensive resident consultation, we have established a Residents Scrutiny Panel supported by a Steering Group, with representation from residents across the Group's geography and tenures. The Steering Group sits within our governance structure. A range of local and specialist consultation forums supports this structure ensuring our residents' voice can be heard at every level.


Customer Scrutiny Panel
Committees of the Board
Scrutinise
Plan scrutiny work with Resident Steering Group (RSG)
Reviews customer facing strategies/policies
Listen
Lessons learned from complaints and customer satisfaction feedback
Receive reports from directorates
Regular meetings with and receives reports from RSG and Resident Voice
Engage
With Board, staff, Resident Steering Group and Resident Voice
Committees of the Board
Resident Steering Group
Participates in Complaints Panel
Carries out scrutiny work and makes recommendations to Scrutiny Panel
Reports to Customer Scrutiny Panel
Contact review / procurement / recruitment
Your home Your Say
Resident Voice
Project led involvement
Task and finish groups
Focus groups
Surveys
Reading panel
Groupwide strategy / procedure / policy review
Ongoing involvement
Mystery shopping / user experience
Resident inspectors
Procurement
Development design
Specialist representative groups
Older person, Youth, Homeowners, High Rise

Resident consultations

Over the year, resident consultations have covered a wide range of topics, policy reviews and areas of interest:

- Garden competition resident judging
- Unacceptable behaviour policy review
- Transfer policy (priority moves policy)
- Service charge and rent booklet consultation
- Repairs digital login consultation
- Estate inspection
- International tenants' day
- Focus groups on anti-social behaviour
- Focus groups on developing our customer service offer
- Green Paper on social housing (to help shape the Group's response to the Green Paper consultation)

Resident Involvement Consultation

During the summer of 2019, the Group's resident engagement team visited over 50 estates and neighbourhoods to ask our residents and customers what was important to them.

The team spoke to over 450 residents through surveys and face-to-face meetings and received over 1,000 comments. Appointments to the Resident Scrutiny Panel (21 residents) and the Steering Group (six residents) were made, following 60 applications for the roles. Over the weekend of the 24 to 26 January 2020, residents from the Scrutiny Panel and Steering Group (the highest levels of involvement) met together for the first time. They engaged with the Group Chief Executive, the Resident Involvement Team and the Director of Community Investment and Care.

Doing the basics brilliantly

Letting our homes faster – from 22 to 16 days in a year

One of the key ways we get the basics right is by letting our homes quickly, so that we can ensure people in need of housing are able to move to homes they desperately need.

This is a core function of a good landlord and one we take seriously, which means making sure we do this quickly.

The end result of the improvement is that we meet customers' needs and avoid losing valuable income, which we reinvest in new homes for people in housing need.

Last year we reduced the time it takes to let our homes from 22 to 16 days.

How did we make the change?

This was achieved by teams working across the organisation, working together and living our core values.

At the beginning of 2019, a project group from across several teams identified a number of key areas that would help us let our homes faster, from pre-moving out inspections so that our contractors would be able to pre-plan the works required, to using DocuSign which meant our tenancy agreements and other tenancy information could all be signed electronically.

We also used our data so that we could focus our improvements in areas we knew were taking too much time.

In addition to this, we updated our empty home standard so that now we automatically redecorate sheltered housing properties and also redecorate the kitchens and bathrooms of our general needs homes.

Making it easy for customers

One of the aims for customer service is to make it easy for customers to deal with the Group. This year has seen a significant rise in the Group's net ease score. We know that making it easy for our customers can often be as simple as doing the basics brilliantly, so this year we've focused on doing just that.

Our residents have told us that some of the letters we send out about planned health and safety works to their home can be difficult to read, as they sometimes contain too much technical information and jargon. So, we've improved these letters by making the language simpler, removing the jargon and adding more information about the things that really matter, such as how to prepare for the work to start.

Providing the answer to these frequently asked questions means that our customers have the information they need, straight away, which definitely makes it easier all round.

Similarly, we've updated key information relating to 40 of our services and frequently asked questions onto our website, which means that the answer to many simple and common enquiries can now be found online.

Considering accessibility

We've made sure that it's easily accessible to those using screen readers and spent time considering how we can get residents to the information they need as quickly as possible. We know that not all of our residents want to go online for this information, and we're still at the end of the phone when they need us, but having this information online makes it easier for our customers to get the information they need, in a way that suits them.

"We know that making it easy for our customers can often be as simple as doing the basics brilliantly so this year we've focused on doing just that."

Lily Monk
Customer Operations Director

Community Investment and Care

Making lives better, supporting independence and improving communities is at the heart of what we do as an organisation.

Community Investment

£1.1m

invested our communities

217

customers received employment and skills support

17,698

customers benefited from our community investment support

£209,249

of social value gained from our supply chain

1,664

referrals supported by our financial inclusion services

171

volunteers supporting residents, communities and community projects

£3,632,991

income generated for the benefit of customers

Southern 360
Making lives better

Supporting Independence and Care

576

customers supported to remain independent in their own homes

350

customers and more supported in the community

96%

of our customers told us our services helped them to remain independent

95%

of our customers felt treated with dignity and respect

Independent Living for Later Life

2,500

residents helped to feel safe and secure in sheltered housing

£21,400

worth of handyperson hours provided at no costs to residents

£426,453

grants provided to support community activities in schemes

All of our care services currently rated

Outstanding or Good*

*By the Care Quality Commission (CQC)

Southern 360 - making lives better

From community initiatives, employment and financial skills support, to providing housing for later life, and delivering care and support services that help people live independent lives, the Group's community investment and care offer is broad and impactful.

This year, the Group demonstrated its continuing commitment to supporting customers with the launch of Southern 360 – a banner to bring together our Sheltered, Care and Support, and Community Investment services.

The Group's strategy is to make its core support services easily recognisable and simple to find. People come to the Group for support at various stages of their lives therefore bringing all of these services together makes sense. Demonstrating commitment to our communities and residents, the Group will be able to attract more outside funding to our community and support projects so we can do even more for our residents.

These services are a key part of the Group's service, supporting the organisation in its delivery of our social objectives, and making a positive difference to the lives of some of our most vulnerable residents.

Community Investment

Our Community Investment team creates opportunities for residents - supporting with budgeting and money management, accessing employment and skills training, and a range of other services and projects to help people sustain their tenancies and improve the quality of life for individuals and communities. The Group also has a grants programme to support these objectives and extend our reach, helping to build inclusive and thriving communities.

Independent Living for Later Life

The Group's Independent Living for Later Life properties provide housing for 2,500 of our older residents, with staff based in schemes providing a daily on site presence, giving our residents that feeling of safety and security that our residents have told us is so important to them.

Supporting Independence and Care Team

The Supporting Independence and Care team provides care and support to our vulnerable residents on the Isle of Wight. They deliver a range of services including providing support to single homeless people and homeless families, people with mental ill health and vulnerable young people enabling them to live independently, either in their own homes or in one of our supported housing schemes.

Highlights 2019/20

- Homecare Services and Byrnhill Grove were awarded 'Good' ratings by CQC in September 2019.
- Homecare Services were recognised as 'outstanding' for well-led.
- SI&C successfully applied to run the Duke of Edinburgh's Award seeking to actively engage our young people in meaningful activities.
- Supporting Independence Day 2019 was a fantastic event, well attended, and an excellent opportunity to celebrate our customers.

DofE THE DUKE OF EDINBURGH'S AWARD

Focus on
tackling food poverty

The Group partnered with the Guinness Partnership and the charitable foundation of Clarion Housing Group to open London's first community food pantry on a housing estate.

The St Giles Food Pantry was officially launched in September 2019.

The event was attended by a local councillor Kim Taylor-Smith and chef, food writer and recipe developer Dominique Wood who demonstrated a recipe for the residents.

The pantry is the first of its kind in London and is serving the residents of each partner's housing estates in South Kensington.

Residents are now able to access high-quality groceries supplied by FareShare in return for a £3.50 per week membership fee.

Customers can join the scheme through a referral from one of the pantry's recognised partner organisations.

"The St Giles Food Pantry is a fantastic example of what partnership working can achieve and how it can benefit communities."

Alice Webster,
Group Community Investment Services Manager

Focus on
making a difference – PopUp Business School

Last October, we teamed up with Sovereign Housing Association and the PopUp Business School to provide self-employment sessions helping residents to bring their business ideas to life.

Through a series of free-to-attend workshops, we showed residents on the Isle of Wight how to develop business ideas, promote their businesses, create websites and manage finances.

More than 75 members of the local community came together to empower each other and develop their diverse business ideas.

"The instructors from PopUp are so energetic and re-sparked my enthusiasm to 'just get going' and start selling. I am just so, so pleased I came across PopUp and I can honestly say it's changed my life!

I feel so proud that I've made the leap into setting up my own business and I know I wouldn't have done it if I hadn't attended PopUp."

PopUp participant Joanna, who set up her own lingerie business in Kent

Focus on
innovation in care

Virtual reality

Our IT Team joined forces with colleagues at Byrnhill Grove, one of our residential care homes on the Isle of Wight to try out an innovative approach to care for dementia patients – virtual reality.

Following a visit to the home earlier this year, the Group's IT Team worked with the Southern 360 Care and Supporting Independence team to look at some research that showed that using virtual reality headsets could reduce depression and anxiety in people with dementia. The technology provides patients with stimuli they wouldn't normally be able to experience due to mobility issues and cost. This can lead to a reduction in hostility towards staff and help to recall old memories which may have faded over time. After a short and successful trial, the Group has invested in some virtual reality headsets to use at Byrnhill Grove. The team will also be supplying more to the Group's sheltered homes at Furze Break, and in Ryde Village when it opens.

Everyone involved has been delighted that the latest technology can be put to such good use.

Number 22 Argyll Street isn't just home to the people living and working there, it's also a welcome base for Caddie a two-year old black Labrador.

The benefits of walking a dog had been discussed for a while with all the residents and the team. "Then we thought a step further," said Emma. "We are just like one big family and as most families have pets, we thought why not our 'family' too?"

Fate also played an important role when Emma and team member, Dani Fischer, Deputy Manager were attending a dog training class attended by Carol Court, the founder of the Island's charity Ability Dogs for Young People (AD4YP). Carol responded to the request by providing Caddie who hadn't passed the rigorous training required of a fully qualified 'jacketed' ability dog.

"Caddie is a wonderful addition to the household," said Emma, "Having him around is great, especially when spending one to one time with a resident on one of Caddie's walks. It's a lovely way to spend quality time with someone without the pressure of being completely focused on them, it's a win-win all round."

Focus on **community**

Many Sisters is an exciting new project that aims to build financial resilience and create a unique community space for Black, Asian, Minority Ethnic and Refugee (BAMER) women within local communities.

The project is run by a small team of four women who work within the Group's Community Investment team to provide support services for at least 350 BAMER women, many of whom live in London's most deprived areas.

Five months ago, Many Sisters was given enough funding to make this project happen, through a funder with a focus on East London – the boroughs of Tower Hamlets, Hackney and Newham.

The aim of the the Many Sisters project is to provide support and intervention to prepare women for difficult financial life shocks, such as a change in benefits or unexpected bills, and prevent these from having the serious impact they so often do.

"The programme has helped me to realise that I still have so many life goals I would like to achieve. I would like to succeed in my life. And that's what the Many Sisters project is helping me with."

Runi Begum
Runi is a BAMER woman and a mother who took part in the programme

Prior to the launch, Many Sisters began by listening and engaging with BAMER women in their local communities and holding a range of fun, capacity building activities – including a four-week 'cooking on a budget' course on an estate in Tower Hamlets.

The feedback so far has been extremely positive.

MANY SISTERS
ONE VOICE

Focus on **outstanding care**

The Group's registered care home, 22 Argyll Street on the Isle of Wight was awarded "Outstanding" by the Care Quality Commission this year.

22 Argyll Street is home to nine adults who all have either a learning disability or an autistic spectrum disorder.

The CQC inspection considers the following standards: safety, effectiveness, care levels, responsiveness to people's needs and leadership.

The CQC report highlighted that Emma Bound, Registered Manager and her team stand out:

- Staff provide services that go the extra mile to provide a family orientated and homely environment.
- Highly skilled and knowledgeable in caring for people with additional needs.
- Strong relationships between the team and the residents where everyone knows each other.
- Understand and meet residents' needs and aspirations creatively, especially regarding enhancing skills, interests and independence.
- Residents are listened to, understood and respected by the team.
- Fully committed to ensuring the services provided are continually improved.
- Have strong links with the residents' friends, families and wider community.

"Our residents are as delighted as we are that their home has been graded as outstanding. We really are a motivated team and each of us brings something different. We're always full of ideas as to how we can make life interesting and enjoyable for our residents and we pride ourselves on delivering high quality, person-centric care so everyone gets the attention they need."

Emma Bound
Registered Manager

- Excellent observance of safeguarding standards and the team understand their responsibilities.
- Care is given in a relaxed and unhurried way.
- Technology is used proactively to both support people's safety and for communication needs.

02. Financial review

GROUP FINANCIAL PERFORMANCE

#5

Highlights

Every penny of our surplus and more is reinvested in our existing homes and services, as well as the provision of new homes, and we continue to use our capacity to meet growing housing need. This year £260m was invested in the delivery of new-build homes as well as acquisitions of stock, and we invested a further £30m in enhancing the safety and quality of our existing homes. Our top priority remains the health, safety and wellbeing of our residents and along with £10m spent during the year on building safety, we invested £1.1m in our communities.

This level of investment is supported by the consistent generation of surpluses, grant receipts from our strategic partnerships with Homes England and the Greater London Authority and careful treasury management, which included the issuance of £100m of retained bonds in May 2019.

Reinvestment of Group surplus

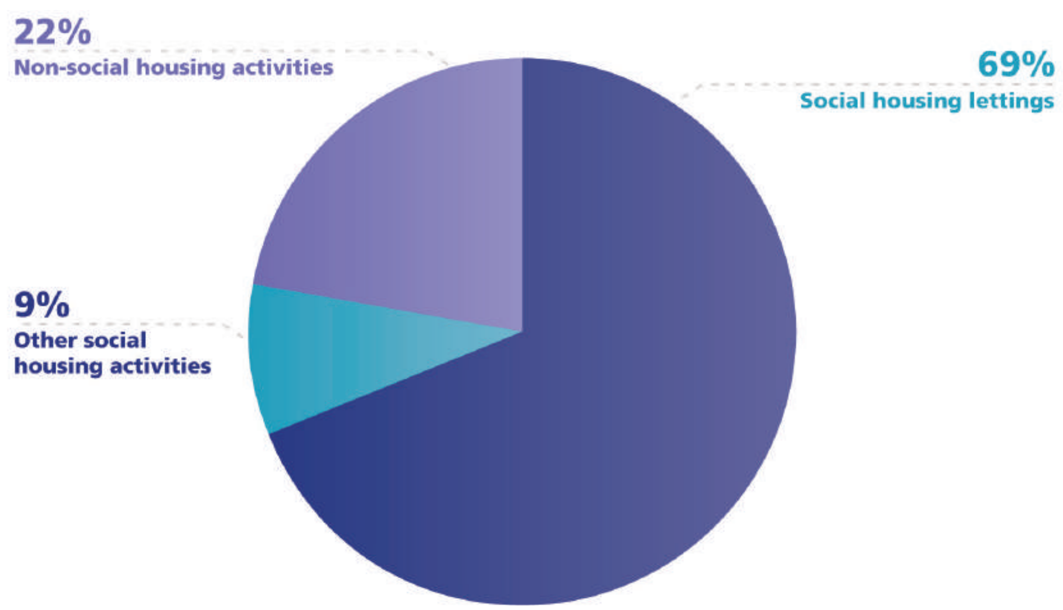
Investment	**2019/20 £m**	2018/19 £m	Funding	**2019/20 £m**	2018/19 £m
In existing homes	**30**	25	Surplus for the year	**23**	39
In new homes	**260**	165	Treasury management	**236**	157
In the business	**5**	10	Grant and other	**36**	4
Total	**295**	200	**Total**	**295**	200

Turnover

Turnover for the year totalled £236.8m, £6.4m higher than the prior year. The effect of the final year of government-mandated rent reductions of 1% for social and affordable rent properties was partially mitigated by the addition of 913 homes to our rented housing stock during the year. Social housing lettings continue to constitute the majority of turnover from operations at 69% (2018/19: 70%). Whilst shared ownership sales income was lower than last year at £15.2m (2018/19: £24.9m), open market sales were higher totalling £47.3m (2018/19: £35.4m). The fluctuations in these figures reflect year-on-year tenure variations in our development programme.

Percentage of turnover by activity

	2019/20	2018/19	2017/18	2016/17	2015/16
Social housing lettings	**69%**	70%	78%	78%	87%
Other social housing activities	**9%**	13%	16%	12%	7%
Non-social housing activities	**22%**	17%	6%	10%	6%



Operating surplus

Group financial performance

	2019/20 £m	2018/19 £m	2017/18 £m	2016/17 £m	2015/16 £m
Turnover	**236.8**	230.5	199.7	200.2	177.5
Cost of sales	**(47.3)**	(39.3)	(27.9)	(24.2)	(10.0)
Operating costs	**(145.7)**	(129.3)	(122.6)	(111.3)	(110.0)
Surplus on disposal of fixed assets	**24.0**	9.7	11.1	13.6	19.3
Investment property valuation	**(5.8)**	0.6	3.0	20.5	5.2
Operating surplus	**62.0**	72.2	63.3	98.8	82.0
Net funding costs	**(38.4)**	(32.8)	(22.0)	(31.9)	(31.9)
Taxation	**(0.3)**	(0.8)	3.6	(4.9)	0.0
Net surplus for the year	**23.3**	38.6	44.9	62.0	50.2
Overall operating margin	**26.2%**	31.3%	31.7%	49.4%	46.2%

The Group's overall operating surplus was £62.0m compared with £72.2m for the 2018/19 year and margins decreased from 31.3% to 26.2%. Operating costs increased by £16.4m, of which £8.2m was directly attributable to increased investment in building safety, as we continued our inspection and remediation programme, ensuring the ongoing safety and wellbeing of our residents. Depreciation has increased by £3.4m compared with the prior year, as a result of increasing investment in new and existing homes and in the modernisation of our business systems. In addition, during the year we have recognised impairment charges totalling £2.8m on two of our development schemes as a result of unforeseen ground conditions and increased build costs.

The increased investment in building safety coupled with the cumulative impact of four years of rent reductions has put downward pressure on underlying social housing operating margins, which finished the year at 16.1%, below last year's closing position of 23.2%. During the year, the Regulator of Social Housing published its Rent Standard 2020-2025 which allows registered providers to increase rents for existing tenants with effect from 1 April 2020. The Group has the lowest average weekly rents of its peer group of London-based housing associations, the G15, and this continues to have an adverse impact on social housing margins and our ability to fund growth from our core social housing business. We have taken the decision to increase rents by CPI + 1% from April 2020, in line with the provisions of the Rent Standard.

Operating surplus (continued)

We have continued our strategic approach to asset management in the year, rationalising our areas of operation to increase the efficiency with which we deliver services to our customers. A total of 474 units were sold to another registered provider, generating a surplus of £12.6m to be reinvested in new and existing homes. Demand from our residents for an increased ownership share in their homes remained strong, with our surplus from staircasing receipts totalling £10.2m during the year (2018/19: £9.0m).

The impact of economic uncertainty caused by both Brexit and COVID-19 has been felt in our investment property valuations, which this year have experienced a net reduction of £5.9m (2018/19: £0.6m gain).

The net surplus for the year of £23.3m (2018/19: £38.6m) also reflects a rise in funding costs to support the early years of our expanded growth and development programme, which aims to deliver 7,000 homes over the next nine years.

Surplus and margin by business line

	2019/20 £m	2018/19 £m	2017/18 £m	2016/17 £m	2015/16 £m
Social housing lettings:					
Operating surplus	**26.2**	37.1	39.8	48.4	47.1
Margin	**16.1%**	23.2%	25.6%	30.9%	30.5%
Other social housing activities*:					
Operating surplus	**0.9**	3.6	3.0	7.4	5.3
Margin	**4.7%**	12.3%	9.4%	34.0%	40.1%
Non-social housing activities:					
Operating surplus	**19.5**	21.2	6.3	8.8	5.1
Margin	**36.2%**	51.9%	52.4%	40.4%	50.8%

* Excluding the figure for impairment as this relates to properties still under construction

Group financial position

Net assets have increased by £23.4m to £643.9m during the year, further enhancing the Group's historically strong financial position. Long-term borrowing has increased to £1,701.0m from £1,564.4m, but gearing remains low relative to peers at 40.4% (2018/19: 37.0%). The increase in financing has funded the development of 419 new homes during the year (2018/19: 315). It also financed the acquisition of 379 homes from another registered provider.

	2019/20 £m	2018/19 £m	2017/18 £m	2016/17 £m	2015/16 £m
Non current assets					
Property, plant and equipment	**2,112.0**	1,975.9	1,873.9	1,809.3	1,750.3
Investment properties	**143.3**	106.9	108.9	78.8	47.4
Other investments	**19.0**	19.2	24.3	22.2	21.0
Net current assets	**82.7**	92.2	31.7	130.0	145.0
Total assets less current liabilities	**2,357.0**	2,194.2	2,038.8	2,040.3	1,963.7
Long term liabilities	**(1,701.0)**	(1,564.4)	(1,445.6)	(1,496.4)	(1,481.1)
Provision for liabilities and charges	**(3.5)**	-	(1.4)	(0.2)	(0.1)
Pensions	**(8.6)**	(9.3)	(8.7)	(9.9)	(8.3)
Total net assets	**643.9**	620.5	583.1	533.8	474.2
Total reserves	**643.9**	620.5	583.1	533.8	474.2

Assets held for sale totalled £22.1m at the end of the year (2018/19: £15.7m) representing 15 unsold units for open market sale and 128 shared ownership units. Of these, 4 open market and 14 shared ownership sales have subsequently completed in April and May 2020, in spite of the challenges posed by COVID-19 and the government's moratorium on house moves at the beginning of the new financial year. Units unsold at the year end for a period of six months or more, represent 14% of the total units handed over during 2019/20.

Treasury and capital structure

The Group maintains a treasury management policy whose principal purpose is to monitor and control the cost and risk associated with our treasury management activities. This policy is an important element of our governance framework and prescribes our approach to the management and mitigation of liquidity risk, interest rate risk, credit and counterparty risk and any refinancing risk arising from the maturity profile of our debt portfolio. Compliance with loan covenants is regularly monitored by the Board and we have remained compliant with all our covenants during the year, forecasting continued compliance over the life of our long-term financial plan (a period of 30 years).

We draw our funding from a range of different sources to provide a diversified funding structure. Total facilities as at 31 March 2020 were £1.4bn, comprising a mix of loan facilities and bond finance. Of these facilities, £437.1m remained undrawn at the financial year end, comprising revolving credit facilities capable of draw down within 48 hours. Refinancing risk is actively managed and at 31 March 2020 we had £646.0m (46%) of our loan portfolio expiring in the next five years, of which £481.9m relates to revolving credit facilities. We anticipate these facilities to be rolled forward as they fall due.

Cash balances totalled £58.9m at 31 March 2020 including £10.4m of ring-fenced cash deposits and balances. The treasury management policy requires us to maintain sufficient cash and committed loan facilities capable of immediate draw down to cover the next 18 months' committed cash flows, excluding any forecast sales income. At the financial year end we had 22 months of forward cover for these commitments.

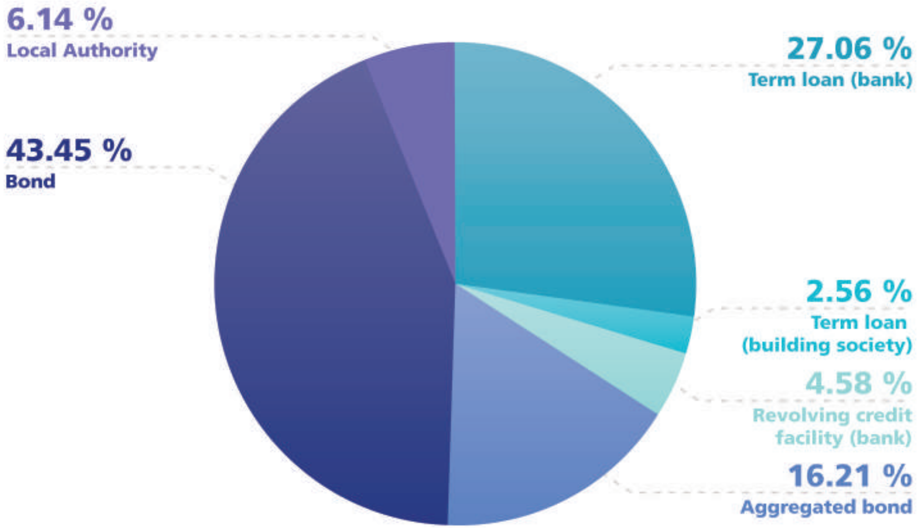
With the exception of local authority loans totalling £60m which are unsecured, all remaining facilities are fully secured on the Group's housing properties. In accordance with the annually approved treasury strategy, we actively manage levels of property security to optimise the use of the Group's assets in supporting our funding requirements. At the year end, the Group had a total of 8,891 unencumbered properties available as security.

Of the £977.9m drawn debt at year end, 85.5% was at fixed rates of interest and 14.5% at variable rates, well within the requirements of the treasury management policy. The weighted average cost of funds as at 31 March 2020 was 4.15%. The Group has no stand-alone derivatives or exchange rate exposure.

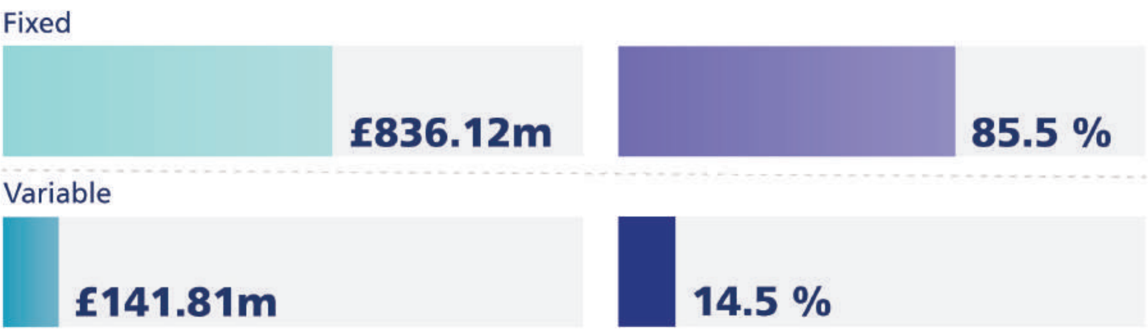
Our primary objective in relation to investments is the security of capital and this is prioritised over returns. The treasury management policy outlines the requirements relating to the long-term credit rating of any counterparty together with limits on the value of the sums invested.

The Group maintains an external credit rating with Moody’s which was downgraded from A2 to A3 in September 2019, with a change in outlook from negative to stable. The rating reflects our credit strengths which include our large size, strong balance sheet and liquidity position, whilst acknowledging the strategic shift to more ambitious growth which will increase debt, development and market sales risk over the near-term.

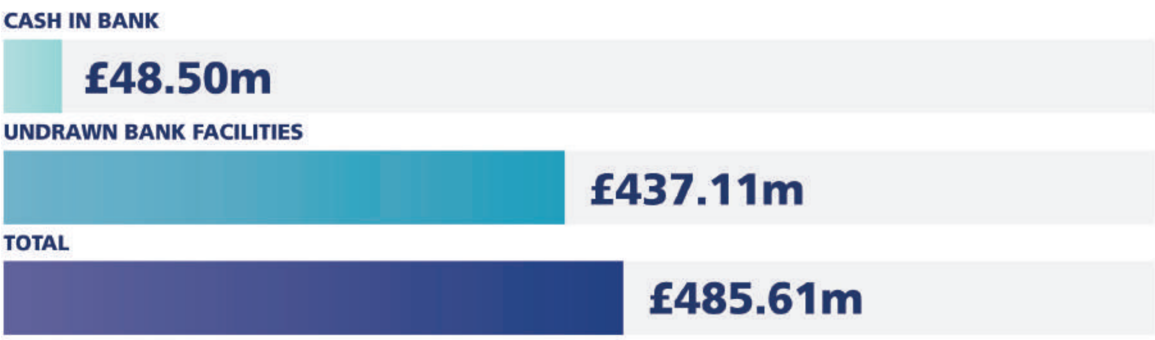
Funding mix (drawn debt)



Interest rate mix

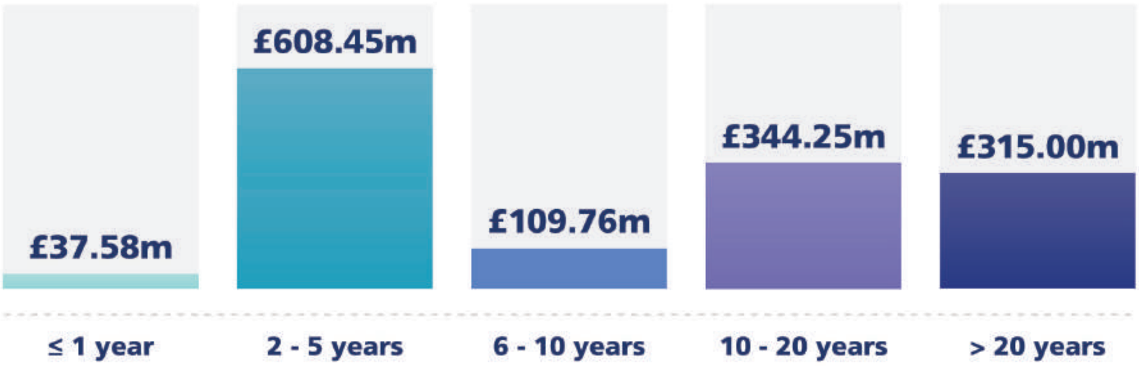


Summary of the Group’s liquidity



Group liquidity management

Facility maturity



Available facilities

£437.11m

Average cost of funds

4.15%

Outlook

We are financially strong with high levels of liquidity and are forecast to remain so over the coming years.

In common with businesses throughout the country, we have been carefully managing our response to the COVID-19 emergency in the first few months of 2020/21 to ensure that we minimise the risks to our staff, customers, finances and operating models. We are developing plans to adopt new and innovative ways of working in the longer term which we hope will support a more climate-friendly approach to the future working life of our staff.

The government has set a net zero target for carbon emissions by 2050 and we are including the impact of this in our long-term financial plans, alongside our continuing commitment to building safety. Our financial capacity and resilience mean we are well-positioned to meet these challenges.

VALUE FOR MONEY

We are committed to driving value for money in all our activities, maintaining our strategy to increase investment in new and existing homes and to optimise the returns generated from all areas of our operations.

Value for money is explicitly embedded in our decision-making processes and we don't just measure our success by the cost of delivering services, but by their outcomes for our customers. Rather than maintaining a separate value for money strategy, we embed value for money objectives in all our core business strategies which together support the delivery of our overall Corporate Strategy.

#1 Live by our values

We know that attracting, recruiting and retaining the right staff is critical to building an organisation that can achieve its ambitions for its customers. In 2019, we took the decision to bring our recruitment service in house so that we could directly reach a wide and diverse pool of skilled candidates and reduce reliance on agency partners. Our Value for Money Action Plan 2019/20 targeted a reduction in recruitment spend of £675k from insourcing this service and, despite a delayed start, savings of £446k were achieved by the end of the year.

#2 Provide more quality homes

Our Corporate Strategy is explicit in its aim to provide homes of all tenure types to ensure that we meet a wide range of housing needs. During the year, we completed 419 new homes and began work on 802 more, across a wide range of tenure types including social and affordable rent, shared ownership and open market sale units, together with units for private rent. Our overall tenure mix is detailed on page 21 and our strategy is to provide 7,000 more homes by 2029. We will continue to deliver a balanced programme, using the cross-subsidy model from market-facing products to keep our social and affordable rents as low as possible. Our investment appraisal process ensures that schemes are designed to address local needs and options are subject to rigorous financial assessment against Board-approved internal thresholds that include measurement of financial payback, NPV and IRR, set within a governance framework that includes the Group's Development Committee and Board.

Value for money is a key component of our Development Strategy. We look to drive procurement efficiencies from our contractor and consultant frameworks, grow our in-house technical and commercial expertise and deliver homes to a higher construction quality with fewer defects. In addition, we recognise the strategic importance of opportunities that exist with properties and land we already own. Our Hidden Homes programme which started in 2017 is on track to deliver an additional 190 plots with an approximate land value of £13.7m.

Our in-house construction arm, Southern Housing Construction Limited, commenced trading in June 2018 to deliver construction services to the Group on smaller sites where cost-effective build services are harder to source. It is now on site at a mixed tenure scheme of flats and houses in Hove, East Sussex, building 33 new homes for shared ownership and affordable rent, with an overall completion date of March 2021. This subsidiary has generated a surplus of £0.1m during the year.

Our Growth Strategy focuses on the consolidation of new homes, either constructed or acquired, within existing management areas, to maximise the benefit of our established infrastructure and reduce our management cost per unit. A key element of this strategy is the rationalisation of our stock in areas where we don't have the presence to deliver the most cost-effective service to our customers. During the year we sold 474 properties in non-strategic areas for the Group to another registered provider, generating a surplus of £12.6m to be reinvested in new and existing homes and services.

#3 Stay safe and secure

Maintaining and improving the safety of our homes and our residents remains our top priority. We made an important addition to our governance structure in 2019/20, introducing a Customer Safety Committee whose remit is to oversee the Group's customer health and safety and compliance obligations, including related asset management.

We have used our surpluses to make significant investments in building safety during the year, spending more than £8.2m on building safety measures including surveys, inspections and remediation works. During the year, we completed the removal and replacement of aluminium composite material (ACM) cladding at one of our tall buildings - St Lawrence House in Reading.

We remain committed to delivering the highest standards of building safety compliance. Gas servicing was 100% compliant at the year end for the second consecutive year, demonstrating the efficiency and effectiveness of our processes across multiple business areas, including customer safety, housing management and estate care. Electrical certificates for communal areas were in place for 99% of our affected properties (2018/19: 99%). In 2019 we began a five year programme to ensure in-dwelling electrical safety certificates are in place across our homes and at the year end 28% of this programme had been completed against a target of 20%.

In accordance with our asset management strategy, our maintenance and investment programmes are based on dynamic component data. At the end of the year we had increased the percentage of homes surveyed to 81% of our stock and this data-led approach enables us to realise the full potential lifecycle of an asset.

#4 Excel at customer service

We are committed to listening to our customers and using their insight to improve our services. Our resident involvement strategy is centred on customer engagement to improve our understanding of customer needs and the quality of our service. We have created two new groups to increase levels of customer involvement: a Customer Scrutiny Panel which has a direct line to the Board of Southern Housing Group, and a Steering Group which will help shape our services. In January 2020, residents from these newly formed groups met for the first time to consider the Group's approach to handling customer complaints, customer communications and customer experience.

Satisfaction with overall levels of service provided by the Group have increased significantly compared with last year, with 83% of customers rating the service as a 4 or 5 out of 5 against a target of 80% (2018/19: 73%). In all, 717 complaints were made during the financial year to 31 March 2020, a 33% reduction on the prior year.

It is also important to us that we make sure our empty homes are turned around quickly, so they can be re-let to a new resident or family as soon as possible. Our redesigned approach to voids management continues to drive improvement in this important measure of operating efficiency and we are pleased to report a void turnaround performance of 16 days for 2019/20 (2018/19: 22 days) against a target of 19 days.

93% of emergency repairs were completed within 24 hours against a target of 98% (2018/19: 99%). The decrease in performance compared with last year was mainly due to the repair requiring more than one visit.

KPI	**2019/20**	2018/19	2019/20 target	2020/21 target
Overall customer satisfaction	**83%**	73%	80%	85%
Void turnaround time (days)	**16**	22	19	17
Rent arrears %	**3.97%**	3.90%	5.00%	4.00%
Gas servicing % complete	**100%**	100%	100%	100%
Emergency repairs completed	**93%**	99%	98%	98%

Indicator	**Definition**
Overall customer satisfaction with service %	The overall % of customers satisfied with the service.
Voids turnaround time (days)	Average number of days taken to re-let a property (general needs, affordable rent, and supported housing only).
Rent arrears %	All current arrears as a percentage of rent due in year.
Gas servicing %	The number of properties with a valid gas certificate at the end of the period divided by the number of properties on contract. All tenures.
Emergency repairs completed %	The percentage of emergency repair jobs completed within 24 hours.
Reinvestment %	Investment in properties (existing stock as well as new supply) as a percentage of the value of total properties held.
New supply (social) %	The number of new social housing units that have been acquired or developed in the year as a proportion of total social housing units.
New supply (non-social) %	The number of new 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.
Gearing %	The amount of debt held over the value of housing assets.
EBITDA (MRI) %	Earnings Before Interest, Tax, Depreciation & Amortisation (major repairs included). Indicates the level of surplus generated compared to interest payable.
Social housing cost per unit	The sum of social housing operating expenditure divided by the total number of units under management. It includes service charge costs, routine maintenance costs, planned maintenance costs, major repairs expenditure, capitalised major repairs expenditure, and any other (social housing letting) costs, or other operating expenditure.
Operating margin (social housing) %	Operating surplus/ (deficit) from social housing lettings divided by turnover from social housing lettings.
Operating margin (overall) %	The surplus/ (deficit) from all operating assets before exceptional expenses are taken into account.
Return on capital employed %	Operating surplus as a percentage of total assets less current liabilities.

#5 Remain financially strong

The generation and reinvestment of surpluses and the delivery of value for money are explicit in our Corporate Strategy. Our Value for Money Action Plan 2019/20 challenged us to deliver increased value of £15.8m in areas including stock rationalisation, voids management, operating model changes and reductions in management expenditure. £13.8m of this was delivered in year with further value realised in the first few months of 2020/21, notably from the completion of our stock rationalisation activities.

A further £0.7m of value was generated in year from the introduction of a dedicated commercial lead in IT, together with the insourcing of legal disrepair cases.

A target of 5% was set for tenant arrears, an increase from the actual performance of 3.90% achieved in 2018/19 in recognition of more claimants applying for Universal Credit. Actual arrears for 2019/20 were 3.97% and, compared with target, provided the Group with an improved cash position of £1.6m.

During the year, the Board has received regular reporting on the Group's performance against its Key Performance Indicators and these include the seven value for money metrics published by the Regulator of Social Housing. The table shows our performance against these regulatory measures compared with our sector peer group, the G15, which represents the largest London-based social landlords.

	Southern Housing Group 2019/20	Southern Housing Group 2018/19	G15 average 2018/19
Reinvestment	**12.9%**	7.7%	6.2%
New supply (social)	**1.2%**	1.1%	1.8%
New supply (non-social)	**1.0%**	0.5%	0.8%
Gearing	**40.4%**	37.0%	46.4%
EBITDA MRI	**61.2%**	136.0%*	131.8%
Social housing cost per unit	**£5,620****	£5,044	£5,392
Operating margin (social housing)	**16.1%**	23.2%	32.2%
Operating margin (overall)	**26.2%**	31.3%	24.6%
Return on capital employed	**2.6%**	3.3%	3.0%

*Prior year comparative restated from 158% to exclude surplus on fixed asset sales.

**Adjusted SHCPU excluding 381 units acquired in February 2020 and including 472 units sold to another RP in March 2020 is £5,567.
Costs for the disposed units were incurred for the majority of the financial year and therefore, this adjusted metric is representative of the costs incurred during the year

We continue to maintain gearing well below our peer average and our measure of reinvestment has increased significantly compared with last year, growing from 7.7% to 12.9%, as we continue our strategy to develop more homes and invest in the quality and safety of our existing stock. The impact of our additional expenditure on building safety this year can be seen in a higher social housing cost per unit and in a social housing margin that is markedly lower than the prior year at 16% (2019: 23%). Our overall operating margin was impacted by a reduction in sales margins compared with last year. The driver was the particularly strong performance from open market sales at three schemes in 2019 which drove an overall sales margin of 48% compared with 29% in 2020 (target 32%). EBITDA MRI (which excludes any surplus from property disposals) was impacted by the above factors, as well as a full year of the interest costs associated with our bond issues in October 2018 and May 2019.

Outlook

Our financial position remains very strong, but we recognise that we have work to do to improve our social housing lettings performance. Challenges arising from a sharp increase in building safety spend, set against historically low rents compared with our peer group, drove a margin in our social housing business of 16% compared with a target of 20%. We have set a minimum target for efficiency savings in 2020/21 of £2.5m and have directorate plans in place to deliver these savings. We are assessing rental levels across our portfolio and have a project underway to improve the recoverability of service charge costs with a target to achieve a cost neutral position by the year ending 31 March 2022.

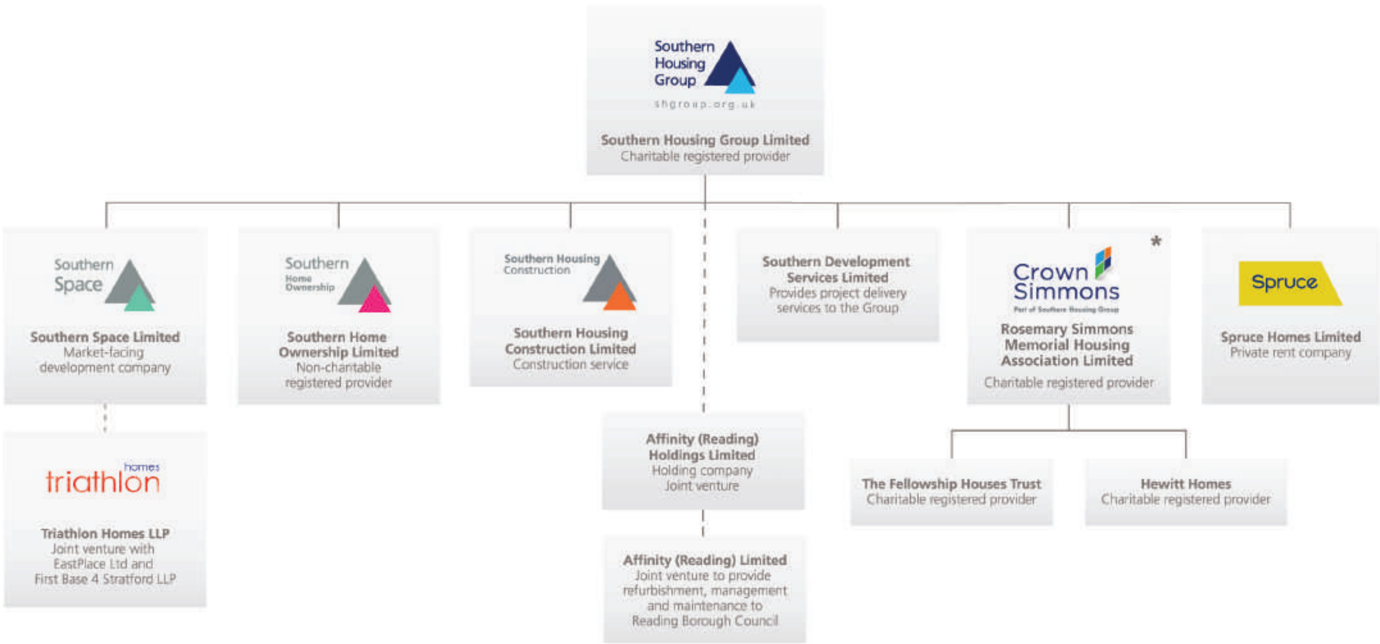
We have launched a new Corporate Plan for 2020 to 2023 which outlines our priorities for our homes, customers, communities, people and resources over the next three years. Value for money principles are embedded in each of these areas and the plan is explicit in its objective to improve how we use our resources to provide value for money services to our customers.

Specific measures are attributed to each area of the plan so that performance can be continuously assessed (and some of our targets for the 2020/21 financial year can be seen in the table on page 67). Other examples include: the number of homes delivered; the level of reinvestment in the Group's properties; the ratio of proactive to reactive maintenance spend; the energy efficiency of the Group's stock; levels of customer satisfaction and numbers of complaints; levels of community investment and the numbers of people helped by financial inclusion services; levels of employee engagement; and the level of overhead per social housing unit. In addition, we are targeting sustained improvements in two important financial measures: EBITDA MRI, so we can maximise our investment capacity, and social housing lettings interest cover, so we can ensure that all our funding costs can be met from our lowest risk activities.

This is not an exhaustive list, but it serves to illustrate the central position that value for money occupies in the Group's long-term strategy. The continuing careful stewardship of the Group's resources will enable us to fulfil our aim to provide high quality homes for people in housing need and improve the lives of our customers and their communities.

CORPORATE GOVERNANCE

The Group's legal structure



*Crown Simmons joined the Group on 1 April 2020

Southern Housing Group Limited ("Southern Housing Group" or "the Group"), the parent company, is a charitable organisation and both it and Southern Home Ownership Limited are registered providers of affordable housing and are regulated by the Regulator of Social Housing.

Southern Space Limited has a one third share in Triathlon Homes LLP, which owns over 1,300 affordable homes at the East Village, the former Olympic Park. The Group has managed this stock on behalf of Triathlon since November 2019.

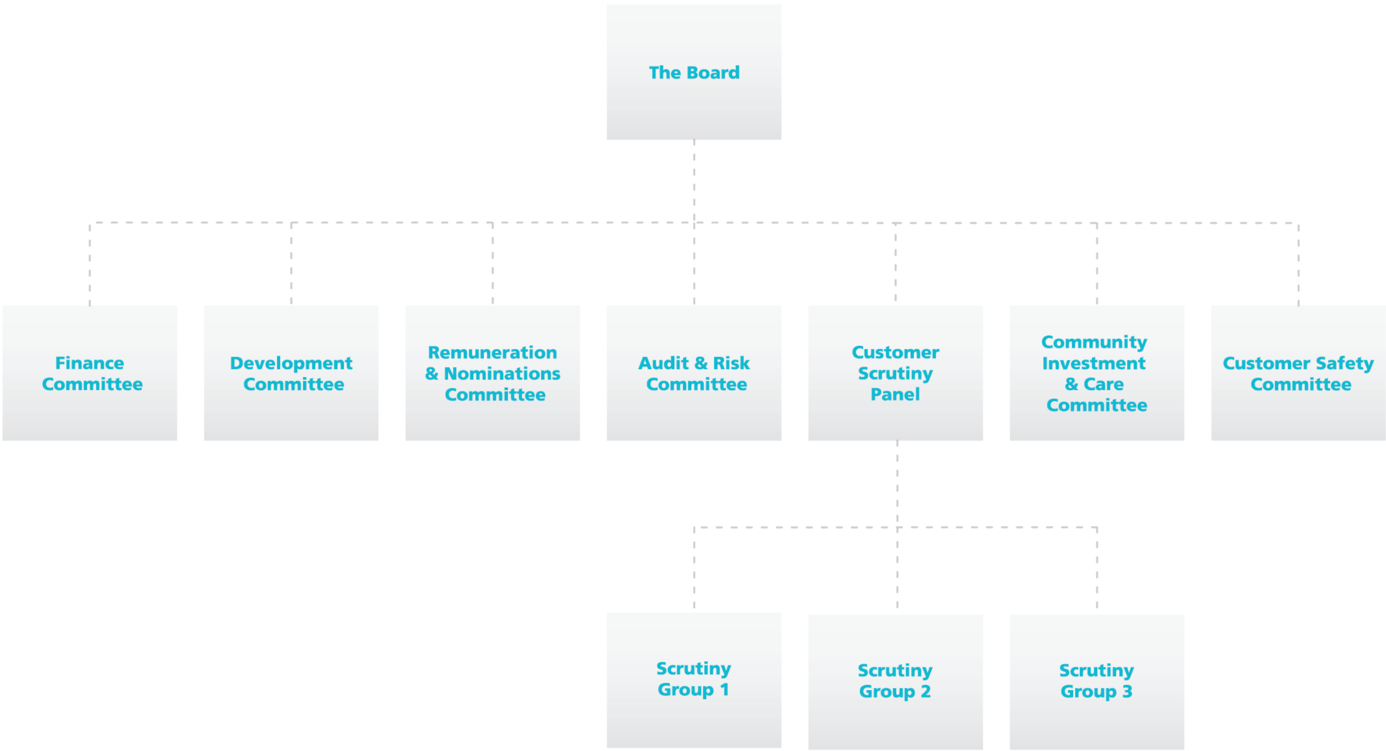
Southern Housing Group Limited has an overall 50% share in Affinity (Reading) Holdings Limited which in turn, holds 100% of Affinity (Reading) Limited which was set up to operate a Private Finance Initiative contract to deliver refurbishment, management and maintenance of 1,318 Reading Borough Council homes.

Southern Development Services Limited provides project delivery services for companies in the Group.

Spruce Homes Limited is a wholly owned subsidiary of Southern Housing Group Limited providing homes for private rent.

Southern Housing Construction Limited is a wholly owned subsidiary of Southern Housing Group Limited and provides construction services to the Group.

The Group's governance and management structure in 2019/20



The Board

The Group's Board is collectively responsible for the long-term success of the Group. The Board has a formal schedule of matters specifically reserved for the Board's decision.

These include matters relating to:

- Determining the strategic direction of the Group and setting out its mission, vision and values
- Approving higher level strategies, long-term plans and objectives to achieve the vision
- Financial control
- Risk appetite and management
- Governance and the system of delegation
- Monitoring the Group's performance
- Accountability to stakeholders

The Board has delegated the operational management of the Group and its subsidiaries to the Chief Executive and the Executive Management Team and holds them to account. They meet at least five times a year to address operational and business activities and hold at least one annual seminar to discuss strategic issues.

The Board also has overall responsibility for the administration of sound corporate governance throughout the Group and recognises the importance of maintaining a strong reputation for the Group.

Southern Housing Group Board members

CHAIR

Arthur Merchant

became Chair of the Group Board in July 2016. He is a former partner and Head of Housing for Grant Thornton UK PLC. He specialised in the provision of external and internal audit, business planning, governance and risk management services to the housing sector for over 20 years. His client portfolio also included the local authority, NHS and education sectors. He is a qualified accountant [CIPFA] serving as a member of their housing association panel for over 10 years. Arthur is an experienced non-executive director having served on the boards of the Hertfordshire Chamber of Commerce, Mind and three other large housing providers. His experience includes chairing Audit and Treasury Committees and being part of the non-executive working group/committee successfully achieving substantial renegotiation of loan covenants and refinancing at two housing associations. He has been a regular speaker at major housing events and conferences.

MEMBERS

Simone Buckley

joined the Group Board in July 2015. She was previously Chair of the Group's South Region Resident Services Panel and a Customer Services Committee member. Simone is currently a member of the Group's Customer Safety Committee and provides a link with the Group's Customer Scrutiny Panel. Simone has over fifteen years' experience working within blue chip organisations both in the UK and Australia, specialising in change management, communications and business integration.

Robert Clark

chairs the Group's Development Committee, having joined the Board in July 2017. He has been a qualified member of RICS since 1974 and retired as CEO of Durkan Ltd in 2016. As Managing Director and CEO, he was responsible for the management of all construction projects, business planning and HR management. His board and committee experience has included joint-venture companies, housing associations, construction skills training, The Housing Forum and The Hertfordshire Housing Conference.

Joanna Hawkes

joined the Board in July 2017 and chairs the Group's Finance Committee. She has over 30 years' experience in the private sector having worked with a number of blue-chip companies in differing sectors in corporate finance and treasury roles. This has included asset finance roles within Hilton International and as treasurer of rolling stock lessor Angel Trains. She recently left the role of Group Treasurer of Marks and Spencer plc to take up a role as Director of Corporate Finance at Transport for London. She is a fellow of the Association of Corporate Treasurers and a qualified accountant. She is also Chair of the Finsatra DB pension scheme.

Janet Collier

chairs the Group's Audit and Risk Committee, having joined the Board in September 2018. She is a CIPFA accountant with over 30 years' public sector experience. She has worked at a number of local authorities in both housing and corporate finance and was previously Deputy Chief Executive and Director of Finance at City West Homes. She has also worked as a consultant providing financial consultancy and training for public sector organisations, especially on social housing finance and value for money. She is now an experienced non-executive having been a board member and Chair of Audit Committee at another housing association and is currently also a board member and Chair of Audit and Risk at Advance Housing and Support.

Alfons Dankis

joined the Board in April 2020 and is Chair of Crown Simmons Housing Association, a subsidiary of the Group. Al retired as Group Finance & Planning Director of the Guinness Partnership in 2010. He has considerable experience as a non-executive director in the housing sector and is also a board member and Chair of the Audit Committee at Wandle Housing Association.

Abi Gray

joined the Board in September 2019 and chairs the Group's Remuneration and Nominations Committee, having served on the Committee for 2 years. Abi has 10 years' customer services experience, specialising in building customer centric cultures by empowering employees to deliver excellent customer service. Abi is a qualified coach, counsellor and a specialist in employee engagement. Abi joined the Board in September 2019 and was previously also a member of the Customer Services Committee.

David Lewis

chairs the Group's Customer Safety Committee. He joined the Group Board in September 2019 and has over 25 years' asset management, regeneration and procurement experience in local government, Arm's Length Management Organisations (ALMOs) and housing associations. David has held both non-executive director and director positions for G15 housing associations and currently runs his own consultancy providing asset management and property services support to the housing sector. David is a member of the Chartered Institute of Housing and RICS.

Southern Housing Group Board members (continued)

Carol Rosati OBE

is the Board's Senior Independent Director (SID). She has over 25 years' experience of talent management and workforce development, focusing on diversity and inclusion. She is currently Lead Equality Diversity and Inclusion specialist at the Met Office. She is also a qualified executive coach and runs her coaching business v2 Coaching. Carol joined the Group Board in 2014 and chaired the Remuneration and Nominations Committee from 2016 to 2019, before being appointed as SID. Carol also chairs Spruce Homes, one of the Group's subsidiaries. She is also Vice Chair of UN Women UK and chairs their Nominations Committee. In 2020, she also joined the Board of Alliance Homes based in Somerset. She was awarded an OBE in the Queen's 2015 Birthday New Honours List for Services to Women in Business.

Alan Townshend

has over 32 years of experience in the affordable housing sector, working with both public and private companies and running his own consultancy firm. Alan became Group Chief Executive in September 2018, having previously been Group Development Director for three years. Prior to joining the Group, Alan worked at Wandle Housing, initially joining as its Asset Investment Director before being appointed Interim Chief Executive Officer and overseeing the operational and strategic side of the business. His other roles include seven years at Circle Group as Group Regional Operations Director. Alan is a member of the Chartered Institute of Housing.

Mary Watkins Baroness Watkins of Tavistock

joined the Board in July 2018 and is the Chair of the Group's Community Investment and Care Committee. She has extensive board experience in the housing and health and social care sectors, including another housing provider and chaired the Quality and Governance Committee at South Western Ambulance Service Foundation NHS trust, where latterly she was Deputy Chair and Senior Independent Director. Her experience has involved significant changes to the businesses in which she has been a board member including the amalgamation of two NHS providers and two housing associations. She is a qualified nurse, has held a University Senior Deputy Vice Chancellor position and published extensively in the fields of health and social care. She is a Visiting Professor at King's College London. Mary was appointed a Crossbench Life Peer in 2015 and speaks regularly on housing issues.

MEMBERS WHO LEFT THE BOARD IN 2019/20:

Maureen Corcoran (retired July 2019)
James Francis, Group Finance Director (resigned May 2019).

Appointments and current annual payment rates

Southern Housing Group Limited Board members are paid for their services. This increases our ability to attract and retain high-calibre members and to improve mechanisms for their performance appraisal and development.

The Remuneration and Nominations Committee last reviewed Board member remuneration in February 2020.

The Remuneration and Nominations Committee appointment process

The Remuneration and Nominations Committee has delegated authority from the Board to oversee all Board and committee appointments and succession planning.

The Committee maintains a skills matrix for all board and committee functions:

- Conducting regular gap analysis, the Committee identifies when the need to recruit arises. Where a new appointment is required, the Committee conducts a search for candidates through a number of appropriate channels, including open advertising via social media platform LinkedIn and paid advertising in recognised non-executive recruitment websites.
- Recommendations are then made to the Group's Board for final approval.
- Board and committee appointments are made on merit, against objective criteria and with due regard to the Group's equality and diversity policy.
- Appointment letters contain details of the time commitment required for the position.

On appointment, a declaration of other interests is made and renewed annually and where there are any changes through the year.

Role	Salary
Group Chair	£25,000
Member and Chair of committee or subsidiary board	£12,000
Member	£10,000
Additional payment for Senior Independent Director	£2,000
Independent committee member	£3,000

The Group's policy on equality and diversity is that all candidates must be treated as individuals, irrespective of ethnicity, nationality, national origins, disability, sexual orientation, religion or belief, marriage or civil partnership, family circumstances, political beliefs, gender, gender reassignment, pregnancy or maternity status, trade union membership, age, or any other distinction.

Directors' and officers' liability insurance cover

The Group maintains liability insurance cover for its directors and officers comprising the standard cover provided as part of its National Housing Federation membership fee and takes an additional £5m in cover under a separate independent policy.

Committees

The Board delegates authority in certain matters, according to specific terms of reference, to six committees. Committee members bring a wealth of experience and different skills to the organisation, providing a clear overview which helps to focus the Group's management on achieving its strategic objectives. Each committee meets at least four times a year.

Audit and Risk Committee

The Audit and Risk Committee recommends the appointment or reappointment of our external auditors, considers the audit approach taken and reviews findings. The appointment of the external audit firm is re-tendered at regular intervals. This Committee reviews the annual financial statements of the Group before recommending them to the Board for approval. It is responsible for reviewing the Group's internal controls and its risk management framework, and regularly reviews the Group's top risk register. It also regularly reviews all external and internal audit and similar reports and provides constructive challenge to the Executive Management Team (EMT) on external and internal audit findings and closely monitors their implementation.

Remuneration and Nominations Committee

The Remuneration and Nominations Committee is responsible for reviewing and recommending Board and Committee remuneration, together with appointment and succession planning, ensuring there is a plan for the orderly succession of new appointments to the Board(s) and committees to maintain an appropriate balance of skills and experience within the Group's governance structure. This Committee oversees the Group's pension strategy and arrangements and approves the Group's Pay Policy and Code of Conduct. It also ensures there is an appropriate induction and training framework in place for Board and Committee members.

The Committee reviews the pay of executive members of the Board, by comparison with G15 peers, using a simple salary approach reflecting the strategy of the Group which balances both short and long term objectives whilst ensuring remuneration remains simple, transparent and provides value for money. In reviewing this area the Committee gives due consideration to pay ratios and gaps assuring proportionality and alignment to the Group's culture. Executive directors are eligible to receive non-contractual rewards available to the Group's entire workforce at the discretion of the Remuneration and Nominations Committee in connection with organisational performance. The only Executive Director on the Group Board is the CEO, whose pay is published in the financial statements.

Finance Committee

The Finance Committee receives and reviews in detail quarterly management accounts and cashflow reports, the annual budget and periodic reforecasts and the Group's long-term financial plan and associated stress testing and risk mitigations. It considers in detail all aspects of treasury management, setting and monitoring treasury strategy and policy and ensuring funds are available to deliver the Group's business objectives, both in the short and long-term. This Committee ensures that loan covenants are complied with, liquidity is maintained in line with policy and agrees intra-group lending arrangements.

Development Committee

The Development Committee considers matters relating to the development and investment strategy of all the Group's companies, including new property developments and stock reinvestment. This Committee is responsible for ensuring the proper assessment and regular monitoring of development risk. It is also responsible for reviewing the Group's sales strategy and recommending it to the Board for approval, as well as regularly reviewing and monitoring the Group's sales programme.

Following the dissolution of the Group's Customer Services Committee in June 2019, its responsibilities were re-allocated between the Board, and two new committees:

Customer Safety Committee

The Customer Safety Committee has delegated authority for overseeing the Group's customer health and safety and compliance requirements and obligations, and asset management in respect of health and safety compliance. It reviews strategies and policies, and internal audit reports where these are related to customer health and safety and safeguarding. It monitors and oversees all matters relating to customer health and safety and safeguarding compliance through risk and Key Performance Indicator analysis.

Community Investment and Care Committee

The Community Investment and Care Committee has delegated authority for overseeing the Group's care and supporting independence, community investment and sheltered housing activities. It has responsibility for the oversight of associated policies and procedures, service level agreements with contractors and local authorities and Key Performance Indicators. It also has responsibility for oversight and support of the Group's resident engagement structure which was refreshed in 2019/20, with the creation of a new Customer Scrutiny Panel, supported by a network of customer working groups.

Board and committee attendance

	Group Board	Group Committees							
		Treasury	Finance	Audit & Risk	Development	Customer Services	Community Investment & Care	Customer Safety	Remuneration & Nomination
A Merchant	7/7								4/4
M Corcoran	3/3					1/1			
S Buckley	6/7					1/1		2/2	
C Rosati	7/7								2/2
R Clark	7/7				4/4				
J Francis	2/2								
M Watkins	5/7						3/3		
J Hawkes	6/7	0/1	3/3						
J Collier	6/7		2/3*	5/5					
A Gray	4/4					1/1			4/4
D Lewis	4/4							2/2	
A Townshend	7/7								
D Brewer					4/4				
S Chaudry					4/4				
A Head					2/4			1/2	
M Littlejohns					3/4				
S Ensor					4/4				
O Boundy									
A Holgate									
C Harris									
J Blair							3/3		2/4
D Mansfield									3/4
J Furmidge						1/1			
A Reza						1/1	3/1		
M Edwards						1/1			
J Andrew				4/5					
D Harris - Ugbomah				4/5					
M Potter			2/3*	5/5					
K Moscrop				5/5					
O Eiss		1/1	1/1						
JP Argrawal		1/1	1/3						
D Porter		1/1	3/3						
E Trinder									

* observer

	Spruce Homes Ltd Board	SSL Board	SHCL Board	SHO Board	SDSL Board	Members who joined	Members who retired or resigned
A Merchant							
M Corcoran							15.7.19
S Buckley							
C Rosati	4/4						
R Clark		4/4	4/4	4/4			
J Francis							9.5.19
M Watkins							
J Hawkes							
J Collier							
A Gray						SHGL Board 01.09.19	
D Lewis						SHGL Board 01.09.19	
A Townshend	4/4	3/4		3/4	1/1		
D Brewer		4/4		4/4			
S Chaudry				4/4			
A Head			2/4	2/4			
M Littlejohns							
S Ensor							
O Boundy			3/4	4/4	1/1		
A Holgate		3/3		3/3			
C Harris			3/4				
J Blair							
D Mansfield							
J Furmidge							
A Reza							
M Edwards							
J Andrew							
D Harris - Ugbomah							
M Potter							
K Moscrop							
O Eiss	4/4						
JP Argrawal							
D Porter	4/4						
E Trinder	4/4						

Board performance evaluation

The UK Corporate Governance Code requires large, listed companies (FTSE 350) to have an externally facilitated Board performance evaluation.

The Group's Board has a strong commitment to corporate governance. In 2020, the Group engaged an independent consultant, Altair, to conduct a formal and rigorous performance evaluation of the Board of Southern Housing Group, its committees and individual directors.

The methodology employed for the evaluation included: observation of a Group Board meeting, a briefing for Board members on the objectives, process and prospective output of the evaluation, completion by the Board members of a comprehensive online questionnaire, an interview with each Board member, a detailed report, and a facilitated discussion for the Board members on the conclusions and recommendations in the report.

In compliance with the UK Corporate Governance Code, the Board has appointed one of its non-executive members, Carol Rosati OBE, as Senior Independent Director (SID). In February 2020 the SID appraised the Chair's performance, supported by the CEO and Company Secretary. The SID has met with the other non-executive Board members and observes committee meetings at least once each year.

The Chair of the Board met with the non-executive directors without officers present after the Board meeting in May 2019, in line with the requirements of the UK Corporate Governance Code.

The Executive Management Team (EMT)

EMT has executive responsibility for running the Group's business, implementing the strategic direction set by the Board within the Board's risk appetite.

The Executive Management Team members during 2019/20

Alan Townshend
Group Chief Executive

Oliver Boundy
Executive Director
Development and Growth

- Strategy and Policy
- Development
- New Business
- Communications
- Sales and Marketing

Yvette Carter
Executive Director
Commercial

- Southern Maintenance Services
- Spruce Homes Limited
- Southern Housing Construction Limited
- Estate Care
- Commercial Property

Chris Harris
Executive Director
Customer Services

- Home and Property services
- Customer Operations
- Community Investment and Care
- Property Maintenance and Investment
- Triathlon Homes LLP

Amanda Holgate
Executive Director
Resources

- Finance
- HR
- IT
- Data
- Governance
- Risk
- Procurement

The EMT at the staff conference in September 2019 – from left to right: Alan Townshend, Yvette Carter, Amanda Holgate, Oliver Boundy and Chris Harris.

There are six members of senior management within the Group defined under the UK Corporate Governance Code as the first layer of management below board level (including the company secretary) of whom two are women and four are men. They have 32 direct reports of whom 19 are women and 13 are men.

RISK

Key risks

Managing risk is fundamental if the Group is to meet its corporate challenges. We have embedded a risk management culture that identifies and mitigates emerging and current risks whilst exploring future opportunities.

Risk governance and risk appetite

Risk oversight is the Board's responsibility, with the Audit and Risk Committee undertaking a more detailed review of risks that might adversely affect our customers and the business' viability or reputation. While the Board accepts some risk is inevitable and that perfect risk avoidance is neither possible nor necessarily desirable, we believe that risks related to the following must be managed and actively mitigated to minimise their likelihood:

- Compliance with health and safety requirements in and around our homes.
- Compliance with other legislation and with relevant regulatory standards.
- Financial viability and liquidity.
- Assurance of customer service and customer satisfaction.
- Recruitment and development of staff with the right values and skills.
- Investment in development and growth in the right areas and tenures protecting the integrity and reputation of the Group.

The impact these areas of risk could have on the Group determines our risk appetite and we expect high-level controls to be set out clearly, implemented and reviewed. More operationally, staff and managers weigh the mitigation costs against the likely risk impact informed by the risk appetite set by the Board in consultation with the Audit and Risk Committee and the executive. Additional controls may be formal or informal, depending on need and appropriateness.

During the year, the Group has paid particular attention to customer health and safety, cyber-security, financial resilience (particularly in light of the increased requirement and associated costs of building safety compliance), flexible working and business continuity in light of the impact of COVID-19.

Risk and assurance framework

The Governance team leads the Group's combined risk and assurance framework and provides a systematic risk and assurance service.

Risk management

The Group ensures that risks are owned and managed by the directorates in which they are most evident.

Our corporate risk framework sets out how we map and score significant risks to the Group. Risks are recorded on a risk register, together with existing mitigation controls and potential control improvements.

The Executive Management Team considers the key risks to the Group monthly throughout the year and may add to the register at any time. Existing risks are reviewed in light of current circumstances and changes in controls.

The Audit and Risk Committee and the Board review the top risk register every quarterly meeting cycle.

Key risks

Risk	Key mitigations and controls
Failure to assure that all Group stock (residential and commercial) is safe and compliant with legislative requirements	• Rigorous monitoring of fire safety programmes; gas certifications; electrical works testing and repair programme; water hygiene testing programmes; asbestos surveys. • Customer safety team in place with Building Safety Managers appointed for all high rise blocks. • Relevant servicing and maintenance procedures in place. • CDM inspection arrangements involving specialist internally appointed staff. • Estate inspections include health and safety issues. • Lift contractor and backup contractor in place for lift inspections. • New Health and Safety network established. • Quarterly reporting to Customer Safety Committee. • Daily monitoring with contractors to work through any COVID-19 related issues. • Annual internal audit programme for compliance in place. • COVID-19 KPIs being produced to include suite of compliance data for review by EMT weekly and Board monthly. • Ability to monitor compliance with the Decent Homes Standard, which allows the detection of components surpassing the Decent Homes Standard lifecycle.
Inability to comprehensively prevent a significant cyber attack and or attempted fraud/ransom. Security incidents as a result of user error, due to a lack of overall awareness with regards to Information Security best practice	• Endpoint security and Multi Factor Authentication (MFA). • Logging, alerting and monitoring. • Cyber security awareness training (including Sophos phishing campaign). • Physical security (CCTV, door access control, secure printing). • Penetration testing (vulnerability scanning). • IT Security Board. • IT supplier due diligence procedure.
Failure to deliver core system improvements (telephony/omni-channel system)	• Working parties in place with frontline staff and IT project team. • Monitoring through Digital Strategy Steering Group and Telephony (Omni) Steering Group. • Regular compliance monitoring through web-hosted calls. • Regular executive meetings between the Group and the supplier.
Significant property market correction	• Stress testing of Long Term Financial Plan shows the plan could withstand market downturn. • Weekly sales reporting updated to advise EMT of sales progression and lenders' appetite. • Conversion of tenures. • Group Development Committee reporting quarterly. • Revised funding structure and strong liquidity policy can support the business plan and provide headroom for a market downturn. • Ability to slow development programme. • Lobbying for additional grant funding streams to mitigate impact of revenue loss and convert tenures. • COVID-19 specific measures.

The Group fails to achieve compliance with data protection legislation (incorporating the General Data Protection Regulation (GDPR))	• Effective policies and procedures. • Mandatory training reinforced by internal communications. • Information security measures. • Article 30 and processing activities register. • Regular review of processing activities.
The potential for the Group's Business Continuity Management Plan to be inadequate and/or not successfully tested	• Documented business continuity plans. • External validation and support for arrangements. • Incident scenario exercises completed at London, Horsham and IOW offices with the local incident management teams. • Core services replicated to the cloud. • Flexible and agile working.
Failure to remove combustible materials from stock containing these. Buildings do not meet new fire safety regulations and MHCLG advice notes	• Fire risk assessments logged and actioned. • Review of high-rise buildings. • Review of all timber-framed or timber-clad buildings. • Customer safety team in place with Building Safety Managers appointed for all Group high rise blocks. • Waking watch where required. • Full evacuation policies in place and communication to customers. • Group web site contains information about our risk-based approach that deals with the fire safety checks from the advice notes.
The risk that the Group is unable to attract or retain the calibre of employees required at present and in the future	• Internal recruitment team now in place. • The Group is working with contractors who have direct labour and closely monitoring labour on site and progress against programme. • Clear induction and development plans to ensure that all new employees are equipped with the skills, equipment and training that they require. • Review and benchmarking of salaries carried out in 2019. • Review of talent management offer and wider leadership development under way. • Business continuity planning approaches reviewed to ensure that there are no single person areas of dependency in teams in case key personnel leave or are absent for lengthy periods of time (e.g. pandemic). • Revised approach to pay and supporting pay policy approved May 2020.
Failure to manage adverse media/social media attention compromising our reputation and brand	• Agreed Corporate Communications Strategy 2017-2020 is in place. • Communications team monitors communications and engages internal and external audiences. • Proactive reputation management through stakeholder management programme and systems and processes in place to approve key messages going out through corporate communications channels with specific audiences targeted. • Access to external advisors provides ad hoc communications resources for emergency communications needs. • Communications team provides an out of hours media and social media monitoring service. • Corporate communications channels managed proactively via an enhanced central external communications team.

Service charges being applied inaccurately and / or not being legislatively compliant	• Staff expertise and training. • Specialist system introduced for managing service charges. • Service charge project has completed process reviews. • Service charge project under new leadership with direct oversight from Executive Director Resources.
Inability to protect the financial viability of the Group (variance to budget)	• Budgeting process provides high visibility at EMT and senior management forum. • Budget approved by Board. • Approved budget in system and communicated to budget owners. • Monthly reporting variances to budget (including reasons) to EMT. • Embed "zero growth" culture (i.e. overall run rate does not increase). • Continually refining management accounts reporting using existing systems to provide valuable insight as to the performance of the organisation.
Inability to protect the financial viability of the Group (Long Term Financial Plan)	• A 'live' version of the Long Term Financial Plan is maintained that incorporates the Group's approved budget and the Group's latest development cashflows. • Financial viability expressed through the Group's financial health indicators including financial covenants. • Financial health indicators presented under Board approved stress test and with no further unidentified development. • Financial health indicators reported fortnightly to the EMT and quarterly to Finance Committee and Board.
Insufficient liquidity to meet obligations	• Fortnightly monitoring by EMT. • Prudent liquidity policy that excludes any capital receipts (including first tranche sales and open market sales). • Short term (13 weeks) cashflows prepared on a weekly basis. • Quarterly NROSH+ returns reviewed and findings shared with Finance Committee and Board to provide assurance on accuracy of the Group's liquidity forecasting. • Regular contact maintained with relationship lenders and non-deal roadshows with investors between market issuances. • Ongoing engagement with sector treasury advisors to introduce new and evolving funding opportunities to the Group.
Failure to assure good governance during the COVID-19 emergency through: - lack of communication - lack of management information - decision making processes which do not follow usual procedures	• Tracking the organisation's financial and operational health by agreeing a series of directly relevant Key Performance Indicators and financial metrics. • Monthly Board meetings to review KPIs and monitor corporate risks and the effectiveness of mitigations. • All decisions will continue to be taken in accordance with our Rules, financial regulations and Code of Governance. • Regular 'Gold Command' calls. • Directorate cascade calls. • Governance principles for the COVID-19 pandemic have been agreed by the Board. • Contingency arrangements in place for Board members and Executive team.

Risk scenarios and stress testing

The Group uses enhanced risk scenarios to stress test the business to determine where financial, operational and reputational weaknesses might occur in extreme adverse operating conditions. The outcome from this testing enhances our internal processes in mitigating these risks.

Internal audit

Each year, the Audit and Risk Committee agrees a programme of internal audits for the forthcoming financial year, which is designed to ensure discrete areas of the business and areas of significant risk are audited regularly. Mazars, our internal auditors, carry out the Group's audits in conjunction with our in-house team.

Internal controls assurance

In addition to our risk management and audit work, the Group keeps a register of key control areas and details of the controls in place, which is reviewed and updated annually. Each year, the Board reviews the internal controls assurance report and framework.

The Group adopts a 'three lines of defence' approach to risk management and internal controls form an integral part of its approach to risk management and assurance.

Key elements of the system of risk management and internal control throughout the period included:

- Board approved terms of reference and delegated authorities for the Group's committees
- Board approved Risk Management policy and reviewed top risk register
- Clearly defined management responsibilities for the identification, evaluation and control of significant risks
- Robust strategic and business planning processes, with detailed financial budgets and forecasts
- Formal recruitment, retention, training and development policies for all staff
- Formal Board and committee evaluation and appraisal procedures
- Annual review of compliance with the UK Corporate Code of Governance
- Established authorisation and appraisal procedures for significant new initiatives and commitments through our Group Portfolio Management Office (GPMO)
- Committee approved internal and external audit planning and reporting at Committee meetings including the implementation and completion of audit recommendations
- Approval by the appropriate committee or Board of key policies

- Regular reporting to the Audit and Risk Committee and Board of risk information
- Health and safety key issues reporting to the Customer Safety Committee and to the Audit and Risk Committee
- Detailed Group approach to treasury management
- Regular reporting to the appropriate committee on key business issues, objectives, targets and outcomes
- Policies and arrangements to reduce the risk of fraud, bribery and money laundering
- Periodic review and assessment of compliance with regulatory standards

The Board has delegated to the Audit and Risk Committee the regular review of the effectiveness of the Group system of internal control, while maintaining ultimate responsibility for its control.

Asset and liability register

The Regulator of Social Housing requires registered providers to maintain a thorough, accurate and up to date record of their assets and liabilities. The Executive Management Team and Audit and Risk Committee regularly review the Group's Asset and Liability Register and it is reviewed by the Board on (at least) an annual basis.

Going concern statement

The Group's business activities, its current financial position and factors that are likely to affect its future development are set out within the strategic review. The Board's assessment of going concern is focused on the Group's liquidity and its compliance with loan covenants. The review period is 18 months from the signing of the financial statements.

The Group maintains its rigorous approach to financial planning, including the preparation of detailed budgets and forecasts for the next financial year. The Group's budget is approved by the Board and forms the first year of the 30 year business plan (the Long Term Financial Plan (LTFP)) which sets out the long term objectives of the Group.

The Board has considered the impact of COVID-19 on its short-term forecasts, applying stress tests to the early years of the long term financial plan that reflect the potential for heightened financial risk stemming from the effects of the pandemic. The Board considers these tests to represent a severe yet plausible view of the risks that may impact the Group. The tests consider the impact of adverse movements in macroeconomic indicators, as well as sharp reductions in income and significant above inflationary increases in costs. Tenant rent arrears are presumed to double in the period under review with a conservative assumption on eventual recovery also modelled.

The Group is able to withstand these stresses whilst remaining fully compliant with its loan covenants and without employing any mitigating actions.

In line with its treasury management policy, the Group continues to maintain sufficient resources to cover at least the next 18 months' committed cash flows, excluding sales receipts. This position is calculated net of any restricted cash. The Group's detailed liquidity position is set out on pages 62 to 64 and at the year end undrawn facilities and cash investments totalled £485.6m with forecast headroom against the Group's liquidity policy of £105.9m. £58.2m of drawn debt from a total of £977.9m is repayable over the period under review. The Group's principal loan covenants are linked to levels of interest cover and gearing and the Group is able to service its loan facilities while continuing to comply with lender covenants.

No material uncertainties related to events or conditions that may cause significant doubt about the ability of the Group to continue as a going concern have been identified. On this basis, the Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, being a period of at least twelve months after the date on which the report and financial statements are signed. Accordingly, the Directors continue to adopt the going concern basis in preparing the Group's consolidated financial statements.

Viability assessment

The Board has assessed the viability of the Group over a five year period, being the first five years of the Group's Long Term Financial Plan (LTFP). This is consistent with prior years and represents the period over which cash flows associated with the Group's development and investment activities can reasonably be forecast. The viability assessment is supported by the Group's liquidity forecasts, its underlying long-term financial plan and consideration of the Group's principal risks and uncertainties.

The long-term financial plan sets out how the Group manages its resources to ensure long-term financial sustainability and the safeguarding of social housing assets.

The plan includes a significant provision for ongoing building safety spend, with the majority of the spend forecast during the five-year viability assessment period and no provision for recovery of this expenditure.

The plan represents the maximum financial risk that the Board will accept in pursuing its development and growth objectives and it is subjected to severe, but plausible stress tests designed to explore how the plan reacts to a range of risks that may arise from the Group's constantly evolving operating environment. Such risks are considered holistically and include the changing economic and political conditions that may result from the UK's exit from the European Union.

The Group adopts a multivariate approach to stress testing. Twenty individual sensitivities have been drawn together to test the Group's vulnerability to a wide range of stresses, which are presumed to affect the business simultaneously. The stress tests have been expanded to include specific consideration of the business's susceptibility to risks arising from COVID-19.

Key assumptions include:

- Significant, above inflationary increases in capital and revenue expenditure while capping increases in index-linked income.
- Increases to the variable cost of debt in excess of 100 basis points above current five year market forecasts.
- Delays in sales transactions, reflecting the potential impact of COVID-19 on the housing market.
- Reductions in sales values that are deeper than current analyst expectations, at 10% in 2020/21 with a further drop of 5% in 2021/22.
- Extension to development periods to allow for changes in site practices including the implementation of social distancing measures.
- Reductions in rental income across commercial tenures.
- Increases in void costs to reflect delays to lettings caused by COVID-19.
- A doubling of arrears from current levels which are in turn assumed to crystallise into higher levels of bad debt.

Under these stresses, the Group remains compliant with its financial covenants throughout the period under review, and for the duration of its long term financial plan, with no changes assumed to the existing development plan and no mitigating actions employed. Allowing for planned refinancing, including the replacement of existing facilities as they mature, the Group also maintains sufficient liquidity to meets its obligations as they fall due.

The Group's current liquidity position is detailed on pages 63 and 64, and at the year-end undrawn facilities and cash investments totalled £485.6m with forecast headroom against the Group's liquidity policy of £105.9m.

£481.9m of the £646.0m loan facilities expiring within five years relates to revolving credit facilities which are expected to be rolled forward as they fall due.

Long term liquidity forecasts are monitored on a fortnightly basis by the Executive Management Team and reported regularly to the Finance Committee and the Board, along with detailed short term cash flow forecasts which include an analysis of variances between projected and actual cash flows. During the COVID-19 emergency, short-term cash flow forecasts together with long-term liquidity projections are reported to the Board on a monthly basis to ensure that the Group has the funds available to meet any operational needs that arise from the crisis response, as well as supporting the Group's strategic objectives and safeguarding its long term viability. All forecasts exclude restricted cash.

In April 2020, the Regulator of Social Housing published its viability rating for the Group following its In-Depth Assessment (IDA). The Group was re-graded from V1 to V2, retaining a compliant regulatory rating.

Based on the results of the Group's LTFP stress testing and the Group's forecast liquidity position, together with the assurance of its recent regulatory assessment, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period under review.

The Board is satisfied that the Group has the financial capacity to withstand a range of severe yet plausible adverse scenarios whilst maintaining continued compliance with its financial covenants, the requirements of the Regulator and the risk appetite of the Board.

03. Audit and Risk Committee report

PURPOSE OF THE REPORT

The Audit and Risk Committee has the delegated authority from the Boards of Southern Housing Group Limited and its subsidiaries to oversee the Group's audit function, monitor the integrity of the financial statements, and review the Group's internal control and risk management systems. The Group has adopted the UK Corporate Governance Code.

Principal areas of responsibility for the Audit and Risk Committee

Issues addressed in the year:

- Ensuring the systems of internal controls employed by the Group are satisfactory and work effectively.
- Risk strategy, top risks and management mitigations reviewed quarterly, review of Board determined risk appetite and embedding of risk management throughout the Group.
- Areas and instances of potential fraud and speaking up were reviewed, together with control and process improvements.
- Reviewed a report on internal control assurance.
- Reviewed compliance with the UK Corporate Governance Code.
- Monitoring and reviewing the work of the internal audit function (including that outsourced to Mazars LLP).
- Reviewed the annual cycle of internal audit reviews, aligning to the corporate risk map and timing of previous reviews.
- Reviewed progress against previous internal audit recommendations, assuring their implementation.
- Selecting the external auditors, approving their fees, monitoring their performance and approving the provision of non-audit services.
- Recommended the reappointment of PricewaterhouseCoopers LLP following consideration of the independence and effectiveness of the external audit process and noting the period of uninterrupted engagement of nine years. A re-tender is anticipated for the 2021/22 year but not yet confirmed.
- Reviewed the management letter presented by the auditors, as well as management's responses.
- Reviewed compliance statements.

Monitoring the Group's financial performance

The Audit and Risk Committee had responsibility for reviewing the Group's Long-Term Financial Plan and detailed stress testing and financial performance (with explanations of key variances) until responsibility passed to the Finance Committee in October 2019.

The Audit and Risk Committee reviewed the production, content and format of the Annual Report and Group Financial Statements and recommended its acceptance to the Group Board. As part of this work, the Committee reviewed key audit and accounting matters and management judgements, with particular regard to property valuations, impairment assessments and detailed assurance of the going concern status and ongoing viability of the Group.

Regulatory compliance

The Group is regulated by the Regulator of Social Housing which uses in-depth assessments (IDAs) as its key regulatory tool. The Audit and Risk Committee reviewed regulatory compliance during the year and supported the regulatory IDA which was carried out in December 2019.

Other

The Audit and Risk Committee's terms of reference were reviewed in line with the annual review cycle.

The Committee also reviewed the Asset and Liability Register(s).

External audit

The appointment of the Group's external auditors is re-tendered in line with best practice. In accordance with its terms of reference, the Committee annually reviews the Group's external audit requirements and considers the external auditors' independence and performance before recommending to the Board their re-appointment.

During the financial year, the Committee has:

- Considered information presented by management on key matters on accounting judgements and policies and agreed their appropriateness.
- Discussed with PwC the firm's reports and noted the key matters and significant judgements highlighted by PwC in respect of each set of financial statements. These reports were considered and approved.

Internal audit

During the 2019/20 financial year Mazars conducted 12 audits, in partnership with the Group's new in-house internal audit function. The in-house team began to operate in April 2019, and has completed an additional five audits. No areas audited were graded as 'no assurance', which is consistent with the previous year.

In accordance with the audit plan for 2020/21, the Audit and Risk Committee is scheduled to receive nine new audit and seven follow-up reports during the year.

The Committee approves the entire internal audit programme each year, ensuring that this is aligned to the corporate risks presenting at the time. This is subject to monitoring and review in response to any emerging risks and analysis of trends arising from completed audits to support continuing improvement of the risk profile and internal controls.

The Committee receives (at least) quarterly updates on the progress of the entire audit programme, and the implementation of the recommendations made by the internal auditors and the Group's in-house internal audit function. Evidence of the implementation of internal audit recommendations is reviewed by our internal audit and assurance function, which is independent of the audited business area(s) and its findings are presented to the Committee for review.

Accounting policies

The Committee, together with the external auditors, considered the requirements of the FRS 102 framework and Statement of Recommended Practice for registered housing providers adopted by management to ensure the financial statements present a balanced and appropriate view.

Janet Collier
Chair of the Audit and Risk Committee

04.
Report of the Board

STATEMENT OF THE BOARD'S RESPONSIBILITIES

The Board is responsible for preparing the annual review and the financial statements in accordance with applicable law and regulations.

The Co-operative and Community Benefit Societies Act 2014 and registered social housing legislation require the Board to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Private Registered Provider (PRP) and of the surplus or deficit for that period.

In preparing these financial statements, the Board is required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgments and estimates that are reasonable and prudent.
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the PRP will continue in business.

The Board is responsible for keeping proper accounting records that are sufficient to show and explain the PRP's transactions and disclose with reasonable accuracy at any time its financial position. This is designed to enable the Board to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014 and Regulations thereunder, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing in England 2019, issued by the Regulator of Social Housing.

The Board is also responsible for safeguarding the assets of the PRP and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board is responsible for the maintenance and integrity of the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Southern Housing Group Limited confirms that the annual report has been prepared in accordance with the principles set out in paragraphs 4.6 and 4.7 of the 2018 Statement of Recommended Practice for registered social landlords.

The Regulator of Social Housing (the Regulator) carried out its routine in-depth assessment (IDA) of the Group during the year and published its regulatory judgement in April 2020. The Regulator assessed the Group's governance rating as G2 and its rating for financial viability as V2. These ratings were previously G1 and V1 respectively. A G2 rating meets the Regulator's governance requirements but recognises that we need to improve some aspects of our governance arrangements to support continued compliance. A V2 rating meets the Regulator's viability requirements, providing assurance that we have the financial capacity to deal with a reasonable range of adverse scenarios, but need to manage material risks in order to ensure continued compliance.

The Board has approved an improvement plan to return to a G1 rating for governance at the earliest available opportunity and good progress has been made against this plan.

The Board confirms that an assessment of the Group's compliance with the Governance and Financial Viability Standard has been completed and certifies that the Group is compliant with this Standard.

The Board members who served during the year are listed and attendance at meetings is recorded on page 78 to 79.

Statement of internal control

Southern Housing Group Limited has adopted the UK Governance Code (the Code) as its chosen code on a "comply or explain basis".

The rules of Southern Housing Group (the Rules) detail how the company is governed.

Provisions of the Code not applicable to the Group are set out below:

Code paragraph reference	Code requirement	Explanation
5	s172 Companies Act 2006	The Annual Report and Group Financial Statements does not include a section 172 statement since it is not required to comply with the Companies Act 2006. However, the annual report sets out how the interests of stakeholders are considered by the Group and taken into account when making decisions.
24 & 32	Two NEDs on Committees	The Audit and Risk, and Remuneration and Nominations Committees are both chaired by Non-Executive Directors but do not include a second NED within their membership. The remaining committee members are non-executive members appointed for their specific skills and experience in relation to the responsibilties and business of those committees.
39	Notice and contractual periods offered to directors	Not applicable
40	Incentive plans/schemes	Not applicable
3, 4 , 40 & 41	Shareholder engagement	Not applicable – all shareholders are board members as per the rules of Southern Housing Group Limited.

Board members serve as independent non-executive directors, except for the Group Chief Executive. All the Group's non-executive directors meet the independence criteria set out in provision B1.1 of the Code. Following the adoption of the Code they may serve a maximum of two continuous terms of three years.

Internal controls

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness. Such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives. It can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The Group operates ongoing processes for identifying, evaluating and managing the significant risks that it faces. They have been in place for the year to 31 March 2020 and up to the date of the approval of the Annual Report and the Group Financial Statements. The Board and Audit and Risk Committee review processes at least quarterly.

Main policies in place to provide effective internal control

Risk assessment

The Group's objectives are established within the context of the Group's Corporate Plan. There is a process of cascading these objectives throughout the Group to each operational team and to individual staff members' targets. Assessment of resultant risk is mapped for each area of business activity. The Group's risk management strategy includes requirements for formal risk assessments to be presented to the Board for discussion and approval. The Audit and Risk Committee fulfils this function.

Control environment

Authority, responsibility and accountability are set out in the following ways:

- Standing orders and delegated authorities
- Regular reporting to the appropriate committee on key business objectives, targets and outcomes
- Clearly defined management responsibilities for the identification, evaluation and control of significant risks
- Policies and procedures in all key areas
- Codes of conduct for Board and Committee members, and staff
- Staff job descriptions and supervisory procedures

Information

There is a timely system for reporting progress in the Group, at many levels. The Boards and their sub-committees receive regular and extensive reports on all key areas of performance.

Monitoring

The Group has a comprehensive internal audit programme. This is undertaken by Mazars LLP, chartered accountants in conjunction with the Group's in-house audit team. The internal audit programme is designed to review key areas of risk for the Group. The internal auditors report to the Audit and Risk Committee. Each audit assignment is sponsored by the relevant Executive Director who approves the scope of the work and takes responsibility for ensuring recommendations are acted upon. Group-wide progress on completing work on recommendations is monitored by the Internal Audit and Assurance Team. Mazars LLP meet quarterly with the Director of Governance. Both Mazars LLP and the Group's in-house audit team report to each meeting of the Audit and Risk Committee on their recent and prospective activity. They also meet regularly and independently with the Chair of the Audit and Risk Committee.

The risk management process incorporates reviews of high-level risks across the Group, including the identification of newly emerging risks. The external audit, internal audit and risk management activities incorporate follow-up reporting on actions identified for improving the Group's control environment.

Review of effectiveness

The Board has reviewed the effectiveness of the Group's internal controls through the work of the Audit and Risk Committee, which regularly reports to the Board. In addition, the Chief Executive has submitted to the Board a detailed report on the operation of internal controls during the period under review and up to the date of approval of this report.

During the year, the Board identified an IT control matter which exposed the Group to the possibility of financial loss. The Audit and Risk Committee were consulted on a plan to remediate the identified control weakness and this remediation programme is continuing with mitigating controls in place. No financial loss was suffered as a result of the control finding.

The Board confirms that no further weaknesses were found in the internal controls for the year ended 31 March 2020 that might otherwise have resulted in material losses, contingencies or uncertainties which require disclosure in the financial statements.

Independent auditors

A resolution is to be proposed at the annual general meeting for the position of Group's independent auditor to be reappointed for the forthcoming year.

Statement on the annual report

Each individual who is a director at the date of approval of this report confirms that they consider the annual report and accounts as a whole to be fair, balanced and understandable, and that they provide the information necessary for stakeholders to assess the Group’s performance, business model and strategy.

Statement as to disclosure to auditors

So far as the directors are aware, there is no relevant audit information of which the Group’s auditors are unaware.

They have taken all the steps they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Group’s auditors are aware of that information.

Arthur Merchant
Chair of the Group Board

For and on behalf of the Board

05.

Independent auditors' report

to the members of Southern Housing Group Limited

Report on the audit of the financial statements

Opinion

In our opinion, Southern Housing Group Limited's group financial statements and parent association financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the parent association's affairs as at 31 March 2020 and of the group's and the parent association's income and expenditure and the group's cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for private registered providers of social housing 2019.

We have audited the financial statements, included within the Annual Report and Group Financial Statements 2019/20 (the "Annual Report"), which comprise: the Consolidated Statement of Financial Position as at 31 March 2020; the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Cash Flows, and the Consolidated Statement of Changes in Reserves for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit and Risk Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent association.

We have provided no non-audit services to the group or the parent association in the period from 1 April 2019 to 31 March 2020.

Our audit approach

Overview

- Overall group materiality: £2.4 million (2019: £2.3 million), based on 1% of turnover.
- Overall parent association materiality: £1.8 million (2019: £1.8 million), based on 1% of turnover
- The group operates in England. It comprises six trading entities and two joint venture entities.
- We conducted a full scope audit of the six trading entities.
- We engaged a component team to conduct a full scope audit of one joint venture entity, while the other joint venture entity was not significant from the perspective of the group.
- These audit procedures covered 100% of group turnover and 100% of group total assets.
- Valuation of investment properties (group and parent association)
- Consideration of COVID-19 (group and parent association)

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Regulator of Social Housing's regulatory framework, and we considered the extent to which non-compliance might have a material effect on the financial statements. A summary of the Regulator of Social Housing's most recent In-Depth Assessment is set out on page 95, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for private registered providers of social housing 2019. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to inappropriate journal entries to increase the reported operating surplus, and management bias in accounting estimates. The group engagement team shared this risk assessment with the component auditor so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditor included:

- Discussions with management and internal audit, including consideration of known or suspected instances of non-compliance with laws and regulation (in particular, considering the results of the Regulator of Social Housing's most recent In-Depth Assessment) and fraud;

- Evaluation of management's controls designed to prevent and detect irregularities;

- Challenging judgements and assumptions made by management in their key accounting judgements and estimation uncertainty, in particular in relation to the valuation of investment properties (see the related key audit matter below); and

- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations focusing on journals impacting: rental income, capitalisation of costs, cash and property sales.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter

Valuation of investment properties

Group and parent association

See notes 1 and 11 to the financial statements for the group's and parent association's disclosures of the related accounting policies, judgements and estimates relating to the valuation of investment properties.

The group has both market rent residential properties and commercial properties which it holds at fair value. The fair value of investment properties held by the group at the year end was £143.3 million (2019: £106.9 million).

This was identified as a key audit matter because the valuation of investment properties is inherently subjective and involves estimates and judgements for example in relation to the properties nature, location and condition.

There are wider challenges currently facing the UK residential and commercial property markets following the COVID-19 pandemic. The group engaged an external valuer, Jones Lang LaSalle ("JLL"), to perform the independent valuations at the balance sheet date. Due to COVID-19 and following guidance from the Royal Institute of Chartered Surveyors ("RICS"), JLL included a 'material valuation uncertainty' statement highlighting the impact COVID-19 is having on real estate markets.

How our audit addressed the key audit matter

We engaged our internal valuation experts (RICS qualified) to assist us in our audit of this matter.

We assessed the external valuers' qualifications and expertise and read their terms of engagement with the group. Except as further explained below relating to the 'material valuation uncertainty' statement, we did not identify any unreasonable special assumptions or unusual caveats or disregards.

We considered the 'material valuation uncertainty' statement in JLL's valuation reports following the COVID-19 pandemic. We noted that this statement is a disclosure and not a disclaimer, and that the purpose of the statement was to ensure that the group understands that it has been prepared under extraordinary circumstances. Additional disclosures have been included in note 1 and note 11, including a sensitivity analysis around the key inputs to the valuations.

We verified on a sample basis, the accuracy of the underlying lease and property data used by the external valuers in their valuation by tracing the data back to the relevant signed leases and evidence of rent amendments.

We read the external valuation reports for both the residential and commercial portfolios. With the assistance of our internal valuation experts, we confirmed that the valuation approach for each portfolio was in accordance with RICS standards and suitable for use in determining the final fair values for the purpose of the financial statements.

With the assistance of our internal valuation experts, we challenged the valuation process, the key assumptions, and the rationale behind the more significant valuation movements during the year.

We are satisfied that the valuations of the investment properties are within an acceptable range and have been performed on an appropriate basis for inclusion in the financial statements.

Key audit matter

Consideration of COVID-19

Group and parent association

The COVID-19 pandemic has had a significant impact on the UK economy with consequences to the judgements and estimates made by the group. The extent of the negative impact of the pandemic on future performance is unclear and measurement of the impacts as they relate to the financial statements involves a degree of estimation uncertainty.

In response, management has assessed the completeness of accounting considerations across the group and determined that the primary risks that arose from the COVID-19 pandemic related to the valuation of investment properties. The related key judgements are discussed in the 'valuation of investment properties' key audit matter.

Management has considered its short-term and long-term forecasts as part of the group's going concern statement and viability assessment. This includes applying stress tests to reflect the potential for heightened financial risk stemming from the effects of the pandemic by modelling possible downside scenarios to its base case financial plan. Having considered these scenarios, together with an assessment of planned and possible mitigating actions, management has concluded that the group remains a going concern, and that there is no material uncertainty in respect of this conclusion.

Management has included its going concern statement on page 88 and described its viability assessment on pages 88 and 89 of the Annual Report.

How our audit addressed the key audit matter

Our procedures in respect of valuation of investment properties are set out in the 'valuation of investment properties' key audit matter.

We evaluated management's assessment of other accounting estimates within the financial statements which could be impacted by the challenging economic environment resulting from COVID-19. We satisfied ourselves that management's measurement of such estimates was acceptable. We also considered the appropriateness of management's disclosures in the Annual Report of the impact of the current environment and the increased uncertainty on its accounting estimates and found these to be adequate.

With respect to management's going concern statement and viability assessment, we evaluated management's base case and downside scenarios, challenging its key assumptions together with assessing the group's available facilities. Our conclusion in respect of going concern, and our consideration of the directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group, are set out separately in this report.

We considered whether changes to working practices brought about by COVID-19 had had an adverse impact on the effectiveness of management's business process and IT controls. We did not identify any evidence of significant deterioration in the control environment.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the parent association, the accounting processes and controls, and the industry in which they operate.

The group operates in England. It comprises six trading entities and two joint venture entities.

We scoped in all six trading entities to audit for Group reporting purposes because they all required individual statutory audits.

For one joint venture entity, Triathlon Homes LLP, a non-PwC component team performed a full scope audit under our instructions. The group audit team approved the component materiality having regard to the size and risk profile of the component. The group audit team specified the nature of the report to be received from the component team.

For the other joint venture entity, Affinity (Reading) Holdings Limited, we performed analytical procedures over the out of scope component to re-examine our assessment that there were no significant risks of material misstatement within it.

The full scope audits by the group and component teams covered 100% of group turnover and 100% of group total assets.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent association financial statements
Overall materiality	£2.4 million (2019: £2.3 million).	£1.8 million (2019: £1.8 million).
How we determined it	1% of turnover.	1% of turnover.
Rationale for benchmark applied	This is a generally accepted measure applied when auditing organisations with social objectives, to calculate overall materiality.	This is a generally accepted measure applied when auditing organisations with social objectives, to calculate overall materiality.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was £59,000 and £1,814,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £118,000 (Group audit) (2019: £114,800) and £90,700 (Parent association audit) (2019: £92,400) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the parent association's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and parent association's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group

As a result of the directors' reporting on how they have applied the UK Corporate Governance Code (the "Code"), we are required to report to you if we have anything material to add or draw attention to regarding:

- The directors' confirmation on page 82 to 87 of the Annual Report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 88 and 89 of the Annual Report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report in respect of this responsibility.

Other Code Provisions

As a result of the directors' reporting on how they have applied the Code, we are required to report to you if, in our opinion:

- The statement given by the directors, on page 99, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's and parent association's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and parent association obtained in the course of performing our audit.
- The section of the Annual Report on page 90 to 92 describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee.

We have nothing to report in respect of this responsibility.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of the Board's responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent 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 the directors either intend to liquidate the group or the parent association or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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 an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: **www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the parent society's members as a body in accordance with Section 87 (2) and Section 98 (7) of the Co-operative and Community Benefit Societies Act 2014 and Section 128 of the Housing and Regeneration Act 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Co-operative and Community Benefit Societies Act exception reporting

Under the Co-operative and Community Benefit Societies Act 2014 we are required to report to you if, in our opinion:

- a satisfactory system of control over transactions has not been maintained; or
- we have not received all the information and explanations we require for our audit; or
- proper accounting records have not been kept by the parent association; or
- the parent association financial statements are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit and Risk Committee, we were appointed by the members on 9 July 2012 to audit the financial statements for the year ended 31 March 2013 and subsequent financial periods. The period of total uninterrupted engagement is 8 years, covering the years ended 31 March 2013 to 31 March 2020.

The engagement partner on the audit resulting in this independent auditors' report is Sotiris Kroustis.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
Date: 31 July 2020

06.
Audited financial statements of the Group

For the year ended 31 March 2020

Southern Housing Group Limited is incorporated under the Co-operative and Community Benefit Societies Act 2014 (Registered Number IP31055R) and registered by the Regulator for Social Housing (Registered Number L4628).

Consolidated Statement of **Comprehensive Income**

For the year ended 31 March 2020

	Note	**Group 2020 £000s**	Group 2019 £000s	**Association 2020 £000s**	Association 2019 £000s
Turnover	2	**236,846**	230,466	**181,415**	184,963
Cost of sales	2	**(47,315)**	(39,289)	**(5,003)**	(13,802)
Gross profit		**189,531**	191,177	**176,412**	171,161
Operating costs	2	**(145,716)**	(129,275)	**(147,122)**	(129,232)
(Loss)/gain on revaluation of investment properties	2, 11	**(5,865)**	568	**(5,650)**	(3,298)
Gain on disposal of fixed assets	5	**24,049**	9,694	**23,779**	6,590
Operating surplus		**61,999**	72,164	**47,419**	45,221
Interest receivable and similar income	6	**1,190**	1,065	**4,889**	2,300
Interest payable and similar charges	7	**(39,595)**	(33,908)	**(43,620)**	(35,124)
Share of operating surplus in joint ventures		**24**	35	**-**	-
Gift aid received		**-**	-	**19,961**	10,141
Surplus before tax	8	**23,618**	39,356	**28,649**	22,538
Taxation	9	**(337)**	(749)	**-**	-
Surplus for the year		**23,281**	38,607	**28,649**	22,538
Other comprehensive income					
Actuarial gain/(loss) in respect of pension schemes		**183**	(1,224)	**183**	(1,224)
Total other comprehensive income/(expense)		**183**	(1,224)	**183**	(1,224)
Total comprehensive income for the year		**23,464**	37,383	**28,832**	21,314
Total comprehensive income attributable to:					
– the Association		**23,440**	37,348	**28,832**	21,314
– jointly controlled entities accounted for by the equity method		**24**	35	**-**	-
		23,464	37,383	**28,832**	21,314

All results for the current and prior years are attributable to continuing operations. The notes on pages 116 to 157 form part of these financial statements.

Consolidated Statement of **Financial Position**

As at 31 March 2020

	Note	**Group 2020 £000s**	Group 2019 £000s	**Association 2020 £000s**	Association 2019 £000s
Fixed assets					
Property, plant and equipment	10	**2,111,976**	1,975,924	**1,964,567**	1,929,303
Investment properties	11	**143,299**	106,934	**125,315**	90,110
Investment in social HomeBuy	12	**7,267**	7,478	**7,267**	7,478
Unlisted investments	13	**7,888**	8,084	**7,888**	8,084
Investment in connected entities	14	**1,968**	1,790	**3,708**	3,530
Investment in joint ventures	15	**1,910**	1,886	**1,294**	1,294
		2,274,308	2,102,096	**2,110,039**	2,039,799
Current assets					
Stock	16	**109,709**	87,359	**17,586**	9,418
Trade and other debtors	17	**25,876**	14,984	**213,112**	90,752
Cash and cash equivalents		**58,934**	51,964	**49,999**	44,038
		194,519	154,307	**280,697**	144,208
Creditors: amounts falling due within one year	18	**(111,861)**	(62,180)	**(103,660)**	(57,427)
Net current assets		**82,658**	92,127	**177,037**	86,781
Total assets less current liabilities		**2,356,966**	2,194,223	**2,287,076**	2,126,580
Creditors: amounts falling due after more than one year	19	**(1,700,968)**	(1,564,413)	**(1,688,406)**	(1,558,466)
Provision for liabilities charges	21	**(3,500)**	-	**(2,500)**	-
Post employment benefits	25	**(8,574)**	(9,350)	**(8,574)**	(9,350)
Total net assets		**643,924**	620,460	**587,596**	558,764
Reserves					
Called up share capital	22	**-**	-	**-**	-
Retained equity		**643,494**	620,030	**587,166**	558,334
General reserve		**430**	430	**430**	430
Total reserves		**643,924**	620,460	**587,596**	**558,764**

Retained equity includes the net assets of the Samuel Lewis Foundation, an endowment fund. See Note 29 for further information on its net assets.

The financial statements on pages 110 to 157 were authorised for issue by the Board of Directors on 20 July 2020 and signed on its behalf by:

Arthur Merchant
Chair

Janet Collier
Board member

Iain Mackrory-Jamieson
Company Secretary

Southern Housing Group Limited is incorporated under the Co-operative and Community Benefit Societies Act 2014 (Registered Number IP31055R)

Consolidated Statement of **Changes in Reserves**

For the year ended 31 March 2020

Group	Retained equity £000s	General reserve £000s	Total reserves £000s
Reserves at 1 April 2018	582,647	430	**583,077**
Surplus for the year	38,607	-	**38,607**
Actuarial loss on pension schemes	(1,224)	-	**(1,224)**
Reserves at 31 March 2019	**620,030**	**430**	**620,460**
Surplus for the year	23,281	-	**23,281**
Actuarial gain on pension schemes	183	-	**183**
Reserves at 31 March 2020	**643,494**	**430**	**643,924**

Association	£000s	£000s	£000s
Reserves at 1 April 2018	537,020	430	**537,450**
Surplus for the year	22,538	-	**22,538**
Actuarial loss on pension schemes	(1,224)	-	**(1,224)**
Reserves at 31 March 2019	**558,334**	**430**	**558,764**
Surplus for the year	28,649	-	**28,649**
Actuarial gain on pension schemes	183	-	**183**
Reserves at 31 March 2020	587,166	430	**587,596**

The general reserve records funds that have been given to the Group for use on some estates. Retained equity includes the net assets of the Samuel Lewis Foundation, an endowment fund, please see Note 29 for further information on its net assets.

Consolidated Statement of **Cash Flows**

For the year ended 31 March 2020

	Note	Group 2020 £000s	Group 2019 £000s
Cash flow from operating activities			
Surplus before tax		**23,618**	39,356
Share of operating surplus in joint ventures		**(24)**	(35)
Net Interest and financing costs		**38,405**	32,843
Operating surplus		**61,999**	72,164
Adjustments for:			
Depreciation	10	**26,659**	24,892
Gain on disposal of fixed assets		**(24,049)**	(9,694)
Loss/(gain) on revaluation of investment properties		**5,865**	(568)
Impairment	10	**2,800**	-
Government grants utilised in the year		**(9,846)**	(9,620)
Increase in stock and Homeflex property disposal		**(21,760)**	(33,023)
Increase in trade and other debtors		**(10,892)**	(1,996)
Increase/(decrease) in trade and other creditors		**5,971**	(2,138)
Increase/(decrease) in provisions		**2,701**	(1,996)
Corporation tax paid		**-**	(1,049)
Net cash generated from operating activities		**39,448**	36,972
Cash flow from investing activities			
Purchase of property, plant and equipment	10	**(197,288)**	(133,102)
(Disposals)/additions of investments		**(40,721)**	4,646
Proceeds from disposal of property, plant and equipment	10	**51,910**	29,738
Distributions received from joint ventures		**328**	396
(Increase)/decrease in loan to joint venture		**(178)**	13
Interest received		**862**	669
Government grants received		**46,563**	3,611
Proceeds from sale of social HomeBuy investments		**423**	226
Net cash from investing activities		**(138,101)**	(93,803)
Cash flow from financing activities			
Interest paid		**(42,401)**	(34,872)
Loan repayments		**(59,317)**	(391,338)
New secured loans		**207,341**	462,631
Net cash generated from financing activities		**105,623**	36,421
Net increase/(decrease) in cash and cash equivalents		**6,970**	(20,410)
Cash and cash equivalents at the beginning of the year		**51,964**	72,374
Cash and cash equivalents at the end of the year		**58,934**	51,964

Consolidated Statement of **Cash Flows** (continued)

For the year ended 31 March 2020

	Group 2019 £000s	Group cash flow and non-cash items* £000s	**Group 2020 £000s**
Group reconciliation of net debt			
Cash and cash equivalents	51,964	6,970	**58,934**
Housing loans and listed bonds	(828,604)	(149,828)	**(978,432)**
Net debt	**(776,640)**	**(142,858)**	**(919,498)**

* Included are non-cash items which increase net debt by £1,840k. These represent effective interest rate adjustments, which include debt issue costs, and movements on accrued interest.

At 31 March 2020, restricted cash comprising balances on bank accounts held on trust for those who own a share of their property totalled £10,144,000 (2019: £9,810,000). Cash also includes a restricted balance of £202,000 (2019: £202,000) where a charge is held as security to cover future development costs on a particular scheme.

A further £15,285,000 (2019: £15,285,000) restricted balance is held relating to the Samuel Lewis Foundation, a permanent endowment.

Notes to the Financial Statements

For the year ended 31 March 2020

1. Principal accounting policies

General information and statement of compliance

Basis of preparation

The financial statements have been prepared in accordance with and are compliant with applicable Generally Accepted Accounting Standards in the United Kingdom including Financial Reporting Standard 102 (FRS 102), the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008, the Statement of Recommended Practice "Accounting by Registered Social Landlords" 2018 ("SORP") and the accounting direction for private registered providers of social housing 2019, issued by the Regulator of Social Housing. They have been prepared on the historical cost basis (as modified by the revaluation of investment properties and financial instruments).

The accounting policies have been consistently applied. The Association and the Group are public benefit entities registered in England. The accounting policies are set out below or in the relevant note disclosures relating to each balance or transaction.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Southern Housing Group Limited (Parent Body), Southern Home Ownership Limited (SHOL), Southern Space Limited (SSL), Southern Development Services Limited (SDSL), Southern Housing Construction Limited (SHCL) and Spruce Homes Limited and are consolidated in accordance with FRS 102 and the Co-operative and Community Benefit Societies Act 2014.

Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All intercompany transactions and balances between Group entities are eliminated in full upon consolidation.

The joint venture investments in Triathlon Homes LLP and Affinity (Reading) Holdings Limited are accounted for using the equity accounting method in these consolidated financial statements. Affinity Housing Services (Reading) is accounted for as a jointly controlled operation.

Segmental reporting

For the purpose of segmental reporting, the chief operating decision maker ("CODM") is considered to be the Executive Management Team ("EMT"). In line with the segments reported to the CODM, the presentation of these financial statements and accompanying notes reflect the Group's management and internal reporting. The information reviewed within the management accounts to assess performance and make strategic decisions is consistent with and closely aligned to these financial statements. Segmental reporting is presented in Note 2 to the financial statements where information about income and expenditure attributable to the material operating segments are presented on the basis of the tenure type of the housing assets held by the Group. This is appropriate on the basis of the similarity of the services provided, the nature of the associated risks, and the nature of the regulatory environment in which the Group operates.

Assets and liabilities are not reported by operating segment or tenure, other than housing properties which are split by tenure type and are shown in Note 10.

Going concern

The Group's business activities, its current financial position and factors that are likely to affect its future development are set out within the Strategic Review. The Board's assessment of going concern is focused on the Group's liquidity and its compliance with loan covenants. The review period is 18 months from the signing of the financial statements.

The Board has considered the impact of COVID-19 on its short-term forecasts, applying stress tests to the early years of the long term financial plan that reflect the potential for heightened financial risk stemming from the effects of the pandemic. The Board considers these tests to represent a severe yet plausible view of the risks that may impact the Group. The tests consider the impact of adverse movements in macroeconomic indicators, as well as sharp reductions in income and significant above inflationary increases in costs. Tenant rent arrears are presumed to double in the period under review with a conservative assumption on eventual recovery also modelled.

1. Principal accounting policies (continued)

The Group is able to withstand these stresses whilst remaining fully compliant with its loan covenants and without employing any mitigating actions. More details of the stress tests employed are provided in the viability assessment on pages 88-89. The Group's liquidity position is set out in the going concern statement on page 88.

No material uncertainties related to events or conditions that may cause significant doubt about the ability of the Group to continue as a going concern have been identified. On this basis, the Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, being a period of at least twelve months after the date on which the report and financial statements are signed. Accordingly, the Directors continue to adopt the going concern basis in preparing the Group's consolidated financial statements.

Cash and cash equivalents

Cash and cash equivalents are cash and short term, highly liquid investments that are convertible for use as cash at less than three months' notice with minimal risk to the principal sum. Cash balances also include restricted cash held on behalf of the Group's leaseholders, for which there is an associated creditor balance held (see Note 18) and any cash relating to our permanent endowment which is only available for specific uses. The Association has taken advantage of the exemption under FRS 102 and has not prepared a cash flow statement.

Gift aid

Gift aid income is recognised in the statement of comprehensive income by the Association and as a distribution in the subsidiary making the gift aid payment when the intended gift has been confirmed. It is only provided for where a legal obligation exists. Income and distribution are eliminated on consolidation where the gift is from a Group company.

VAT

A large proportion of the Group's income comprises rental income which is exempt for VAT purposes and gives rise to a partial exemption calculation. Expenditure is therefore shown inclusive of VAT. Recoverable VAT arising from partially exempt activities is credited to the statement of comprehensive income.

Key accounting judgements and estimation uncertainty

In preparing the financial statements, the Group is required to make certain estimates, judgements and assumptions. Estimates and assumptions will, by definition, seldom equal the related actual results. These are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable based on the information available.

The critical judgements made in these financial statements are:

Property assets

Management have applied judgement in determining whether assets are recognised as property, plant and equipment, investment properties or stock. For mixed tenure developments the appropriate share of costs for individual units constructed is allocated on a pro-rata area basis, in line with the initial appraisal. This is then revised once the final tenure mix has been confirmed.

Management reviews the useful life of the assets which are depreciated at a component level over their estimated useful economic lives based on experience.

When considering property assets for impairment, units are grouped together as cash generating units, by block and tenure type where the assets are in use and at a scheme level for assets under construction. As these assets are held for service potential, judgement is required in determining the appropriate method for calculating the value in use. An impairment indicator was identified in respect of two schemes under construction and an impairment of £2,800,000 has been recognised. See Note 10 for more detail.

HomeBuy loans

HomeBuy loans are accounted for as public benefit concessionary loans meaning that they are held at cost, being the share of value of the property at the date of acquisition, as opposed to being held at the fair value of the loans which FRS 102 would otherwise require.

1. Principal accounting policies (continued)

Triathlon Homes LLP

The share of the net assets and net income of Triathlon Homes LLP is not included under equity accounting due to it having negative net reserves for which the Group has no contractual liability.

Gift aid

Management has made a judgement that it is probable that gift aid payments will be made to the parent within 9 months of the year end by the subsidiary entities where sufficient funds are available for the year ended 31 March 2020. In accordance with FRS 102 the tax provision is assessed on the basis that gift aid payments are probable.

Therefore, the corporation tax impact of probable gift aid payments has been recognised in the calculation of the tax provision for the period.

Provisions

Provisions are recognised when it is probable that the group will have to incur costs to satisfy a legal or constructive obligation. The amount recognised is management's best estimate of the costs that will be incurred to meet the obligation identified

Sources of estimation uncertainty:

Property assets

The proportion sold as the first tranche varies from property to property based on the percentage purchased by the shared owner. The first tranche proportion of unsold and under construction properties is estimated based on the historical experience and expected selling percentage. The current estimate of the proportion that will be sold as first tranche is 35%.

Management reviews the useful life of the assets which are depreciated at a component level over their estimated useful economic lives based on experience. For leasehold assets the maximum depreciation period is that of the remaining term of the lease. For those properties occupied on short leases, the maximum depreciation period is that of the remaining term of the lease.

Stock is held at the lower of cost or net realisable value. This requires management to estimate the expected selling price of properties under construction as well as the cost to complete construction. The carrying value of stock is disclosed in Note 16.

The fair value of investment properties is determined annually by professional external valuers. They use certain key assumptions to assess the values which can vary due to the sensitivity of the inputs such as discount rates, yields and market conditions. See Note 11 for further detail.

Debtors

The Group makes an estimate of the recoverable value of tenant debtors and other debtors. When assessing impairment of trade and other debtors the Group considers factors such as the ageing profile and historical recovery rates to determine recoverability. See Note 17 for the value of rent arrears and bad debt provision.

Post employment benefits

Estimation of pension assets and liabilities depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates, expected returns on pension fund assets and guaranteed minimum payment (GMP) equalisation. The Group uses qualified actuaries to value its pension assets and liabilities.

2.Turnover

Turnover and operating surplus

Operating surplus includes gains and losses on the sale of fixed assets and revaluation gains and losses on investments, as these are considered to be part of the Group's operating activities. Gift aid receipts are not included within the operating surplus as the amount paid is considered annually and therefore is not an operating item.

Rent receivable

Rental income from social housing and private rental properties owned by the Group is recognised on an accruals basis (net of void losses) as it falls due.

2. Turnover (continued)

Service charge income

Service charge income is recognised on an accruals basis as it falls due. The Group operates both fixed and variable service charges on a scheme-by-scheme basis in full consultation with residents. The service charges on all schemes are set on the basis of budgeted spend. Where variable service charges are used the budget will include an allowance for the surplus or deficit from prior years, with a surplus being returned to residents in the form of a reduced charge in the following year and a deficit being recovered via a higher service charge or by alternative methods if the contract allows.

Management fees

Management fees receivable (excluding VAT) for services provided to other entities are recorded when they fall due. Fees are charged to the Group's subsidiaries for management and support services and are apportioned as a percentage of turnover. Intra group fees receivable and payable are eliminated on consolidation.

Support services

Support service income for provision of extra care for residents with specific needs is recognised on an accruals basis as it falls due.

Commercial income

Income from the letting of commercial properties is recognised on an accruals basis as it falls due. Lease incentives are amortised over the life of the lease.

Property sales income

Receipts from the sale of the first tranche of shared ownership properties and proceeds of open market sales are recognised within turnover on legal completion. The sale of subsequent tranches (staircasing) of shared ownership properties and the sale of housing properties are recorded net of carrying value as a gain or loss on disposal of fixed assets.

Grants

Revenue grants are credited to the statement of comprehensive income in the same period as the expenditure to which they relate and the performance conditions are met. The cumulative grant amortised is disclosed as part of the contingent liabilities until the property it funds is disposed of or ceases to be used for social housing purposes.

Social Housing Grant is the capital grant provided by Homes England (formerly the Homes and Communities Agency), the Greater London Authority or other Government agency to wholly or partially fund Registered Providers when developing social housing. The grant is carried as deferred income in the balance sheet and amortised to the statement of comprehensive income through turnover, over the life of the structure of the properties to which it relates when they are ready to let. Social Housing Grant becomes recyclable at the point the related property is sold and is transferred to a recycled capital grant fund until it is reinvested in a replacement property. If there is no requirement to recycle or repay the grant on disposal of the assets any unamortised grant remaining within creditors is released and recognised as income in the statement of comprehensive income. Grants which cannot be recycled are returned to the funder.

Notes to the Financial Statements

For the year ended 31 March 2020

2. Turnover and operating surplus

Group	2020 Turnover £000s	2020 Cost of sales £000s	2020 Operating costs £000s	2020 Operating surplus £000s	2019 Turnover £000s	2019 Cost of sales £000s	2019 Operating costs £000s	2019 Operating surplus £000s
Social housing lettings	162,917	-	(136,703)	**26,214**	159,913	-	(122,850)	37,063
Other social housing activities								
Charges for support services	4,755	-	(5,296)	**(541)**	4,687	-	(5,198)	(511)
First tranche low-cost home ownership sales	15,245	(13,911)	-	**1,334**	24,892	(20,840)	-	4,052
Impairment*	-	-	(2,800)	**(2,800)**	-	-	-	-
Other	155	-	-	**155**	99	-	-	99
Non-social housing activities								
Commercial income/(expenses)	2,514	-	(167)	**2,347**	2,492	-	(148)	2,344
Private rental lettings	2,893	-	(468)	**2,425**	2,112	-	(880)	1,232
Open market sales	47,321	(33,404)	-	**13,917**	35,405	(18,449)	-	16,956
Other	1,046	-	(282)	**764**	866	-	(199)	667
	236,846	(47,315)	(145,716)	**43,815**	230,466	(39,289)	(129,275)	61,902
(Loss)/gain on revaluation of investment properties (Note 11)	(5,865)	-	-	**(5,865)**	568	-	-	568
Gain on disposal of fixed assets (Note 5)	52,000	(27,951)	-	**24,049**	29,173	(19,479)	-	9,694
Total of operating activities	**282,981**	**(75,266)**	**(145,716)**	**61,999**	260,207	(58,768)	(129,275)	72,164

Association	2020 Turnover £000s	2020 Cost of sales £000s	2020 Operating costs £000s	2020 Operating surplus £000s	2019 Turnover £000s	2019 Cost of sales £000s	2019 Operating costs £000s	2019 Operating surplus £000s
Social housing lettings	161,884	-	(136,346)	**25,538**	156,842	-	(123,203)	33,639
Other social housing activities								
Charges for support services	4,755	-	(5,296)	**(541)**	4,687	-	(5,198)	(511)
First tranche low-cost home ownership sales	5,797	(5,002)	-	**795**	17,862	(13,802)	-	4,060
Impairment*	-	-	(600)	**(600)**	-	-	-	-
Other	155	-	-	**155**	99	-	-	99
Non-social housing activities								
Commercial income/(expenses)	2,477	-	(167)	**2,310**	2,484	-	(148)	2,336
Private rental lettings	2,330	-	(340)	**1,990**	1,794	-	(683)	1,111
Other	4,017	(1)	(4,373)	**(357)**	1,195	-	-	1,195
	181,415	(5,003)	(147,122)	**29,290**	184,963	(13,802)	(129,232)	41,929
Revaluation (deficit)/surplus on investments (Note 11)	(5,650)	-	-	**(5,650)**	(3,298)	-	-	(3,298)
Gain on disposal of fixed assets (Note 5)	52,000	(28,221)	-	**23,779**	25,240	(18,650)	-	6,590
Total of operating activities	**227,765**	**(33,224)**	**(147,122)**	**47,419**	206,905	(32,452)	(129,232)	45,221

*The impairment charge relates to shared ownership properties under construction.

2. Particulars of income and expenditure from social housing lettings

Group	General needs £000s	Supported and older people's housing £000s	Affordable rent £000s	Intermediate rent £000s	Shared ownership £000s	2020 Total £000s
Rent receivable net of identifiable service charges	91,038	13,275	9,189	8,049	14,780	**136,331**
Service charges receivable	12,001	1,748	-	569	2,277	**16,595**
Gross rental income	**103,039**	**15,023**	**9,189**	**8,618**	**17,057**	**152,926**
Grant amortisation	6,842	998	325	482	1,198	**9,845**
Management fee	101	15	5	7	18	**146**
Turnover from social housing lettings	**109,982**	**16,036**	**9,519**	**9,107**	**18,273**	**162,917**
Management	(31,104)	(4,537)	(2,251)	(1,490)	(5,638)	**(45,020)**
Service charge costs	(19,858)	(2,897)	(1,413)	(947)	(3,519)	**(28,634)**
Rent losses from bad debts	(1,459)	(213)	(103)	(69)	-	**(1,844)**
Routine maintenance	(22,458)	(3,276)	(1,585)	(1,068)	-	**(28,387)**
Planned maintenance	(4,015)	(586)	(283)	(191)	-	**(5,075)**
Depreciation (including component write off)	(21,946)	(3,201)	(1,552)	(1,044)	-	**(27,743)**
Operating costs on social housing lettings	**(100,840)**	**(14,710)**	**(7,187)**	**(4,809)**	**(9,157)**	**(136,703)**
Operating surplus on social housing lettings	**9,142**	**1,326**	**2,332**	**4,298**	**9,116**	**26,214**
Operating margin %	**8%**	**8%**	**24%**	**47%**	**50%**	**16%**
Void losses	275	41	57	264	-	637

Group	General needs £000s	Supported and older people's housing £000s	Affordable rent £000s	Intermediate rent £000s	Shared ownership £000s	2019 Total £000s
Rent receivable net of identifiable service charges	90,455	13,710	9,088	7,984	13,964	**135,201**
Service charges receivable	10,174	1,542	-	506	2,870	**15,092**
Gross rental income	**100,629**	**15,252**	**9,088**	**8,490**	**16,834**	**150,293**
Grant amortisation	6,291	954	313	418	1,644	**9,620**
Turnover from social housing lettings	**106,920**	**16,206**	**9,401**	**8,908**	**18,478**	**159,913**
Management	(30,359)	(4,602)	(1,946)	(1,503)	(5,555)	**(43,965)**
Service charge costs	(15,605)	(2,365)	(1,000)	(796)	(3,407)	**(23,173)**
Rent losses from bad debts	(833)	(126)	(53)	(41)	(156)	**(1,209)**
Routine maintenance	(19,268)	(2,921)	(1,235)	(1,089)	-	**(24,513)**
Planned maintenance	(4,531)	(687)	(290)	(225)	59	**(5,674)**
Depreciation (including component write off)	(19,178)	(2,907)	(1,229)	(1,002)	-	**(24,316)**
Operating costs on social housing lettings	**(89,774)**	**(13,608)**	**(5,753)**	**(4,656)**	**(9,059)**	**(122,850)**
Operating surplus on social housing lettings	**17,146**	**2,598**	**3,648**	**4,252**	**9,419**	**37,063**
Operating margin %	**16%**	**16%**	**39%**	**48%**	**51%**	**23%**
Void losses	487	72	42	228	-	829

2. Particulars of income and expenditure from social housing lettings (continued)

Association	General needs £000s	Supported and older people's housing £000s	Affordable rent £000s	Intermediate rent £000s	Shared ownership £000s	**2020 Total £000s**
Rent receivable net of identifiable service charges	91,005	13,275	8,972	7,960	14,292	**135,504**
Service charges receivable	11,980	1,748	-	569	2,094	**16,391**
Gross rental income	**102,985**	**15,023**	**8,972**	**8,529**	**16,386**	**151,895**
External management fee	101	15	5	7	18	**146**
Grant amortisation	6,842	998	325	482	1,196	**9,843**
Turnover from social housing lettings	**109,928**	**16,036**	**9,302**	**9,018**	**17,600**	**161,884**
Management	(31,099)	(4,537)	(2,191)	(1,478)	(5,436)	**(44,741)**
Service charge costs	(19,857)	(2,897)	(1,399)	(944)	(3,471)	**(28,568)**
Rent losses from bad debts	(1,459)	(213)	(103)	(69)	-	**(1,844)**
Routine maintenance	(22,458)	(3,276)	(1,582)	(1,067)	-	**(28,383)**
Planned maintenance	(4,015)	(586)	(283)	(191)	-	**(5,075)**
Depreciation (including component write off)	(21,945)	(3,201)	(1,546)	(1,043)	-	**(27,735)**
Operating costs on social housing lettings	**(100,833)**	**(14,710)**	**(7,104)**	**(4,792)**	**(8,907)**	**(136,346)**
Operating surplus on social housing lettings	**9,095**	**1,326**	**2,198**	**4,226**	**8,693**	**25,538**
Operating margin %	**8%**	**8%**	**24%**	**47%**	**49%**	**16%**
Void Losses	272	41	57	263	-	633

Association	General needs £000s	Supported and older people's housing £000s	Affordable rent £000s	Intermediate rent £000s	Shared ownership £000s	**2019 Total £000s**
Rent receivable net of identifiable service charges	90,455	13,710	9,088	7,652	10,724	**131,629**
Service charges receivable	10,174	1,542	-	506	1,867	**14,089**
Gross rental income	**100,629**	**15,252**	**9,088**	**8,158**	**12,591**	**145,718**
External management fee	811	-	-	-	1,198	**2,009**
Grant amortisation	6,291	954	313	403	1,154	**9,115**
Turnover from social housing lettings	**107,731**	**16,206**	**9,401**	**8,561**	**14,943**	**156,842**
Management	(31,062)	(4,708)	(1,991)	(1,545)	(5,699)	**(45,005)**
Service charge costs	(15,605)	(2,365)	(1,000)	(776)	(2,863)	**(22,609)**
Rent losses from bad debts	(833)	(126)	(53)	(41)	(153)	**(1,206)**
Routine maintenance	(19,268)	(2,921)	(1,235)	(958)	-	**(24,382)**
Planned maintenance	(4,531)	(687)	(290)	(225)	-	**(5,733)**
Depreciation (including component write off)	(19,178)	(2,907)	(1,229)	(954)	-	**(24,268)**
Operating costs on social housing lettings	**(90,477)**	**(13,714)**	**(5,798)**	**(4,499)**	**(8,715)**	**(123,203)**
Operating surplus on social housing lettings	**17,254**	**2,492**	**3,603**	**4,062**	**6,228**	**33,639**
Operating margin %	**16%**	**15%**	**38%**	**47%**	**42%**	**21%**
Void Losses	487	72	42	218	-	819

Notes to the Financial Statements

For the year ended 31 March 2020

3. Board and senior executive emoluments (key management personnel)

The remuneration paid to the directors (who for the purposes of this note include the members of the Board, committee members, the Group Chief Executive and any other person who is a member of the Executive Management Team) was as follows:

Group	2020 £000s	2019 £000s
Emoluments	**952**	970
Pension contributions	**60**	66
Non Executive Board member emoluments	**195**	136
	1,207	1,172

The remuneration (excluding pension contributions and NI) payable to the Group Chief Executive, who is also the highest paid director was:

	2020 £s	2019 £s
Salary	**232,927**	199,698
Benefits in kind	**1,034**	450
Total remuneration (excluding pension contributions and NI)	**233,961**	200,148

The remuneration paid to the highest paid director in 2019 includes remuneration prior to 1 September 2018 when they were Group Development Director, before taking up their appointment as Chief Executive.

The Remuneration and Nominations Committee sets the pay of the Executive Directors at a level to attract and retain the talent required to lead the Group. In doing this, it takes account of a market comparative exercise which is carried out annually by an independent body. Our aim is not to pay the highest salaries in the market but to remain competitive.

The pension schemes available to the Executive Directors are offered on the same terms as to other staff. There are no different pension arrangements for the Executive Directors.

4. Employee information

Monthly average number of full-time equivalent employees (FTE = 35 hours per week):	**Group 2020 FTE**	Group 2019 FTE	**Association 2020 FTE**	Association 2019 FTE
Average number of full-time equivalent employees	**994**	922	**994**	922

2020 FTE numbers include the insourcing of the Group's estate care service during the year.

Staff costs (for the above employees)	**Group 2020 £000s**	Group 2019 £000s	**Association 2020 £000s**	Association 2019 £000s
Wages and salaries	**33,522**	30,977	**33,522**	30,977
Social security costs	**3,635**	3,228	**3,635**	3,228
Other pension costs	**3,465**	2,666	**3,465**	2,666
Termination benefits	**535**	386	**535**	386
	41,157	37,257	**41,157**	37,257

Remuneration paid to staff including Executives in bands from £60,000 upwards:

FTE = 35 hours per week	**Group 2020 FTE**	Group 2019 FTE
£60,000 - £70,000	**54**	48
£70,000 - £80,000	**28**	27
£80,000 - £90,000	**15**	13
£90,000 - £100,000	**9**	10
£100,000 - £110,000	**6**	3
£110,000 - £120,000	**5**	2
£120,000 - £130,000	**2**	5
£130,000 - £140,000	**5**	4
£140,000 - £150,000	**1**	1
£150,000 - £160,000	**-**	1
£180,000 - £190,000	**2**	1
£220,000 - £230,000	**-**	1
£240,000 - £250,000	**-**	1
£280,000 - £290,000	**1**	-

Remuneration includes salary, allowances, pension contributions, employer's NI, benefits in kind and non-consolidated bonus.

Notes to the Financial Statements

For the year ended 31 March 2020

5. Gain on disposal of fixed assets

The gain or loss on disposal of fixed assets is recorded as the net value of the proceeds and the costs of sale which include the carrying value of the proportion of the property being sold and the associated grant.

Group	**Housing property 2020 £000s**	**HomeBuy and other tangible fixed assets 2020 £000s**	**Total 2020 £000s**	Housing property 2019 £000s	HomeBuy and other tangible fixed assets 2019 £000s	Total 2019 £000s
Sale proceeds	**49,772**	**2,228**	**52,000**	28,494	679	29,173
Cost of sales	**(26,734)**	**(1,079)**	**(27,813)**	(19,182)	(232)	(19,414)
Incidental sale expenses	**(137)**	**(1)**	**(138)**	(65)	-	(65)
	22,901	**1,148**	**24,049**	9,247	447	9,694

Association	**Housing property 2020 £000s**	**HomeBuy and other tangible fixed assets 2020 £000s**	**Total 2020 £000s**	Housing property 2019 £000s	HomeBuy and other tangible fixed assets 2019 £000s	Total 2019 £000s
Sale proceeds	**49,772**	**2,228**	**52,000**	24,787	453	25,240
Cost of sales	**(27,004)**	**(1,079)**	**(28,083)**	(18,453)	(138)	(18,591)
Incidental sale expenses	**(137)**	**(1)**	**(138)**	(59)	-	(59)
	22,631	**1,148**	**23,779**	6,275	315	6,590

6. Interest receivable and similar income

Interest income is recognised on a receivable basis as it falls due.

Interest and investment income	**Group 2020 £000s**	Group 2019 £000s	**Association 2020 £000s**	Association 2019 £000s
Interest from investments	**675**	586	**4,434**	1,869
Interest from bank deposits	**515**	479	**455**	431
Total	**1,190**	1,065	**4,889**	2,300

Total intercompany interest received by the Association in the year was £4,089,000 (2019: £1,735,000).

7. Interest payable and similar charges

Interest payable on loans is recognised on a payable basis as it falls due together with amortisation charges. Interest is capitalised on properties under construction on a fair proportion of the borrowings of the Group and Association as a whole, using the weighted average interest rate for borrowing. The Group's weighted average interest rate for borrowing is 4.29% per annum (2019: 4.17% per annum).

Premiums on issue of debentures are treated as deferred income and written back to the statement of comprehensive income over the period of the loan.

Net interest and finance costs charged	**Group 2020 £000s**	Group 2019 £000s	**Association 2020 £000s**	Association 2019 £000s
Loans and bonds	**(40,244)**	(33,655)	**(40,244)**	(33,266)
Other fees	**(4,275)**	(4,265)	**(4,267)**	(4,136)
Less: interest payable capitalised	**5,080**	5,598	**1,047**	3,864
	(39,439)	(32,322)	**(43,464)**	(33,538)
Deferred income written back	**50**	111	**50**	111
	(39,389)	(32,211)	**(43,414)**	(33,427)
Loan restructure costs and termination of derivatives	**-**	(1,487)	**-**	(1,487)
Total	**(39,389)**	(33,698)	**(43,414)**	(34,914)

Other finance costs: pension schemes	**Group 2020 £000s**	Group 2019 £000s	**Association 2020 £000s**	Association 2019 £000s
Group pension scheme				
Expected return on pension scheme assets	**1,730**	1,797	**1,730**	1,797
Interest on pension scheme liabilities	**(1,890)**	(1,951)	**(1,890)**	(1,951)
Isle of Wight Council pension scheme				
Expected return on pension scheme assets	**142**	141	**142**	141
Interest on pension scheme liabilities	**(188)**	(197)	**(188)**	(197)
Total	**(206)**	(210)	**(206)**	(210)
Total interest and similar charges	**(39,595)**	(33,908)	**(43,620)**	(35,124)

8. Surplus before tax

The operating surplus before tax is stated after charging:

	Group 2020 £000s	Group 2019 £000s	**Association 2020 £000s**	Association 2019 £000s
Depreciation:				
Property	**22,539**	22,090	**22,532**	22,041
Other tangible fixed assets	**4,120**	2,802	**4,120**	2,802
Impairment	**2,800**	-	**600**	-
Stock cost of sales recognised as an expense	**47,315**	39,289	**5,003**	13,802
Operating lease charges:				
Property	**-**	97	**-**	97
Other equipment	**320**	394	**320**	394
Auditors' remuneration:				
External audit fee (including expenses, excluding VAT)	**265**	192	**205**	155
Other assurance services (excluding VAT)	**-**	48	**-**	48

9. Taxation

No taxation is payable on the charitable surpluses of the Association. Taxation is chargeable on the surpluses of all subsidiary entities. Surpluses either in whole or in part are transferred to the parent by a gift aid distribution which then reduces the taxation charge accordingly. The tax impact of a gift aid payment is accounted for when it is probable that the gift aid payment will be made. All entities are registered for Value Added Tax (VAT). As the majority of group activities are exempt from VAT, the recovery under partial exemption is minimal.

The tax charge has been assessed on the basis that it is probable that gift aid will be paid to the parent by the Group companies within nine months of the year end.

Deferred taxation

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred taxation is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 102 Section 29.

Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

9. Taxation (continued)

UK corporation tax	**Group 2020 £000s**	Group 2019 £000s	**Association 2020 £000s**	Association 2019 £000s
Current tax at 19% (2019: 19%)	**481**	187	**-**	-
Adjustment to tax (credit)/charge in respect of previous years	**(188)**	(176)	**-**	-
Total tax charge	**293**	11	**-**	-
Deferred tax expense	**44**	669	**-**	-
Adjustments in respect of prior periods	**-**	69	**-**	-
	337	749	**-**	-

The total tax charge for the year is higher (2019: lower) than the standard rate of corporation tax in the UK 19% (2019: 19%). The differences are explained below.

	Group 2020 £000s	Group 2019 £000s	**Association 2020 £000s**	Association 2019 £000s
Current tax reconciliation				
Surplus on ordinary activities before tax	**23,618**	39,356	**28,649**	22,538
Less surplus from charitable activities	**(28,649)**	(22,538)	**-**	-
Taxable (deficit)/surplus on ordinary activities before tax	**(5,031)**	16,818	**28,649**	22,538
Total tax (credit)/charge	**(956)**	3,195	**5,443**	4,282
Effects of:				
Chargeable gains	**-**	428	**-**	-
Timing difference in relation to revaluation	**(33)**	802	**-**	-
Change in tax rates	**77**	(77)	**-**	-
(Income not taxable)/ Expenses not deductible for tax purposes	**3,731**	(183)	**(5,443)**	(4,282)
Qualifying charitable donations paid or to be paid within 9 months of the year end	**(2,527)**	(3,585)	**-**	-
Adjustment to tax charge in respect of previous years	**(188)**	(177)	**-**	-
Share of taxable profits in Triathlon Homes LLP	**233**	331	**-**	-
Previously unrecognised deferred tax	**-**	15	**-**	-
Total tax charge (see above)	**337**	749	**-**	**-**

9. Taxation (continued)

Deferred taxation	Group 2020 £000s	Group 2019 £000s	Association 2020 £000s	Association 2019 £000s
At 1 April	**738**	-	-	-
Timing differences	**44**	669	-	-
Adjustments in respect of prior periods	-	69	-	-
At 31 March	**782**	738	-	-

Factors that may affect future tax charges

The standard rate of corporation tax in the UK remained at 19% in 2020. Further changes were announced in March 2020. The rate will remain at 19% from 1 April 2020 and will also be set at 19% for the financial year beginning 1 April 2021.

10. Property, plant and equipment

Property, plant and equipment comprise housing properties and other fixed assets.

Housing properties

Housing properties are held at historic cost less accumulated depreciation. Cost includes the cost of acquiring land and buildings, construction costs as well as directly attributable staff costs and interest capitalised during the development period from commencement on site.

Costs are split between the structure and those major components which require periodic replacement.

Replacement or restoration of such major components is capitalised and depreciated over the average estimated useful life which has been set taking into account professional advice, the Group's asset management strategy and the requirements of the Decent Homes Standard.

Works to existing properties which result in an increase in the net rental stream over the lives of the properties, thereby enhancing the economic benefits of the assets, are capitalised as improvements. This may be as a result of an increase in net rental income, a reduction in future maintenance costs or a significant extension of the useful economic life of the property.

Housing properties in the course of construction are held at cost and are not depreciated. They are transferred to completed properties when handed over for letting or sale. Capitalisation of development costs ceases at practical completion including the accrual of known costs at that time and all subsequent costs are expensed.

Depreciation

Freehold land is not subject to depreciation. Depreciation is charged on a straight-line basis over the useful economic lives of fixed assets to write off to the estimated residual value. The following useful economic lives are used:

Housing properties held for letting:	
Structure	100 years
Major components	
Bathroom	30 years
Heating system (Gas)	15 years
Heating system (Electric)	25 years
Kitchen	20 years
Roof (Pitched)	60 years
Roof (Flat)	20 years
Windows	30 years
Wiring	30 years

It is Group policy to ensure resident shared owners maintain the property in a continuous state of sound repair and the Group considers that any depreciation calculation based on the property's current value would

10. Property, plant and equipment (continued)

be insignificant, due to the large residual value and long economic lives. Therefore, shared ownership properties are not depreciated.

Where a decision is made to demolish and redevelop properties, the useful economic life of the asset, including components, is re-estimated at the point that Board approval is obtained and depreciation is then charged over the remaining life of the asset.

For those properties occupied on short leases the maximum depreciation period is that of the remaining term of the lease.

Impairment

At each balance sheet date, the value of property, plant and equipment assets is formally assessed to determine whether there is an indication that the carrying value of the asset is greater than the recoverable amount and therefore may require impairment. This assessment is carried out by tenure and at the estate/scheme level, such a level representing a cash generating unit. A scheme is defined as all units of the same tenure within one area or estate.

Impairment is normally assessed scheme by scheme although for assets in use it may be at a block or unit level if more appropriate. Where there is evidence of impairment, fixed assets are written down to their recoverable amount. Any such write down is charged to operating surplus. In line with the Group's objectives its social housing properties are held for their service potential and not purely for economic return.

Therefore, the Group follows the guidelines of the SORP and uses the depreciated replacement cost of the property as a reasonable estimate of the recoverable amount.

The assessment identified two schemes which required an impairment adjustment, Leagrave Street and Vanston Place. In both cases, the assets are being held for their service potential and so the assets were tested for impairment by comparing the cost of the assets with the value in use. Since the assets were under construction and assets are to be held for their service potential, the value in use is considered to be the cost to construct a replacement asset reflecting optimal construction conditions and costs rectifying issues with land identified subsequent to purchase. Remediation of ground contamination at Leagrave Street required further spend, resulting in an impairment adjustment of £2,200,000. Delays caused by design changes at Vanston Place resulted in additional costs being incurred, which gave rise to an impairment adjustment of £600,000. These have been included in other social housing activities when analysed in Note 2 as these costs relate to properties that are still under construction.

As some of the properties constructed will be shared ownership, £1,820,000 of the impairment has been recognised within housing properties under construction with the remainder recognised against stock.

10. Property, plant and equipment (continued)

Group	Housing properties held for letting £000s	Shared ownership housing properties £000s	Housing properties under construction £000s	Other fixed assets per following note £000s	**Total property, plant and equipment £000s**
Cost					
At 1 April 2019	1,740,403	275,608	131,046	79,069	**2,226,126**
Reclassification (to)/from investment properties	(1,142)	569	(475)	(45)	**(1,093)**
Reclassification to other fixed assets	-	-	(41)	41	**-**
Schemes completed	34,874	31,974	(66,848)	-	**-**
Homeflex tenure change	(4,762)	3,186	-	-	**(1,576)**
Additions: New properties	41,939	-	120,775	-	**162,714**
Existing properties	30,315	123	(412)	-	**30,026**
Other fixed assets	-	-	-	8,982	**8,982**
Impairment	-	-	(1,820)	-	**(1,820)**
Transfer from/(to) stock	-	(15)	-	-	**(15)**
Disposals	(31,737)	(10,769)	-	(2,777)	**(45,283)**
At 31 March 2020	**1,809,890**	**300,676**	**182,225**	**85,270**	**2,378,061**
Accumulated depreciation					
At 1 April 2019	221,140	-	-	29,062	**250,202**
Reclassification to investment properties	(270)	-	-	(25)	**(295)**
Charge for year	22,539	-	-	4,120	**26,659**
Eliminated in respect of disposals	(8,745)	-	-	(1,736)	**(10,481)**
At 31 March 2020	**234,664**	**-**	**-**	**31,421**	**266,085**
Net book value					
At 31 March 2020	**1,575,226**	**300,676**	**182,225**	**53,849**	**2,111,976**
At 31 March 2019	1,519,263	275,608	131,046	50,007	1,975,924

Detail relating to other fixed assets can be found at the end of Note 10.

10. Property, plant and equipment (continued)

Association	Housing properties held for letting £000s	Shared ownership housing properties £000s	Housing properties under construction £000s	Other fixed assets per following note £000s	**Total property, plant and equipment £000s**
Cost					
At 1 April 2019	1,735,217	265,755	99,296	79,069	**2,179,337**
Reclassification (to)/from investment properties	(1,142)	569	(475)	(45)	**(1,093)**
Reclassification to other fixed assets	-	-	(41)	41	**-**
Schemes completed	26,534	17,240	(43,774)	-	**-**
Homeflex tenure change	(4,762)	3,186	-	-	**(1,576)**
Additions: New properties	41,939	-	18,878	-	**60,817**
Existing properties	30,318	123	(412)	-	**30,029**
Other fixed assets	-	-	-	8,982	**8,982**
Impairment	-	-	(390)	-	**(390)**
Transfer from stock	-	(15)	-	-	**(15)**
Disposals	(31,735)	(11,101)	-	(2,777)	**(45,613)**
At 31 March 2020	**1,796,369**	**275,757**	**73,082**	**85,270**	**2,230,478**
Accumulated depreciation					
At 1 April 2019	220,972	-	-	29,062	**250,034**
Reclassification to investment properties	(270)	-	-	(25)	**(295)**
Charge for year	22,532	-	-	4,120	**26,652**
Eliminated in respect of disposals	(8,744)	-	-	(1,736)	**(10,480)**
At 31 March 2020	**234,490**	**-**	**-**	**31,421**	**265,911**
Net book value					
At 31 March 2020	**1,561,879**	**275,757**	**73,082**	**53,849**	**1,964,567**
At 31 March 2019	1,514,245	265,755	99,296	50,007	1,929,303

Detail relating to other fixed assets can be found at the end of Note 10.

10. Property, plant and equipment (continued)

Properties held for security

Loan facilities, both drawn and undrawn, totalling £1,415m (2019: £1,312m) are secured against 17,266 (2019: 16,748) properties.

Accommodation in management comprises:	Group units 2019	Group units additions	Group units disposals	Group units tenure change/other	**Group units 2020**
Units owned and managed:					
General needs	17,489	377	(336)	3	**17,533**
Housing for older people	2,284	-	(123)	2	**2,163**
Supported housing	367	64	(4)	(33)	**394**
Intermediate rent	870	-	(35)	7	**842**
Private rent (investment properties)	203	64	-	(6)	**261**
Affordable rent	1,121	129	(13)	43	**1,280**
Leasehold	2,678	87	(6)	182	**2,941**
Shared ownership	3,209	192	-	(186)	**3,215**
	28,221	**913**	**(517)**	**12**	**28,629**
Units managed on behalf of other landlords:					
General needs	-	692	-	-	**692**
Supported housing	72	-	-	-	**72**
Intermediate rent	-	294	-	-	**294**
Leasehold	9	102	-	19	**130**
Shared ownership	32	308	-	(27)	**313**
	113	**1,396**	**-**	**(8)**	**1,501**
Total units managed	**28,334**	**2,309**	**(517)**	**4**	**30,130**
Total units owned	**28,221**	**913**	**(517)**	**12**	**28,629**

In October 2019 the Association took on the repairs and housing management of 1,396 units owned by Triathlon LLP.

10. Property, plant and equipment (continued)

Accommodation in management comprises:	Association units 2019	Association units additions	Association units disposals	Association units tenure change/other	**Association units 2020**
Units owned and managed:					
General needs	17,485	377	(336)	3	**17,529**
Housing for older people	2,284	-	(123)	2	**2,163**
Supported housing	367	64	(4)	(33)	**394**
Intermediate rent	861	-	-	(28)	**833**
Private rent (investment properties)	167	64	-	(5)	**226**
Affordable rent	1,121	129	(13)	(2)	**1,235**
Leasehold	2,507	-	(6)	287	**2,788**
Shared ownership	3,104	29	-	(69)	**3,064**
	27,896	**663**	**(482)**	**155**	**28,232**
Units managed on behalf of other landlords:					
General needs	4	692	-	-	**696**
Supported housing	72	-	-	-	**72**
Intermediate rent	9	294	-	-	**303**
Affordable rent	-	45	-	-	**45**
Leasehold	130	102	-	51	**283**
Shared ownership	137	471	-	(144)	**464**
	352	**1,604**	**-**	**(93)**	**1,863**
Total units managed	**28,248**	**2,267**	**(482)**	**62**	**30,095**
Total units owned	**27,896**	**663**	**(482)**	**155**	**28,232**

10. Property, plant and equipment (continued)

Other fixed assets

Other tangible fixed assets are stated at historic cost less accumulated depreciation and any accumulated impairment losses. Historic cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged on a straight-line basis over the useful economic lives of fixed assets to write off the cost to the estimated residual value at the annual rates below.

Freehold and leasehold properties	100 years
Plant and machinery	15 years
Estate and office – fixtures and fittings	5 - 10 years
Computer hardware and software	3 years

Group & Association	Freehold & leasehold properties £000s	Estate equipment £000s	Plant, machinery, fixtures & fittings £000s	Computer, hardware & software £000s	**Total other fixed assets £000s**
Cost					
At 1 April 2019	29,026	31,069	2,068	16,906	**79,069**
Reclassification	-	(4)	-	-	**(4)**
Additions	1,413	2,578	-	4,991	**8,982**
Disposals	(2,078)	(699)	-	-	**(2,777)**
At 31 March 2020	**28,361**	**32,944**	**2,068**	**21,897**	**85,270**
Accumulated depreciation					
At 1 April 2019	6,205	13,763	1,906	7,188	**29,062**
Reclassification	-	(25)	-	-	**(25)**
Charge for year	979	1,460	9	1,672	**4,120**
Disposals	(1,211)	(525)	-	-	**(1,736)**
At 31 March 2020	**5,973**	**14,673**	**1,915**	**8,860**	**31,421**
Net book value					
At 31 March 2020	**22,388**	**18,271**	**153**	**13,037**	**53,849**
At 31 March 2019	22,821	17,306	162	9,718	50,007

Total assets under construction included above are £8,281,000 (2019: £8,412,000) of which £1,029,000 (2019: £622,000) relate to internally generated costs paid in the year.

11. Investment properties

Properties for market rent or commercial lettings are included as investment properties and are recorded at fair value with changes in the market value reported in the statement of comprehensive income. No depreciation is provided in respect of investment properties.

At 31 March 2020 all commercial properties were market valued externally by Jones Lang Lasalle Limited, qualified RICS Chartered Surveyors. The desktop valuation adopted a rent capitalisation methodology using floor areas and rental values. In the instance of properties having a dual use as offices and commercial lettings the cost is split by use using the proportion of floor area with office carrying cost being disclosed in property, plant and equipment.

Developments under construction with a commercial property tenure are required to be split out from housing properties and classified as investment properties under construction. The commercial element is then valued as part of our investment portfolio at fair value and a gain or loss on revaluation recognised. Commercial units at both Dace Road and Herald Street have been valued at cost as they are new schemes purchased during this financial year, and therefore we consider the cost paid to represent the fair value of the assets held. The carrying value of these assets is £2,299,000.

Residential properties held for investment and rented at market rents were valued on an open market value basis subject to assured shorthold tenancies (MV-ST) by Jones Lang Lasalle Limited. The valuation model was either a discount to market value with vacant possession (MV-VP) or a discounted cashflow model over a 10-year period, with the net income in the final year capitalised into perpetuity. Schemes with more than 28 properties were valued using a cashflow model and all other schemes were valued using a discount to MV-VP.

As a result of the market impacts of Novel Coronavirus (COVID-19), the valuation reported on the basis of "material valuation uncertainty" as per VPS 3 and VPGA 10 of the RICS Red Book Global. This reflects the fact that at the valuation date, the valuers consider that they can attach less weight to previous market evidence for comparison purposes to inform opinions of value. The inclusion of a "material valuation uncertainty" declaration does not mean that the valuation cannot be relied upon. Rather, it indicates that less certainty - and a higher degree of caution - should be attached to the valuation than would normally be the case. As such, changes to assumptions made may have a significant impact on the valuations in future.

The key assumptions in the valuation of residential properties held for private rent using a cashflow model are considered to be exit yield and income discount rate. These properties have a carrying value of £53,150,000. The discount rates used range between 6.75% and 7.50% (2019: 6.75% to 7.00%) and the exit yields between 4.00% and 5.75% (2019: 4.25% to 5.00%). A change in exit yield and income discount rate of 0.25% results in a value reduction of approximately £3,000,000 (5.6%). A key assumption in the valuation of properties held at a discount to MV-VP is the discount applied and the MV-VP. The properties valued in this way have a carrying amount of £37,099,000 and the properties are held at between 85% and 95% of MV-VP (2019: 82% to 93%). For the discount to VP exercise, a 5% reduction in the MV-VP results in a value reduction of £1,800,000 (5%).

The commercial portfolio has a carrying value of £50,710,000. A key assumption is the equivalent yield for the portfolio of 6.87%. An increase in the equivalent yield to 7.75% would lead to a decrease in the valuation of £5,160,000 (10%).

These figures are disclosed as an indicator of potential sensitivity only.

11. Investment properties (continued)

	Group 2020 £000s	Group 2019 £000s	Association 2020 £000s	Association 2019 £000s
Valuation at 1 April	**106,934**	108,944	**90,110**	103,359
Reclassification (to)/from stock	**(924)**	7,568	**-**	-
Reclassification to PPE	**-**	(6,920)	**-**	(6,920)
Transfer of engagement	**-**	-	**-**	195
Additions	**42,499**	354	**40,200**	354
Disposals	**(143)**	(1,803)	**(143)**	(1,803)
Transfer from/(to) fixed assets	**798**	(1,777)	**798**	(1,777)
(Loss)/gain on revaluation of investment properties	**(5,865)**	568	**(5,650)**	(3,298)
At 31 March	**143,299**	106,934	**125,315**	90,110

12. Investment in social HomeBuy

The Group retains a stake in homes purchased through the HomeBuy and Starter Homes Initiative schemes which are regarded as public benefit entity concessionary loans and are held in the statement of financial position and are recorded at transaction value less any consideration of impairment. The loan is repayable on the sale of the underlying property with any proportionate excess achieved on the sale value over the loan value being reported through the statement of comprehensive income.

Investments in HomeBuy and starter home initiatives are funded through social housing grant. The Association funds 6% of the stake in Starter Home Initiatives, with the remainder being funded through social housing grant. No interest is payable. The security is a charge on the loan and repayment is due upon the sale of the property. There are no concessionary loans committed but not taken up at year end.

	Group 2020 £000s	Group 2019 £000s	Association 2020 £000s	Association 2019 £000s
HomeBuy and Starter Home Initiatives	**7,267**	7,478	**7,267**	7,478

13. Unlisted investments

The unlisted investments comprise interest bearing cash deposits placed as a guarantee for loans from The Housing Finance Corporation Limited ("THFC"). These are held at cost adjusted for any increases in amounts deposited or withdrawn and impairment. The deposits are held as interest cover with differing maturity and interest rates in line with the loan facility agreements. Interest receivable is accounted for on an accruals basis.

	Group 2020 £000s	Group 2019 £000s	**Association 2020 £000s**	Association 2019 £000s
Unlisted investments - held at cost				
At 1 April	**8,084**	8,512	**8,084**	8,084
Cash deposit movement	**(196)**	(428)	**(196)**	(428)
At 31 March	**7,888**	8,084	**7,888**	8,084

14. Investment in connected entities

The investment in subsidiary of £1,740,000 (2019: £1,740,000) relates to Spruce Homes Limited and is supported by the net assets of the subsidiary. The investment loan comprises redeemable loan notes issued to Affinity (Reading) Holdings Limited.

	Group 2020 £000s	Group 2019 £000s	**Association 2020 £000s**	Association 2019 £000s
Cost				
Investment in subsidiary	**-**	-	**1,740**	1,740
Investment loan to joint venture entity	**1,968**	1,790	**1,968**	1,790
	1,968	1,790	**3,708**	3,530

14. Investment in connected entities (continued)

	Wholly owned subsidiary £000s	Joint venture entity £000s	Association £000s
Movement			
At 1 April 2019	1,740	1,790	3,530
Net increase in investment	-	178	178
At 31 March 2020	**1,740**	**1,968**	**3,708**

Southern Housing Group Limited holds:

- 100% of the ordinary share capital of Southern Development Services Limited
- 100% of the ordinary share capital of Southern Space Limited
- 100% of the ordinary share capital of Spruce Homes Limited
- 100% of the ordinary share capital of Southern Housing Construction Limited

15. Investment in joint ventures

Joint ventures are those entities over which the Group exercises joint control through a contractual arrangement. Affinity Housing Services (Reading) is accounted for as a jointly controlled operation where the share of operations is brought directly into the Group and Association financial statements. Affinity (Reading) Holdings Limited is accounted for as a jointly controlled entity. In the Association figures it is held at cost less any impairment, in the Group it is held using the equity method of accounting.

	Group 2020 £000s	Group 2019 £000s	**Association 2020 £000s**	Association 2019 £000s
Triathlon Homes LLP	**-**	-	**-**	-
Affinity (Reading) Holdings Limited				
Investment	**1,294**	1,294	**1,294**	1,294
Share of accumulated surplus	**616**	592	**-**	-
Net investment in joint ventures	**1,910**	1,886	**1,294**	1,294

Southern Housing Group Limited holds:

A 50% partnership capital in Affinity Housing Services (Reading), a joint venture with Yarlington Housing Group, which is accounted for as a jointly controlled operation. The joint venture has a 33% holding in Affinity (Reading) Holdings Limited, which holds 100% of the share capital of Affinity (Reading) Limited, the operator of a PFI contract to supply refurbishment, management and maintenance services to part of Reading Borough Council's housing portfolio.

15. Investment in joint ventures (continued)

A 33.33% direct holding in Affinity (Reading) Holdings Limited, which together with the indirect holding described above, gives a total interest of 50%. The indirect interest is accounted for through the accounting of Affinity Housing Services (Reading). The direct interest is accounted for as a jointly controlled entity. In the Association it is held at cost less impairment and in the Group it is held using the equity method of accounting.

Southern Space Limited holds a one-third interest in Triathlon Homes LLP, a joint venture with First Base 4 Stratford LLP and East Place Limited. The principal activity of Triathlon Homes LLP is the management of the social housing within East Village, Stratford. Following the final handover of all units by the developer to Triathlon Homes LLP, all units are used for social housing in a variety of tenures.

Triathlon Homes LLP is accounted for as a jointly controlled entity and has net negative reserves due to a negative cash flow hedge reserve. The Group has no contractual liability for the resultant losses. Accordingly, the Group's share of the net assets in Triathlon Homes LLP is written down to nil and no amounts are included in the Group Financial Statements under equity accounting. Income of £328,000 (2019: £396,000) was received from the investment in Triathlon Homes LLP.

16. Stock

Completed property stock and properties under construction for outright sale are valued at the lower of cost and net realisable value. Cost comprises land, materials, direct labour, direct development overheads and interest capitalised during the development period from commencement on site. Net realisable value is based on estimated sales price after allowing for all further costs of completion and disposal.

Stock in the course of construction is assessed against the net realisable value of the asset for impairment.

Shared ownership properties held for sale and under construction are split proportionally between stock and fixed assets, based on the expected first tranche proportion. First tranche proportions are accounted for as stock and the related sales proceeds are shown in turnover. The remaining elements of the shared ownership properties are accounted for as fixed assets. Subsequent sales are treated as part disposals of fixed assets.

	Group 2020 £000s	Group 2019 £000s	**Association 2020 £000s**	Association 2019 £000s
Under construction - first tranche shared ownership	**37,449**	22,407	**3,858**	8,033
Under construction - open market sales	**50,172**	49,241	**5,648**	909
Completed properties - first tranche shared ownership	**16,350**	5,243	**8,080**	476
Completed properties - open market sales	**5,738**	10,468	**-**	-
	109,709	87,359	**17,586**	9,418

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17. Trade and other debtors

Trade and other debtors are measured at transaction price less any impairment.

	Group 2020 £000s	Group 2019 £000s	**Association 2020 £000s**	Association 2019 £000s
Rent and service charges in arrears	**9,177**	10,490	**9,142**	10,465
Less: provision for bad and doubtful debts	**(3,780)**	(3,813)	**(3,776)**	(3,813)
	5,397	6,677	**5,366**	6,652
Amounts due from group undertakings	**-**	-	**198,819**	76,041
Other debtors	**17,799**	4,721	**6,247**	4,492
Prepayments and accrued income	**2,680**	3,586	**2,680**	3,567
	25,876	14,984	**213,112**	90,752

The £198,819,000 (2019: £76,041,000) due to the Association from group undertakings relates to revolving loans to fund working capital with final repayment due after more than one year and the balances are expected to fluctuate in the short term. The loans are secured via a charge on the entity's assets at interest rates between 2% and 4% over 3 month LIBOR (London Inter-bank Offered Rate). Other debtors for the Group includes VAT recoverable of £11,207,000 (2019: £112,000).

18. Creditors: amounts falling due within one year

Trade and other creditors are recognised at cost. Housing loans are carried at amortised cost.

	Group 2020 £000s	Group 2019 £000s	**Association 2020 £000s**	Association 2019 £000s
Social housing grant received in advance	**201**	201	**201**	201
Recycled capital grant fund (RCGF)	**7,626**	502	**7,626**	502
Disposal proceeds fund (DPF)	**15**	6	**15**	6
Amounts due to group undertakings	**-**	-	**943**	2,088
Accruals and deferred income	**28,984**	21,525	**22,108**	16,718
Corporation tax	**1,263**	926	**-**	-
Other taxation and social security	**177**	1,436	**177**	958
Other creditors	**23,228**	23,381	**22,223**	22,751
Grant repayable	**2,873**	2,873	**2,873**	2,873
Housing loans	**47,494**	11,330	**47,494**	11,330
	111,861	62,180	**103,660**	57,427

Amounts collected from shared ownership leaseholders in respect of service charges, not yet expended, of £10,231,000 (2019: £9,942,000) and trade creditors of £5,406,000 (2019: £6,848,000) are reflected above in other creditors.

19. Creditors: amounts falling due after more than one year

	Group 2020 £000s	Group 2019 £000s	Association 2020 £000s	Association 2019 £000s
19a Housing loans and listed bonds	**930,938**	817,274	**930,938**	817,274
19b Deferred income	**763,589**	735,495	**751,060**	729,581
19c Recycled capital grant fund (RCGF)	**6,441**	11,635	**6,408**	11,602
19d Disposal proceeds fund (DPF)	**-**	9	**-**	9
	1,700,968	1,564,413	**1,688,406**	1,558,466

19a Housing loans and listed bonds	Group 2020 £000s	Group 2019 £000s	Association 2020 £000s	Association 2019 £000s
Housing loans falling due after one year	**515,690**	508,177	**515,690**	508,177
Bonds	**425,000**	325,000	**425,000**	325,000
Loan set-up cost	**(7,016)**	(7,144)	**(7,016)**	(7,144)
Other loan costs	**(2,736)**	(8,759)	**(2,736)**	(8,759)
Loans at amortised cost	**930,938**	817,274	**930,938**	817,274

Housing loans are secured by specific charges on 17,266 (2019: 16,748) of the Group's housing units and are repayable in instalments due as follows:

	Group 2020 £000s	Group 2019 £000s	Association 2020 £000s	Association 2019 £000s
Housing loans falling due within one year	**37,237**	2,720	**37,237**	2,720
Interest accrued	**10,257**	8,610	**10,257**	8,610
Total housing loans falling due within one year	**47,494**	11,330	**47,494**	11,330
Between one and two years	**37,106**	53,230	**37,106**	53,230
Between two and five years	**134,573**	93,122	**134,573**	93,122
In five years or more	**769,011**	686,825	**769,011**	686,825
Total housing loans and bonds falling due after more than one year	**940,690**	833,177	**940,690**	833,177
Total housing loans and bonds excluding loan set up costs and other costs	**988,184**	844,507	**988,184**	844,507

Housing loans bear hedged fixed rates of interest ranging from 1.6% to 11.45% or variable rates based on a margin above LIBOR. The final instalments fall due for repayment during the period 2020 to 2047.

19. Creditors: amounts falling due after more than one year (continued)

The Group has three publicly listed bonds the terms of which are:

- 3.5% £300m 2047
- 4.5% £75m 2039
- 5.354% £50m 2044

Housing loans are subject to compliance with a number of financial covenants such as interest cover and gearing.

The increase in bonds relates to the issuance of £100m of bonds retained after the bond issue in the year ended 31 March 2019. The increase in housing loans relates to a partial drawdown of the Group's fully secured existing revolving credit facilities during the financial year.

19b Deferred income	Group 2020 £000s	Group 2019 £000s	Association 2020 £000s	Association 2019 £000s
Social and other housing grant b/fwd	**734,733**	736,768	**728,819**	701,255
Social housing grant received in the year	**46,300**	3,545	**41,155**	3,545
Grant repaid	**101**	(25)	**101**	(25)
Transfer of engagement	**-**	-	**-**	32,556
Grant on disposals	**(9,159)**	-	**(9,159)**	-
Transfer (from)/to RCGF	**(1,682)**	3,425	**(3,154)**	133
Grant amortisation released on disposals	**2,430**	640	**2,430**	470
Amortisation of social housing grant in year	**(9,846)**	(9,620)	**(9,844)**	(9,115)
Deferred income - social housing grant c/fwd	**762,877**	734,733	**750,348**	728,819
Premium on debentures	**143**	193	**143**	193
Other deferred income	**569**	569	**569**	569
	763,589	735,495	**751,060**	729,581

19c Recycled capital grant fund Balance relating to Homes England	Group 2020 £000s	Group 2019 £000s	Association 2020 £000s	Association 2019 £000s
Balance at 1 April	**8,363**	7,586	**8,363**	5,098
Grant released on sales	**1,440**	1,062	**1,440**	881
Transfer of engagement	**-**	-	**-**	2,678
Interest added to fund	**64**	55	**64**	46
Grant recycled into new schemes	**-**	(340)	**-**	(340)
Balance at 31 March	**9,867**	8,363	**9,867**	8,363
Comprising amounts:				
Due within one year	**7,247**	-	**7,247**	-
Due in more than one year	**2,620**	8,363	**2,620**	8,363

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19. Creditors: amounts falling due after more than one year (continued)

Balance relating to the GLA	**Group 2020 £000s**	Group 2019 £000s	**Association 2020 £000s**	Association 2019 £000s
Balance at 1 April	**3,774**	7,763	**3,741**	3,523
Grant released on sales	**1,926**	1,780	**1,926**	1,333
Transfer of engagement	**-**	-	**-**	4,666
Interest added to fund	**22**	56	**22**	44
Intra-group transfer	**-**	-	**(1,472)**	(3,907)
Grant recycled into new schemes	**(1,522)**	(5,825)	**(50)**	(1,918)
Balance at 31 March	**4,200**	3,774	**4,167**	3,741
Comprising amounts:				
Due within one year	**379**	502	**379**	502
Due in more than one year	**3,821**	3,272	**3,788**	3,239
Total due within one year	**7,626**	502	**7,626**	502
Total due in more than one year	**6,441**	11,635	**6,408**	11,602

19d Disposal proceeds fund **Balance relating to Homes England**	**Group 2020 £000s**	Group 2019 £000s	**Association 2020 £000s**	Association 2019 £000s
Balance at 1 April	**15**	14	**15**	14
Interest added to fund	**-**	1	**-**	1
Balance at 31 March	**15**	15	**15**	15
Comprising amounts:				
Due within one year	**15**	6	**15**	6
Due in more than one year	**-**	9	**-**	9

Balance relating to the GLA	**Group 2020 £000s**	Group 2019 £000s	**Association 2020 £000s**	Association 2019 £000s
Balance at 1 April	**-**	12	**-**	12
Intra-group transfer	**12**	-	**-**	(12)
Recycled into new schemes	**(12)**	(12)	**-**	-
Balance at 31 March	**-**	-	**-**	-

20. Social housing grant

The Group receives financial assistance from Homes England and the GLA. These government grants are accounted for as deferred income in the statement of financial position and are amortised annually to the statement of comprehensive income based on the life of the building structure, which is 100 years.

The amount amortised represents a contingent liability to the entity and will be recognised as a liability when the properties funded by the relevant government grant are disposed of or when the property ceases to be used for social housing purposes as disclosed in Note 30.

The analysis of the assistance from government sources in the form of government grants is:

	Note	**Group 2020 £000s**	Group 2019 £000s	**Association 2020 £000s**	Association 2019 £000s
Government funding received	19b	**762,877**	734,733	**750,348**	728,819
Grants amortised in the year (contingent liabilities)		**9,846**	9,620	**9,844**	9,115

21. Provisions for liabilities

	Group 2020 £000s	Group 2019 £000s	**Association 2020 £000s**	Association 2019 £000s
Balance at 1 April	**-**	1,403	**-**	1,200
Provision recognised/(released)	**3,500**	(1,200)	**2,500**	(1,200)
Defects provision released	**-**	(203)	**-**	-
Balance as at 31 March	**3,500**	-	**2,500**	-

The provision of £2,500,000 for the Association relates to the anticipated cost of capital building safety works where an obligation has been created. The remaining £1,000,000 provision represents the remaining costs of completing the build of a commercial unit at a development scheme where the Group is committed to constructing the asset as part of the terms of purchasing the land. It is expected these costs will be incurred within the next financial year.

22. Called up share capital

Shares of £1 each issued and fully paid:	**2020 £s**	2019 £s
Balance at 1 April	**6**	6
Shares issued during year	**2**	2
Shares surrendered during year	**(1)**	(2)
As at 31 March	**7**	6

The share capital of the Association consists of shares of £1 each which carry no rights to dividends or other income. Shares in issue are not capable of being repaid or transferred. When a shareholder ceases to be a member, that person's share capital is cancelled.

23. Capital commitments

	Group 2020 £000s	Group 2019 £000s	Association 2020 £000s	Association 2019 £000s
Capital expenditure contracted but not provided for in the financial statements	**153,114**	46,387	**20,313**	24,111
Capital expenditure authorised but not contracted	**185,092**	123,093	**61,779**	2,051

Committed development expenditure for the Group and Association will be financed through £31,535,000 (2019: £23,209,000) grant with the balance funded through cash balances, cash generated, property sales and borrowings on undrawn funding facilities. It is not possible to identify the exact split of the funding.

24. Operating leases

Leased assets

Payments under cancellable operating leases are charged to the statement of comprehensive income on a straight line basis over the life of the lease.

Future minimum lease payments	Total 2020 £000s	Total 2019 £000s
Within one year	**5**	65
Between one and five years	**288**	252
Over five years	**63**	-
	356	317

Operating leases with tenants

The Group's rental properties other than those held for investment purposes are tenanted under cancellable operating leases with typical tenant break clauses of four weeks. Rents vary in line with the Rent Standard as set by the Government and affected by the Welfare Reform and Work Act 2016. The Group share of equity in a shared ownership property may be purchased by its leaseholder at any time at the pro-rata market rate, at which point ongoing lease payments will be adjusted according to the share of ownership retained by the Group.

Income on all operating leases is recorded in the statement of comprehensive income as the rent falls due. The Group's residential market rented properties are let under operating leases which are cancellable ranging from four weeks to three month notice periods. The Group's commercial properties are let under non-cancellable operating leases.

The Group's future minimum operating lease receipts on commercial properties were:

Minimum amounts due within:	2020 £000s	2019 £000s
less than one year	**2,340**	2,320
later than one year and not later than five years	**6,660**	7,168
later than five years	**3,676**	4,342
	12,676	13,830

25. Post employment benefits

Post employment benefits

The Group operates three defined benefit schemes all of which are closed to new members. There is one defined contribution scheme.

a) Defined benefit schemes

Southern Housing Group Limited contributes to the Southern Housing Group scheme which has been closed to new members since 31 March 2003.

Southern Housing Group Limited also contributed during the year to:

- The Isle of Wight Council Pension fund for employees who transferred from the Isle of Wight Council.
- The Islington local government pension scheme of which there is only 1 member, the share of scheme assets and liabilities of which are not material to the Southern Housing Group Limited financial statements.

b) Defined contribution scheme

A defined contribution scheme administered by Scottish Widows Limited based on an incentive matched scale, where the employer contribution increases the more the employee contributes.

Regular valuations of the defined benefit schemes are prepared by independent, professionally qualified actuaries. These determine the level of contributions required to fund the benefits set out in the rules of the pension fund. The current service cost of providing retirement benefits to employees during the year, together with the cost of any benefits relating to past service, admin costs and net interest are charged against the operating surplus in the year. Remeasurement of the net liability (or asset) is recognised as actuarial gains/(losses) in other comprehensive income.

Employer contributions paid to all defined contribution schemes are charged to the statement of comprehensive income.

The Group has six commercial units and 57 private rent units charged against the Southern Housing Group pension plan at a carrying value of £27.3m.

The amounts recognised in the statement of financial position for the Group's defined benefit schemes are as follows:

	Group 2020 £000s	Group 2019 £000s	**Association 2020 £000s**	Association 2019 £000s
Southern Housing Group Pension scheme	**(6,841)**	(7,213)	**(6,841)**	(7,213)
Isle of Wight Pension scheme	**(1,733)**	(2,137)	**(1,733)**	(2,137)
Total net deficit	**(8,574)**	(9,350)	**(8,574)**	(9,350)

Southern Housing Group Pension Scheme

Southern Housing Group Limited is the sponsoring employer of a funded defined benefit pension scheme (the Plan) in the UK, which provides retirement benefits based on members' salary when leaving employment. The assets of the Plan are held in a separately administered fund which is administered by a trustee body (independent of Southern Housing Group Limited) who are responsible for ensuring that the Plan is sufficiently funded to meet current and future obligations.

25. Post employment benefits (continued)

The present value of the defined benefit obligation and the related current service cost were measured using the projected unit credit method. The last full actuarial valuation was carried out at 31 March 2018. Southern Housing Group Limited has agreed a funding plan with the trustee of the Plan, whereby ordinary contributions are made into the Plan based on a percentage of active employees' salary. Additional contributions are agreed with the trustee of the Plan to reduce the funding deficit where necessary. The disclosures set out below are based on calculations carried out as at 31 March 2020 by an independent qualified actuary.

SHG Scheme 1964

During the year the Group paid contributions at a rate of 24% until 30 June 2019, then 30.1% from 1 July 2019. In addition a further payment of £165,615 (2019: £662,460) was made towards an identified deficit.

The employer contribution rate to be applied from 1 April 2020 is 30.1%.

The results of the calculations and the assumptions adopted are shown below.

Actuarial assumptions	2020 % pa	2019 % pa
Rate of increase in salaries	**2.10**	2.70
Discount rate	**2.30**	2.40
Inflation assumption - RPI	**2.60**	3.30
Inflation assumption - CPI	**1.60**	2.20

Mortality assumptions	Male	Female
Current pensioner aged 65	21.60	23.50
Future retiree upon reaching 65	22.90	25.10

The major categories of scheme assets as a percentage of total scheme assets are:

	2020 %	2019 %
Equities	**45.20**	46.90
Diversified growth fund & LDI	**54.50**	52.50
Cash	**0.30**	0.60
Total	**100.00**	100.00

Net defined benefit (liability)/asset	2020 £000s	2019 £000s
Fair value of scheme assets	**45,283**	47,637
Present value of defined benefit obligation	**(49,210)**	(51,327)
Defined benefit (liability)/asset recognised in statement of financial position	**(3,927)**	(3,690)

25. Post employment benefits (continued)

Southern Housing Group Pension Scheme (continued)

Total expense recognised in statement of comprehensive income	**2020 £000s**	2019 £000s
Current service cost	**448**	454
Past service cost	**-**	307
Administration expenses	**38**	188
Net interest cost	**82**	77
Total recognised in statement of comprehensive income	**568**	1,026

Reconciliation of scheme assets and liabilities	Assets £000s	Liabilities £000s	**Total £000s**
At 1 April 2019	47,637	(51,327)	**(3,690)**
Benefits paid	(1,067)	1,067	**-**
Current service cost	-	(448)	**(448)**
Interest income/(cost)	1,137	(1,219)	**(82)**
Administration expenses	(38)	-	**(38)**
Employer contributions	554	-	**554**
Employee contributions	60	(60)	**-**
Actuarial gains	-	2,777	**2,777**
Return on scheme assets excluding interest income	(3,000)	-	**(3,000)**
At 31 March 2020	**45,283**	**(49,210)**	**(3,927)**

25. Post employment benefits (continued)

SHG Scheme 2017

During the year the Group paid contributions at a rate of 11% until 30 June 2019, then 20.7% from 1 July 2019. In addition a further payment of £501,249 (2019: £633,000) was made towards an identified deficit.

The employer contribution rate to be applied from 1 April 2020 is 20.7%.

The results of the calculations and the assumptions adopted are shown below.

Actuarial assumptions	2020 % pa	2019 % pa
Rate of increase in salaries	**2.60**	3.30
Discount rate	**2.30**	2.40
Inflation assumption - RPI	**2.60**	3.30
Inflation assumption - CPI	**1.60**	2.20

Mortality assumptions	Male	Female
Current pensioner aged 65	21.60	23.50
Future retiree upon reaching 65	22.90	25.10

The major categories of scheme assets as a percentage of total scheme assets are:

	2020 %	2019 %
Equities	**40.80**	39.60
Diversified growth fund & LDI	**58.30**	58.10
Cash	**0.90**	2.30
Total	**100.00**	100.00

Net defined benefit (liability)/asset	2020 £000s	2019 £000s
Fair value of scheme assets	**23,574**	24,813
Present value of defined benefit obligation	**(26,488)**	(28,336)
Defined benefit (liability)/asset recognised in statement of financial position	**(2,914)**	(3,523)

25. Post employment benefits (continued)

Total expense recognised in statement of comprehensive income	**2020 £000s**	2019 £000s
Current service cost	**138**	125
Past service cost	**-**	119
Administration expenses	**170**	168
Net interest cost	**78**	77
Total recognised in statement of comprehensive income	**386**	489

Reconciliation of scheme assets and liabilities	Assets £000s	Liabilities £000s	**Total £000s**
At 1 April 2019	24,813	(28,336)	**(3,523)**
Benefits paid	(833)	833	**-**
Current service cost	-	(138)	**(138)**
Interest income/(cost)	592	(670)	**(78)**
Administration expenses	(170)	-	**(170)**
Employer contributions	647	-	**647**
Employee contributions	66	(66)	**-**
Actuarial gains	-	1,889	**1,889**
Return on scheme assets excluding interest income	(1,541)	-	**(1,541)**
At 31 March 2020	**23,574**	**(26,488)**	**(2,914)**

25. Post employment benefits (continued)

The Isle of Wight Council Pension Scheme

The Group participates in a pension scheme providing benefits based on final pensionable pay: The Isle of Wight Pension Scheme. The scheme is funded by the payment of contributions to a pension fund, which is administered by the Isle of Wight Council. The Group has agreed a funding plan with the trustee, whereby ordinary contributions are made into the scheme based on a percentage of active employees' salary. Additional contributions are agreed with the trustee to reduce the funding deficit where necessary.

A comprehensive actuarial valuation of the pension scheme, using the projected unit credit method, was carried out at 31 March 2019 by a qualified independent actuary.

It has been agreed that an employer contribution rate of 28.3% of pensionable pay plus an additional amount of £350,000 will apply for 2020/21 (2019/20: 28.3% plus £350,000).

The major assumptions used in this valuation were:

Actuarial assumptions	**% pa**	% pa
Pension increase rate	**2.00**	2.50
Salary increase rate	**2.80**	2.90
Discount rate	**2.30**	2.40
Inflation assumption - RPI	**2.90**	3.50
Inflation assumption - CPI	**2.00**	2.50

Mortality assumptions	Male	Female
Current pensioner aged 65	21.70	23.80
Future retiree upon reaching 65	22.40	25.20

The major categories of scheme assets as a percentage of total scheme assets are

	2020 %	2019 %
Equities	**62.00**	67.00
Property	**6.00**	6.00
Bonds	**30.00**	26.00
Cash	**2.00**	1.00
Total	**100.00**	100.00

25. Post employment benefits (continued)

The Isle of Wight Council Pension Scheme (continued)

Net defined benefit (liability)/asset	**2020 £000s**	2019 £000s
Fair value of scheme assets	**5,545**	5,820
Present value of defined benefit obligation	**(7,278)**	(7,957)
Defined benefit (liability)/asset recognised in statement of financial position	**(1,733)**	(2,137)

Total expense recognised in statement of comprehensive income	**2020 £000s**	2019 £000s
Current service cost	**74**	71
Net interest cost	**46**	56
Total recognised in statement of comprehensive income	**120**	127

Reconciliation of scheme assets and liabilities	Assets £000s	Liabilities £000s	**Total £000s**
At 1 April 2019	5,820	(7,957)	**(2,137)**
Benefits paid	(333)	333	**-**
Current service cost	-	(74)	**(74)**
Interest income/(cost)	142	(188)	**(46)**
Employer contributions	465	-	**465**
Employee contributions	8	(8)	**-**
Actuarial gains	-	616	**616**
Return on scheme assets excluding interest income	(557)	-	**(557)**
At 31 March 2020	**5,545**	**(7,278)**	**(1,733)**

Defined Contribution Schemes

The amount recognised as an expense for the year for the defined contribution scheme was: Scottish Widows Limited £1,706,385 (2019: Zurich Assurance Limited £1,333,773).

26. Legislative provisions

Southern Housing Group Limited is incorporated under the Co-operative and Community Benefit Societies Act 2014 (Registered Number IP31055R) and registered with the Regulator of Social Housing (Registered Number L4628).

27. Group organisations

Southern Housing Group Limited is the ultimate parent undertaking and controlling party and is required by statute to prepare group financial statements for the following organisations included in these financial statements. All the undertakings are incorporated in England and Wales:

Name	Legal status	Regulator	Nature of business	Interest held by Parent (SHGL)
Southern Housing Group Limited	Co-operative and Community Benefit Societies Act 2014 Number IP31055R	Registered provider number: L4628	Provision of housing and accommodation to the disadvantaged	
Southern Home Ownership Limited	Co-operative and Community Benefit Societies Act 2014 Number IP18521R	Registered provider number: LH1662	Development and management of properties	100% shares
Southern Space Limited	Companies Act 2006 Number 05437850		Vehicle for the one third share in Triathlon Homes LLP	100% shares
Southern Development Services Limited	Companies Act 2006 Number 05400187		Provision of development services to other group companies	100% shares
Spruce Homes Limited	Companies Act 2006 Number 10181074		Provision of housing for private rent	100% shares
Southern Housing Construction Limited	Companies Act 2006 Number 10181046		Provision of property construction services	100% shares
Samuel Lewis Foundation	Charitable endowment. Charity number 206611	Charity Commission	Provision of housing and accommodation to the disadvantaged (see Note 29)	Corporate trustee
Affinity Housing Services (Reading)	Jointly controlled operation		Joint venture with Yarlington Housing Group	50% partnership capital
Affinity (Reading) Holdings Limited	Companies Act 2006 Number 04851135		Joint venture with Radian Housing	33.3% share and 16.67% via Affinity Housing Services (Reading)
Triathlon Homes LLP	The Limited Liability Partnership Act 2000		Joint venture entity with First Base 4 Stratford LLP and East Place Limited	33% partnership interest via Southern Space Limited

28. Related parties

Intra-group transactions for Southern Housing Group Limited with non-regulated group members are as follows:

Payments received by Southern Housing Group Limited	2020 £000s	2019 £000s
Administration support and development costs from Southern Space Limited, Southern Development Services Limited, Spruce Homes Limited and Southern Housing Construction Limited	**1,971**	2,205
Loan interest from Southern Space Limited, Spruce Homes Limited and Southern Housing Construction Limited	**90**	1,385
Director's service and profit distribution from Affinity Housing Services (Reading)	**161**	155
Provision of financial services for Triathlon Homes LLP	**588**	140
Gift aid from Southern Space Limited and Southern Development Services Limited	**1,472**	1,446
Total	**4,282**	5,331

Payments made by Southern Housing Group Limited	2020 £000s	2019 £000s
Development costs paid to Southern Development Services Limited	**6,260**	15,135
Management costs paid to Spruce Homes Limited	**94**	69
Property equity purchase paid to Southern Space Limited	**453**	-
Total	**6,807**	15,204

Assets	2020 £000s	2019 £000s
Intercompany debtor due from Southern Space Limited, Spruce Homes Limited and Southern Housing Construction Limited to Southern Housing Group Limited	**1,874**	2,826
Redeemable loan notes due from Affinity Reading (Holdings) Limited	**1,968**	1,790

Liabilities	2020 £000s	2019 £000s
Intercompany creditor due from Southern Housing Group Limited to Southern Space Limited, Southern Development Services Limited and Southern Housing Construction Limited	**943**	2,088

Intra-group transactions for Southern Home Ownership with non-regulated group members are as follows:

	2020 £000s	2019 £000s
Purchase of developments from Southern Space Limited	**1,566**	42,893
Management income from Spruce Homes Limited	**450**	9
Development costs paid to Southern Development Services Limited and Southern Housing Construction Limited	**3,296**	5,111
Intercompany debtor due from Spruce Homes Limited	**40**	9
Intercompany creditor due to Southern Space Limited, Southern Development Services Limited and Southern Housing Construction Limited	**561**	1,247

28. Related parties (continued)

Payments totalling £1,352 were made to Southern Housing Group Limited by Simone Buckley, a Board member who was a leaseholder during the year. The terms of the lease are on the same basis as for other tenants and on an arm's length basis.

As Southern Housing Construction Limited has net current liabilities, the Association has provided a letter confirming its intention to provide financial support if required for this entity for a period of at least 18 months from 1 April 2020.

29. Samuel Lewis Foundation

The Samuel Lewis Foundation is a separate charity with Southern Housing Group Limited as its trustee. Permanent endowment funds comprise the following resources which have been made available and which the trustees are legally required to retain, or invest for specific charitable purposes. As these are permanent funds, the trustees have no power to convert them into income and apply them as such. The fund balances include funds transferred from The Women's Housing Trust. These balances are included in the parent association, Southern Housing Group Limited. This disclosure is given for reporting purposes to the Charity Commission.

Expenditure on letting activities comprise certain specific identifiable costs and overheads which have been apportioned on a consistent basis to the endowed properties.

Dalmeny Avenue was regenerated in 2018, with all sales proceeds ringfenced for the specific charitable purposes of the Samuel Lewis Foundation.

	Date of acquisition	Original cost £000s	Number of units
Liverpool Road	1910	324	247
Jubilee Cottages	1935	707	28
Palliser Road	1927	973	57
Beech House	1936	701	16

Fund balances are represented by:

	2020 £000's	2019 £000's
Property, plant and equipment	**14,363**	14,327
Cash	**15,285**	15,285
Investment properties	**6,900**	7,200
Total assets less current liabilities	**36,548**	36,812
Creditors: amounts falling due after more than one year		
Social housing and other grants	**(7,701)**	(7,443)
Total net assets	**28,847**	29,369

29. Samuel Lewis Foundation (continued)

Net income from permanent endowed assets	2020 £000's	2019 £000's
Income from lettings	**1,851**	1,918
Less expenditure on letting activities	**(651)**	(809)
Surplus on letting activities	**1,200**	1,109
Income from investments	**-**	11
Loss on revaluation	**(300)**	(265)
	900	855

30. Contingent liabilities

The parent and Group have grant attributable to properties acquired from other housing associations that were purchased at fair value, measured at Existing Use Value – Social Housing (EUV-SH) or through a competitive bidding process. These properties included original government grant funding of £46,204,000 (2019: £32,397,000) which the parent and Group have an obligation to recycle in accordance with the original grant funding terms and conditions. In accordance with the SORP, these amounts are disclosed as a contingent liability. The parent and Group are responsible for the recycling of the grant in the event of the housing properties being disposed.

At 31 March 2020 the value of cumulative amortised grant which would require to be recognised as a liability if the properties funded were disposed of or ceased to be used for social housing purposes was £143,123,000 (2019: £135,706,000).

31. Post balance sheet events

Crown Simmons

On 1 April 2020 Crown Simmons Housing (the trading name of Rosemary Simmons Memorial Housing Association Limited) with its two subsidiaries, Hewitt Homes and Fellowship Housing Trust, joined the Southern Housing Group as a separate subsidiary. A total of 625 units at a historical cost of £56,968,000 were acquired.

The contracted capital commitments of Crown Simmons at this time were £2,636,000. Loans of £10,716,522 were acquired with the borrowings being repaid in April 2020. This was funded by Southern Housing Group providing an intercompany loan.

The fair value exercise to apply acquisition accounting has not yet taken place.

Project Coordinate

A binding sale agreement existed as at 31 March 2020 for the sale of 257 units to another registered provider. The units were held at a carrying value of £14,800,000 with grant attached of £6,300,000. The sale completed on 4 May 2020 and generated a surplus on disposal that will be recognised in the 2020/21 financial statements.

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