FINANCIAL STATEMENTS

CONTENTS

STATEMENT OF BOARD'S RESPONSIBILITIES

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

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

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the group and the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless it either intends to liquidate the group or the association or to cease operations, or has no realistic alternative but to do so.

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

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

DISCLOSURE OF INFORMATION TO THE AUDITOR

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

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

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

INTERNAL CONTROL ASSURANCE STATEMENT

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

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

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

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

IDENTIFICATION AND EVALUATION OF KEY RISKS

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

MONITORING AND CORRECTIVE ACTION

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

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

CONTROL ENVIRONMENT AND CONTROL PROCEDURES

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

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

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

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

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

INFORMATION AND FINANCIAL REPORTING SYSTEMS

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

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

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

BY ORDER OF THE BOARD
Claire McKenna
Company Secretary

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SOVEREIGN HOUSING ASSOCIATION LIMITED

OPINION

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

In our opinion the financial statements:

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

BASIS FOR OPINION

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

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

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

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

GOING CONCERN

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

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

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

OTHER INFORMATION

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

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

We have nothing to report in these respects.

BOARD'S RESPONSIBILITIES

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

AUDITOR'S RESPONSIBILITIES

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

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

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

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

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

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

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

All the amounts above relate to continuing activities.

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

Gordon Holdcroft Chair	Mark Washer Chief Executive	Claire McKenna Company Secretary

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

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

All the amounts above relate to continuing activities.

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

Gordon Holdcroft
Chair

Mark Washer
Chief Executive

Claire McKenna
Company Secretary

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019

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

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

Gordon Holdcroft
Chair

Mark Washer
Chief Executive

Claire McKenna
Company Secretary

ASSOCIATION STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019

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

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

Gordon Holdcroft
Chair

Mark Washer
Chief Executive

Claire McKenna
Company Secretary

CONSOLIDATED STATEMENT OF CHANGES IN RESERVES AS AT 31 MARCH 2019

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

ASSOCIATION STATEMENT OF CHANGES IN RESERVES AS AT 31 MARCH 2019

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

CONSOLIDATED STATEMENT OF CASH FLOWS AS AT 31 MARCH 2019

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2019

1. LEGAL STATUS

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

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

2. PRINCIPAL ACCOUNTING POLICIES

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

(a) Basis of Accounting

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

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

(b) Exemptions for Qualifying Entities under FRS 102

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

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

(c) Going Concern

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

(d) Consolidation

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

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

Uniform accounting policies have been used throughout the Group.

(e) Turnover

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

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

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

(f) Cyclical Repairs and Maintenance

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

(g) Major Repairs

The capitalisation of major repairs will follow the methodology of Component Accounting as laid out in the SORP 2015. Under this methodology it is recognised that a housing property will always comprise of several components with substantially different economic lives. Each major component will be accounted for separately and depreciated over its individual economic life.

(h) Provision for Major Repairs

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

(i) Pension Costs

The Association participates in six multi-employer defined benefit pension schemes, all of which are now closed to new members. The Association also participates in defined contribution money purchase pension schemes, the details of which are given in note 31.

Pension Trust Social Housing Pensions Scheme ('SHPS')

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

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

Other Defined Benefit Pension Schemes

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

The following are charged to operating profit:

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

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

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

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

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

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

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

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

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

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

(m) Sale of Housing Properties
Sales of housing properties are recognised on the completion date. Where houses are sold, the surplus or deficit in the Statement of Total Comprehensive Income is calculated by comparing sale proceeds and the carrying amount.

Sales of properties originally transferred from local authorities and sold under the right to buy legislation, and sales of shared ownership properties other than the initial tranche, are classified in the Statement of Total Comprehensive Income as sales of fixed assets – housing properties.

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

(n) First Tranche Shared Ownership Sales
Shared ownership sales are treated under the SORP 2015 as follows:

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

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

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

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

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

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

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

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

Housing properties developed on behalf of other housing associations are stated at cost less Social Housing Grant if applicable and are treated as current assets rather than fixed assets in line with the SORP 2015.

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

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

Purchases from other housing associations are included at fair value, measured as the purchase price. Social housing grant relating to the purchase of such properties is disclosed as a contingent liability within social housing properties (note 14).

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

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

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

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

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

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

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

(r) Investment Properties

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

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

(s) HomeBuy Loans and Grants

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

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

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

(t) Stock

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

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

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

(u) Social Housing Grant

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

(v) Recycled Capital Grant Fund and Disposal Proceeds Fund

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

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

(w) Provisions

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

Holiday pay accrual

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

(x) Contingencies

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

(y) Housing Loans

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

(z) Revaluation Reserve

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

(aa) Basic Financial Instruments

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

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

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

(bb) Other Financial Instruments

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

Derivative financial instruments and hedging

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

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income. Any ineffective portion of the hedge is recognised immediately in the surplus or deficit in the year. For cash flow hedges, where the forecast transactions resulted in the recognition of a non-financial asset or non-financial liability, the hedging gain or loss recognised in other comprehensive income is included in the initial cost or other carrying amount of the asset or liability. Alternatively when the hedged item is recognised in profit or loss the hedging gain or loss is reclassified to the surplus or deficit in the year.

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

(cc) Taxation

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

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

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

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

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

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

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

4. INCOME AND EXPENDITURE FROM SOCIAL HOUSING LETTINGS

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

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

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

5. NUMBER OF UNITS IN MANAGEMENT

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

6. SURPLUS ON ORDINARY ACTIVITIES BEFORE TAXATION

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

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

7. SURPLUS ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

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

8. INTEREST RECEIVABLE AND SIMILAR INCOME

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

9. INTEREST PAYABLE AND FINANCING COSTS

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

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

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

10. MOVEMENT IN FAIR VALUE OF INVESTMENT PROPERTIES

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

11. TAXATION

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

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

Factors affecting the tax charge for the current period

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

11. TAXATION (CONTINUED)

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

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

12. BOARD MEMBERS AND EXECUTIVE OFFICERS

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

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

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

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

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

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

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

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

12. BOARD MEMBERS AND EXECUTIVE OFFICERS (CONTINUED)

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

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

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

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

12. BOARD MEMBERS AND EXECUTIVE OFFICERS (CONTINUED)

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

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

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

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

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

Ann Santry, Heather Bowman, Mark Washer and Phil Stephens are deferred members of the Social Housing Pension Scheme (SHPS) which is one of the defined benefit schemes that the Association participates in (see note 31). Of the current Executive Board, Steve Barford and Heather Bowman are ordinary members of the SHPS defined contributions scheme. Funding is by employer and employee contributions and no enhanced or special terms apply to the Chief Executive and any other Director. The Chief Executive does not have any other individual pension arrangement (including a personal pension) to which the Association or any of its subsidiaries make a contribution.

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

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

13. EMPLOYEE INFORMATION

Highest paid employees

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

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

13. EMPLOYEE INFORMATION (CONTINUED)

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

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

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

14. SOCIAL HOUSING PROPERTIES

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

14. SOCIAL HOUSING PROPERTIES (CONTINUED)

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

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

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

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

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

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

14. SOCIAL HOUSING PROPERTIES (CONTINUED)

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

14. SOCIAL HOUSING PROPERTIES (CONTINUED)

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

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

15. OTHER FIXED ASSETS

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

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

15. OTHER FIXED ASSETS (CONTINUED)

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

15. OTHER FIXED ASSETS (CONTINUED)

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

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

15. OTHER FIXED ASSETS (CONTINUED)

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

16. NON-HOUSING FIXED ASSETS - VALUATION METHODOLOGY

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

17. INVESTMENT PROPERTIES

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

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

18. INVESTMENTS IN JOINT VENTURES

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

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

19. INVESTMENTS - HOMEBUY LOANS

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

Loans are made to individuals to purchase a property. There is no interest charge on the loan but it is repayable on sale of the property with an appreciation of property value being included in the repayment. There are 386 loans outstanding (2018: 397).

20. FINANCIAL ASSETS

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

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

21. STOCK

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

22. DEBTORS

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

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

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

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

23. FINANCIAL ASSETS (SHORT TERM)

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

Short term investments comprise sterling notice deposits.

24. CASH AND CASH EQUIVALENTS

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

25. CREDITORS – AMOUNTS FALLING DUE WITHIN 1 YEAR

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

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

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

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

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

27. HOUSING LOANS

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

All loans are held at amortised cost.

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

28. PROVISIONS

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

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

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

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

29. GRANT

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

30. RECYCLED CAPITAL GRANT FUND AND DISPOSAL PROCEEDS FUND

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

31. PENSION ARRANGEMENTS

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

(a) Social Housing Pension Scheme (SHPS)

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

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

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

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

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

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

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

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

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

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

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

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

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

31. PENSION ARRANGEMENTS (CONTINUED)

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

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

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

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

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

SHPS Defined Benefit

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

31. PENSION ARRANGEMENTS (CONTINUED)

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

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

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

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

SHPS Defined Contributions

The Association paid employer's contributions up to 12% for the SHPS defined contribution scheme. The rate is variable dependent on the contributions rate selected by the employee. Total contributions amounted to £3,108k (2018: £2,735k).

31. PENSION ARRANGEMENTS (CONTINUED)

(b) Royal Berkshire Pension Fund (Berkshire)

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

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

Future pension increases have been assumed to be at CPI.

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

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

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

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

Future pension increases have been assumed to be at CPI.

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

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

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

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

Future pension increases have been assumed to be at CPI.

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

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

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

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

Future pension increases have been assumed to be at CPI.

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

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

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

Future pension increases have been assumed to be at CPI.

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

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

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

Future pension increases have been assumed to be at CPI.

31. PENSION ARRANGEMENTS (CONTINUED)

(h) Assumptions

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

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

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

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

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

31. PENSION ARRANGEMENTS (CONTINUED)

(i) Historic Data

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

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

31. PENSION ARRANGEMENTS (CONTINUED)

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

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

31. PENSION ARRANGEMENTS (CONTINUED)

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

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

31. PENSION ARRANGEMENTS (CONTINUED)

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

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

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

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

31. PENSION ARRANGEMENTS (CONTINUED)

(k) Asset and Liability Obligation Reconciliations - LGPS

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

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

31. PENSION ARRANGEMENTS (CONTINUED)

(l) Guaranteed Minimum Pensions

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

Local government pension schemes

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

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

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

32. FINANCIAL INSTRUMENTS

(a) Carrying Amount of Financial Instruments

The carrying amount of the financial assets and liabilities includes:

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

(b) Financial Instruments Measured at Fair Value

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

(c) Hedge Accounting

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

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

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

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

32. FINANCIAL INSTRUMENTS (CONTINUED)

(d) Fair Values

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

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

33. CALLED UP SHARE CAPITAL

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

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

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

34. RESERVES

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

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

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

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

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

35. CAPITAL COMMITMENTS

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

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

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

36. OPERATING LEASES

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

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

37. GROUP COMPANY INFORMATION AND RELATED PARTY

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

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

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

37. GROUP COMPANY INFORMATION AND RELATED PARTIES (CONTINUED)

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

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

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

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

Related Parties

(a) Inter-company

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

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

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

(b) Pension schemes

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

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

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

38. ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

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

Investment properties
Investment properties were valued on the basis of open market value as at 31 March 2019 and commercial properties were similarly valued as at 31 March 2016. The assessment of rental values is formed purely for the purposes of assisting in the formation of an opinion of capital value and is generally on the basis of Market Rent.

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

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

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

38. ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

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

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

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

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

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

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

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

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

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

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