Co-operative and Community Benefit Societies
Registration No 31419R

Annual Report and Financial Statements

For the year ended 31 March 2016

Contents of the Annual Report

Members of the Board of Management, Executives and Advisers

Board Members

John Holmes (Chair)
Peter Kuit (Vice Chair)
Giles Archibald (resigned 19 May 2016)
Emma Beresford
Loraine Birchall
Jonathan Brook (appointed 25 September 2015)
Sara Brown
Philip Dixon
Charles Howarth
David Khan (resigned 1 November 2015)
Brian McDonough (appointed 28 April 2016)
David Richardson
George Taylor (appointed 8 September 2016)
Peter Thornton (appointed 14 June 2016)
Alan Walker (resigned 28 April 2016)
Janet Willis (resigned 15 September 2015)

Executives

Chief Executive:	Peter Thomas BA (Hons) (retired 14 June 2015) Catherine Purdy OBE BA (Hons) FCIH MBA (appointed 1 July 2015)
Director of Customers and Communities:	David Stubbs FCIH
Director of Corporate Services:	Lindsay Simons FCCA
Director of Assets and Investment:	Richard Hayes
Secretary:	Lindsay Simons FCCA

Advisers

Auditors:	Beever and Struthers St Georges House 215-219 Chester Road Manchester M15 4JE
Bankers:	Santander UK plc 3 South Admin Bridle Road Bootle L30 4GB
Funders:	Santander UK plc 6th Floor, Santander House 100 Ludgate Hill London EC4M 7RE
Financial Advisers:	David Tolson Partnership Richard House 9 Winckley Square Preston PR1 3HP

Chairman's Statement

I am pleased to introduce the South Lakes Housing (SLH) annual report for 2015/16. This is my third year as Chairman of SLH and it has proved to be both challenging and momentous. Events that have shaped the year include;

- The recruitment of a highly experienced Chief Executive in Cath Purdy who was appointed in July 2015. Cath has previously held a number of executive roles in the North East including Chief Executive of Housing Hartlepool, Group Chief Executive of Vela Housing Group and most recently Deputy Group Chief Executive of Thirteen Group in the Tees Valley.

- In July the Chancellor announced a 1% decrease in social housing rents for each of the next four years, commencing on 1st April 2016. The impact of this change has been considerable and a number of cost saving measures have been made in the year to 31 March 2016 which will be carried forward in future years. SLH is confident that that it can meet this challenge without compromising core services or the development programme.

- SLH has built or acquired 26 new properties in the year, matching the number of Right to Buy sales completions in the year. A number of future development schemes are planned including the redevelopment of the Waterside Estate.

- In early December Cumbria was subject to severe rainfall and flooding. SLH was severely affected by the floods having 60 properties rendered uninhabitable. This incident tested our disaster recovery plans and SLH’s ability to respond quickly and efficiently. All of the tenants affected were back in their homes by July 2016. My thanks to all the SLH staff who have done a magnificent job under very difficult circumstances.

- Retaining the maximum Regulatory judgement from the HCA on governance (G1) and financial viability (V1).

- Continued support for our tenants offering both advice and assistance with welfare reform changes. As Universal Credit continues to be “rolled out” more of our tenants are making use of the help and support we can offer.

- A comprehensive review of our sheltered housing service in order to provide a modern, efficient service that benefits from state of the art technology and maximises the tenant experience.

- Developing closer working relationships with other Cumbria based Housing Associations to share costs including proposals for sharing responsive, voids and planned maintenance services to generate efficiencies from economies of scale and savings in VAT.

- The implementation of Civica’s new housing management system ‘Cx ‘in July 2016 which will generate efficiencies through improved customer relationship management and (alongside a new website) drive increased online transactions through enhanced customer self-service facilities.

Four of our board members have left during the year, Janet Willis, David Khan, Alan Walker and Giles Archibald and I would like to use this opportunity to thank them for their past services and contributions. We welcome Brian McDonough, previously a co-optee of our Audit & Risk Committee, as a full board member and George Taylor as a new board member whom I am sure will be valuable additions to the Board. SLH has added to its successes and reputation over the last year and I look forward with confidence as the organisation continues to grow and develop. My thanks to my fellow Board and Committee Members, the staff and other partners who remain committed and passionate about providing social housing in South Lakeland.

John Holmes, Chairman
8th September 2016

Strategic Report for the year ended 31 March 2016

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

Principal activity

SLH's principal activity is the management of affordable rented accommodation. SLH is on target to bring all its homes up to the Decent Homes Standard by March 2017 in accordance with the promises made to tenants at transfer in March 2012.

Public Benefit Entity

As a public benefit entity, SLH has applied the public benefit entity "PBE" prefixed paragraphs of FRS102.

Business Strategy

SLH's mission is 'To be a well-respected housing provider, increasing the supply of new homes and contributing to economic and social well-being'.

SLH has since transfer had an ambitious and demanding strategy in place to ensure delivery of the promises made to tenants prior to transfer. This strategy focused in the short term on the delivery of core services and property improvements whilst building further capacity to develop through maximising the use of resources and building partnerships to help deliver new affordable homes. The operating environment has changed significantly since transfer and in June 2016 the Board approved a new Business Strategy which incorporates a re-developed vision and focuses on four business objectives to address the implications of national policy and funding changes.

Our vision is 'By 2020 SLH will be providing quality homes and services across a range of tenures and will have contributed significantly to providing homes that are needed in the South Lakes area and beyond. It will be efficiently run and have the people, processes and culture that ensures sustainable good customer relationships. SLH will be recognised as a valuable social business, operating for social good. It will be valued as a key partner within South Cumbria and will have effective links with Local Government, Health, and the business community. How we deliver and procure our activities will contribute to local economic sustainability'.

The four business objectives, key actions and performance indicators in our new Business Strategy are summarised as follows:

Objectives	Top 3 Actions	Top 3 KPIs
1. **Providing good and cost effective management of our properties**.	A plan for all assets Older persons offer Digitalised self-service	Cost per property Decent homes % customer digital transactions
2. **Increasing our portfolio**	Build/acquire 30 new homes pa Develop sales/shared ownership Develop our garage sites	Number new homes built/acquired Time taken to let/sell new homes RTB sales/clawback reinvested
3. **Developing commercial and partnership opportunities**	Establish a Cost Sharing Vehicle (CSV) across Cumbria Consider a Joint Venture with South Lakeland District Council (SLDC) to develop new homes Evaluation process to determine future partnership and merger opportunities	Amount saved by in-house provision Cost of borrowing through SLDC compared to own funding cost Income received from other activities
4. **Improving the running of our business**	Implement Governance Review recs by 2018/19 Revise Terms and Conditions Options appraisal of financing arrangements	Annual top rating from the Regulator for Governance Housemark VFM Scorecard Cost of borrowing/ additional capacity released

Operational and Financial review

Financial performance for the year

The Board report an operating surplus of £8,292.9k (2015: £8,287.7k). The Society's turnover was £16,670.7k (2015: £16,375.1k). The increase in turnover in 2016 is due to the increase in rents within regulatory guidelines and completion of additional new homes for rent.

SLH had tangible fixed assets at the year-end of £71.9m (2015: £65.1m). The increase from last year is due in main to the improvement works completed in the year, together with the completion of ten new build general needs properties at Kirkby Lonsdale and the purchase of 16 new properties under section 106 arrangements.

As part of the transfer in 2012, SLH entered into an agreement with Santander to provide funding of £55m repayable over 30 years to fund the purchase of properties from SLDC and the programme of improvement works. During the year £15m of this funding facility was cancelled as it could not be utilised and repaid during the required repayment period. At the year-end a total of £25m worth of loans had been drawn from Santander.

SLH and SLDC have in place a 'VAT Shelter' arrangement approved by HMRC which allows the recovery of VAT incurred on improvement works costs. Any VAT recovered under this arrangement is shared 50/50 with SLDC in accordance with the agreement entered into with SLDC on transfer.

Key achievements in year

The Board is self-aware and recognises that it achieved its status as an independent Registered Provider at the most testing time for the housing sector which was faced with a recession, reducing development funding and pressures to reduce costs following a series of rental income cuts. Despite these challenges, SLH is now maturing into an organisation which is delivering its promises made to tenants at transfer, developing high quality new homes and demonstrating Value for Money (VFM). The most notable achievements in the 2015/16 year are:

Governance and financial viability

- Awarded top V1 viability rating by regulators for a third successive year and retained top G1 rating for governance.
- Recruitment of an experienced Chief Executive Cath Purdy following Peter Thomas's retirement.
- VFM savings of £1.08M and a revised financial plan which accommodates a £115M reduction in income over the life of the plan and further increases capacity for new build.

Developing new homes with SLDC and other developers

- Completion of a 10 home development scheme at Kirkby Lonsdale.
- 16 homes developed through s106 agreements with Story Homes and Russell Armer.
- Revised plans allowing investment of efficiency savings to increase development capacity from 20 in the transfer financial plan to delivery of over 100 homes in the new Business Strategy.

Being at the heart of the South Lakeland community

- Repairs completed to 60 SLH homes following flood damage amounting to £2.3M.
- Continued support of active and healthier communities through a range of initiatives and supporting Kendal Dementia Action Alliance to help Kendal become a dementia friendly town.
- Providing a range of support services through an agreement with South Lakeland Credit Union.

Making a better impact on the South Lakeland local economy

- Use of local suppliers and SMEs where possible, and national players with a presence in Kendal, to deliver our £9m improvement, planned and responsive works programmes.
- Developed or acquired new homes from local developers Story Homes and Russell Armer.
- Created 11 apprenticeships created in 4 years in collaboration with Cumbria Housing Partners.

Improving our performance

- Completion of 92% of the 5 year offer document promises.

- Enhanced customer services with 72% of all calls resolved on first call, 99% repairs completed on ‘first time fix’ and achieved 91% customer satisfaction with overall services.
  - Reduced average void turnaround time to 13 days which is ‘best in class’ sector performance.
  - Support under our Welfare Reform Action Plan proving successful with 68% of tenants affected by ‘bedroom tax’ paying rent in full compared to a national figure of 41%.
  - 65% of our key cost and performance KPI’s are in the top quartile compared to national levels.

Future plans and challenges

The environmental context in which Housing Association’s work has changed significantly since SLH was registered as a housing provider four years ago. The effect of welfare reforms, Local Housing Allowance caps, reductions in supported housing funding and recent national policy changes including rent reductions, extension of the Right to Buy, starter homes and virtual end to public subsidy for affordable rent have changed the risk profile which in turn requires a new business strategy.

The combined effect of all of the above will make it difficult to achieve the aim to increase the stock through traditional new build routes, however SLH is committed to funding other ways to increase the supply of new homes locally. The immediate priority is to complete the main promises, particularly the improvements to homes which is on target for 2017. The Board has also increased the development programme and will be maximising financial capacity to build more, whilst understanding more fully the housing market associated demand and risk of diversifying into a range of other tenures.

SLH aims to drive further efficiencies and the advantages of bringing more work in-house and the opportunities to partner or share services, will if beneficial, be pursued. Demand for services, for different property types and location will also be reviewed to ensure assets deliver a positive ‘return on investment’ and meet changing future needs. SLH will introduce a wider range of support services to help older people to continue to live independently and the viability of sheltered schemes will be closely monitored. There is potential to market this service to private residents and utilise the capacity within the in-house repairs team to generate additional income by providing maintenance services to letting agents, private house holders and to other local Housing Associations.

The new vision for SLH is that; by 2020 the organisation will have developed homes across a range of tenures; will be efficiently run, with good relationships with customers and will be a valuable social business with effective links with local government, health and the wider business community. The Tenants’ Committee will have an even stronger voice in policy making and scrutiny over the next few years which will help ensure that we continue to deliver a good quality and ‘VFM’ landlord service for existing tenants.

Board and committee structure

Currently SLH’s Board is made up of twelve members comprising four tenant members, four Councillors and four independents. Members have strong local connections and bring a wealth of professional and commercial experience to the Board. Following a review of governance arrangements in 2015, SLH aims to move towards a skills based board to help ensure the board remains effective through a changing environment and will remain well placed to deliver its new corporate objectives. It also aims to reduce the number of committees, retaining only Audit & Risk and Remuneration Committees, plus a Development Panel to consider scheme proposals and new opportunities.

Members of the Board of Directors and the senior executives who served during the year are set out on page 2. Members automatically retire at the end of a three year term, but may be re-elected subject to a maximum term in office of nine years. Non-Council representatives of the Board each hold one fully paid share of £1 in the Society, with the Council holding one share in total. None of the senior executives hold any interest in the share capital of the organisation.

The executives are the Chief Executive, the Director of Customers & Communities, the Director of Corporate Services and the Director of Assets & Investment, details of whom are set out on page 2. None of the directors or the executives has any financial interest in the Society.

The Society has insurance policies that indemnify its Board Members and executives against liability when acting for SLH.

Statement of Board responsibilities

The Co-operative and Community Benefit Societies Act 2014 requires that the Board prepare accounts for each financial year which give a true and fair view of the state of affairs of the Society and the surplus of the Society for that period.

In preparing these accounts the Board are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- State whether applicable accounting standards have been followed.
- Prepare the accounts on the going concern basis unless it is inappropriate.

The Board are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Society and to enable them to ensure that the accounts comply with the Co-operative and Community Benefit Societies Act 2014, Housing Acts and Accounting Determinations.

In determining how amounts are presented within items in the statement of comprehensive income and statement of financial position, the Board has had regard to the substance of the reported transaction or arrangement, in accordance with general accepted accounting principles or practice. The Board is also responsible for safeguarding the assets of the Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities, by establishing and maintaining a satisfactory system of control over the Society's accounting records, cash holdings and all its receipts and remittances.

The Board is responsible for the Society's strategy and policy framework and delegates the day to day management and implementation to the Chief Executive and other senior executives. The Board is also responsible for ensuring adherence to the Homes and Communities Agency's Governance and Financial Viability Standard.

Governance and Financial Viability

The Board has adopted and is fully compliant with the National Housing Federation's 'Excellence in Governance' Code and confirms that SLH is compliant with the Homes and Communities Agency's Governance and Financial Viability Standard. Members' skills are regularly reviewed, any skills gaps or requirements to cover new areas of activity or risk are addressed upon recruitment to fill board member vacancies or with the recruitment of committee co-optees. Members also receive regular sector updates and development in specialist areas as required. Board member strategic planning days are held at least once a year and stringent monitoring arrangements are in place to ensure delivery of corporate objectives. Governance arrangements are reviewed annually to ensure these remain effective and SLH's affairs continue to be managed with an appropriate degree of independence.

SLH has in place a robust and prudent financial planning and risk control framework which provides for, as a minimum, the annual update and approval by the Board of the financial plan, regular monitoring of cashflow projections and compliance with covenants throughout the year. As part of the financial planning review cycle, the Board considers all key risks including economic and operating assumptions and the sensitivity of the plan to changes in key variables or combinations of variables. This is supported by a more detailed financial plan stress testing exercise to identify corrective actions required to mitigate against potential threats to viability or delivery of corporate objectives. The Treasury Management Strategy is reviewed and updated each year and is adjusted as necessary to mitigate against significant changes in interest rates. The Board also considers the level of headroom and impact upon financial covenants in any investment decisions to understand the potential impact of these decisions and to ensure the resilience of the plan and SLH's financial viability in the longer term.

Risk management is deeply embedded within the governance framework in order to ensure ongoing financial viability and to safeguard SLH's assets from undue risk. SLH does not currently undertake any non-regulated activity.

Control systems

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

The Board recognises that no system of internal control can provide absolute assurance against material misstatement, loss or eliminate all risk of failure to achieve business objectives. The system of internal control is designed to manage key risk and to provide reasonable assurance that planned business objectives and outcomes are achieved. It also exists to give reasonable assurance about the preparation and reliability of financial and operational information and the safeguarding of the Society's assets and interests.

In meeting its responsibilities, the Board has adopted a risk based approach to internal controls which are embedded within the normal management and governance process. This approach includes the regular evaluation of the nature and extent of risks to which the Society is exposed and is consistent with Turnbull principles as incorporated into the former Housing Corporation circular 07/07: internal controls assurance.

The process adopted by the Board 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. This is documented in SLH's Risk Management Strategy, which provides for the regular reporting of risk to the Audit and Risk Committee, with high level risks being reported quarterly to the Board as part of performance and risk reports.

The internal audit function, which is provided by an independent firm of accountants, follows a risk based audit programme, and reports directly to the Audit and Risk Committee.

Overall control procedures:

The Board retains responsibility for a defined range of issues covering strategic, operational, and financial and compliance issues. Policies and procedures cover issues such as delegated authority, accounting, treasury management, asset protection and fraud prevention and detection.

Information and financial reporting systems:

Financial reporting procedures include detailed budgets for the year ahead, detailed management accounts produced monthly and forecasts for the remainder of the year and subsequent years. These are reviewed in detail by the executive directors and were during the year considered and approved by the Finance Committee. The Board also regularly reviews key performance indicators to assess progress towards the achievement of business objectives, targets and outcomes.

Monitoring and corrective action:

A process of regular management reporting on control issues provides assurance to the Executive Management Team and Audit and Risk Committee. This includes a rigorous procedure for ensuring that corrective action is taken in relation to any significant control issues, particularly those that may have a material impact on the financial statements and delivery of services.

The internal control framework and the risk management process are subject to regular review by internal audit who report to the Audit and Risk Committee. The Audit and Risk Committee considers internal control and risk at each of its meetings during the year, and will review a number of risk maps at each meeting so that each map is reviewed in detail at least once per annum.

The Audit and Risk Committee conducts an annual review of the effectiveness of the system of internal control and has taken account of any changes needed to maintain the effectiveness of risk management and control process. The Audit and Risk Committee makes an annual report to the Board.

The Board confirms that there is an on-going process for identifying and managing significant risks faced by the Society. There has been a system in place throughout the year under review, up to the date of the annual report and accounts.

Remuneration and pensions

The Board is responsible for setting the Society's remuneration policy for its executives. The Board have approved a policy which makes a general commitment that SLH will not make non-contractual payments to any member of staff, unless considered in the best interests of the organisation when all the proposed costs of termination have been considered.

The Society participates in the Local Government Pension Scheme, a defined benefit pension scheme. The assets of the scheme are invested and managed independently of the finances of the Society. Contributions are based on pension costs of the Society's units in the fund.

As at 31 March 2016, SLH's share of the scheme deficit was £845k (2015: £1.2m), as shown on the statement of financial position and in note 17.

Going concern and liquidity

The Society has in place a thirty year funding agreement with Santander and robust financial forecasting and monitoring systems in place. The Board therefore has a reasonable expectation that the Society has adequate resources to continue in operational existence for the foreseeable future, and for this reason, it continues to adopt the going concern basis in the financial statements.

Stringent cashflow monitoring and reporting arrangements ensure SLH has sufficient liquidity at all times and that funder's covenants will continue to be met.

Statement of compliance

This Operating and Financial Review has been prepared in accordance with the principles set out in the 2014 SORP Update for Registered Providers.

The Board has reviewed the financial planning, risk and control framework in place and is satisfied as to its effectiveness in ensuring delivery against the Business Strategy, ensuring financial viability and safeguarding SLH's assets. As such the Board considers SLH to be compliant with the HCA's Governance and Viability Standard.

Disclosure of information to auditors

At the date of making this report each member of the Society's Board as set out on page 2, confirm the following:

- So far as each of them is aware, there is no relevant information needed by the Society's auditors in connection with preparing their report of which the Society's auditors are unaware, and
- Each of them has taken all the steps that (s)he ought to have taken as a director in order to make her/himself aware of any relevant information needed by the Society's auditors in connection with preparing their report and to establish that the Society's auditors are aware of that information.

Value for Money Self Assessment

The Regulatory Standard on VFM, introduced in April 2012, requires that Registered Providers shall articulate and deliver a comprehensive and strategic approach to achieving VFM in meeting their organisations' objectives. It states that boards must maintain a robust assessment of the performance of all their assets and resources, including financial, social and environmental returns. The HCA's new approach to regulation published in July 2016 emphasises the need for transparency and an increased focus on VFM, with compliance with the VFM Standard being a core part of the regulator's In Depth Assessments.

In April 2015 a new Governance and Financial Viability Standard came into force. This strengthens the expectation of providers to actively manage risk relating to social housing assets as the sector becomes more complex and diverse. The HCA expects this standard to complement the existing VFM Standard and help organisations understand their return on assets and seek to optimise them.

SLH believes there is an optimum balance to be achieved to maximise efficiency and maintain a 'good' level of service provision. SLH has always been committed to providing high quality services and the generation of savings or efficiencies where these can be achieved without compromising service standards. The significant reduction in income levels from April 2016 resulting from the 1% per annum reduction in rents for each of the next four years, coupled with the increasing pressure to deliver new homes in a period of diminishing grants, has forced SLH to reconsider its approach to VFM and SLH's focus is now on minimising costs whilst maintaining an 'acceptable' rather than 'excellent' standard of service. This has required a review of policies and service standards together with the management of customer expectations to help maintain satisfaction levels. This approach will enable SLH to keep costs to a minimum and maximise the funding available for investment in the provision of new homes.

The Board strongly believes that efficiencies and economies of scale can be brought about by collaborative working to achieve economies of scale and investment in technology to improve efficiency and costs of support services. Whilst it has not formally adopted the merger code the Board is open to considering amalgamation with another provider should this be in the best interest of our tenants.

SLH is working with other housing providers across Cumbria (Two Castles Housing Association and Eden Housing Association) to establish a Cost Sharing Vehicle (CSV) for the provision of repair and maintenance services across South Lakes initially with a view to broadening provision across Cumbria over the next few years. This will be established as a subsidiary of SLH, with SLH providing repairs and maintenance plus back office services to the CSV under a Service Level Agreement. This vehicle will generate efficiencies from economies of scale and savings in VAT currently paid to subcontractors. SLH will benefit predominantly from efficiency gains in the early years, with additional VAT savings in later years from the roll out of other planned works through this vehicle. The CSV is anticipated to generate savings for SLH of almost £800k, with savings for the three members collectively of £2.7m over the next 6 years.

SLH has also invested in new IT systems, including a replacement housing management and maintenance system (Civica's 'Cx' system) asset management systems (Civica's 'Keystone' system) and plans are in place to implement a HR system and a replacement purchase to pay system. As a Civica development partner, SLH will help drive the future development of the 'Cx' system with plans in place to develop customer online services and the mobile platform to further enhance service delivery though customer self-help and agile working.

SLH believes its focus on collaborative working combined with investment in technology will ensure its long term viability and maximise the funding available for building new homes for rent, which is fundamental to the delivery of our new Business Strategy.

In June 2016 the social housing regulator published the results of its review of operating costs which showed a wide variation in costs across the sector when using unit costs as a measure of operational efficiency. The results for SLH, an explanation of variances to sector averages and a comparison to other local providers is included below. Further analysis and explanation of our costs and performance can also be found in our comprehensive VFM Self-Assessment document which is available on the VFM page of our website: http://www.southlakeshousing.co.uk

Set out below are some of the highlights in our full Self Assessment document:

Asset performance

SLH actively manages its assets to ensure the use of all its resources is maximised and during 2014 undertook a comprehensive evaluation of the return on all its housing assets. This exercise applied 'Real Asset Management System' methodology to evaluate current and potential future performance, enabling us to better understand how our assets are contributing to our objectives and allowing us to continue to measure performance on an ongoing basis. This exercise addressed in advance the requirements of the new Governance and Financial Viability Standard, introduced from April 2015, which outlined how organisations can better understand and optimise the return on their assets.

This initial exercise showed that 49 schemes from a total of 321 schemes were failing to meet our minimum performance requirements (a minimum return of £100 per unit per annum or a pass score against both quality and cost tests), an evaluation based on a number of factors including location, design, quality of communal and external areas, community safety, quality of the neighbourhood, demand, financial performance, local market conditions, value and ease of management and maintenance. This evaluation has been updated during the year and has shown a significant improvement in results, with a 2.8% reduction in assets failing to meet our minimum performance requirements (from 16.6% in 2015 to 13.8% in 2016). This is mainly due to improved stock condition information which has enabled us to determine more accurate (and reduced) improvement programme costs in future years which in turn increases the potential return on these assets. This figure will continue to show improvement with the delivery of the improvement programme. Further detail including individual scheme scores are set out in the full VFM Self Assessment available on our website.

This methodology is also applied to single properties as they become vacant and this has enabled the prioritisation of resources available for investment dependent upon demand and rental yield. This has led to the retention rather than disposal of properties in high demand areas and additional investment in properties with low return to reduce void costs (for example investment in wet rooms in low demand properties to broaden the potential customer base). Improvement works have also been brought forward for low return assets and completed during void periods to improve lettability and reduce void rent losses and will result in lower repair costs in future years. This model is also being used to drive the works programme for communal areas and blocks of flats to improve the aesthetics, and therefore lettability, of our estates.

Following the initial in-depth evaluation of our assets a cross-organisation panel was established to further develop the individual scheme appraisal methodology which can then be applied to other lower value assets. The results of the exercise (the categorisation of assets) are held in our new housing management system so they are visible to all, with updates on findings and the rationale for the exercise being regularly communicated through staff briefings. This has helped embed our approach to maximising return on our assets and led to staff from across the organisation putting forward suggested improvements, alternative uses or arguments for disposal for some properties.

Further in depth evaluation has been undertaken on five low return sheltered schemes to appraise the options for the physical structure of the scheme, such as improvement, conversion, de-sheltering or disposal. These options are being considered alongside proposals following a review of sheltered housing services which proposed the de-sheltering of a number of schemes which were not considered to be viable in the longer term. This review also considered the conversion of communal areas to lettable units. A decision regarding the future of these schemes has been postponed following the negative feedback received during consultation, and the future viability of these schemes will now be re-evaluated when the impact of the benefit caps for new tenants can be more accurately assessed.

The programme of stock condition surveys has continued through the year, with 100% of our properties now having had an external survey with around 80% surveyed internally. This has provided invaluable information, enabling the smoothing and improved planning of the improvement programme. This has driven further efficiencies and cost savings by enabling a number of elements to be improved at the same time, for example roofing and rendering at the same time to save on scaffolding costs, and kitchens and boiler replacements carried out at the same time to save on plumbing costs.

This improved survey information together with return on asset evaluation has also enabled priority to be given to lowest category properties in the improvement planning process, with much of the improvement work carried out on these properties during void periods to improve lettability. Over the next few years particular areas will be targeted to enable the letting of larger contracts which will drive a reduction in costs through economies of scale and further efficiencies in contract management.

The new housing management and maintenance system implemented in July 2016 now provides more detailed repair cost information based on standard ‘Schedule of Rate’ costs including both labour and materials costs per job. This will also contribute to more accurate return on asset evaluation and help inform future retention versus disposal decisions.

The in-depth evaluation of our assets at property level has already helped inform asset management decisions including:

- Disposal of a fire damaged property at Milnthorpe Road where net return from disposal exceeded future net return from improving to Decent Homes Standard.
- The disposal of two hard to let properties in Kendal’s Market Place where costs of refurbishment outweighed future economic benefit.
- The evaluation of refurbishment costs against higher rent options, leading to a decision to retain and re-develop Kendal ‘Yard 91’ properties.

Our Asset Management Strategy has been updated to reflect our approach to asset evaluation and our increased focus on maximising the return on all our assets. This outlines potential options for improving asset performance, provides a framework for the procurement and delivery of investment and will drive the continuous review and improvement in asset performance to ensure asset use continues to be maximised in the delivery of our corporate objectives. The strategy also outlines how SLH will ensure a strategic view is taken on the selection of assets for retention and investment and which should be disposed of to generate resources for investment in additional new homes.

Further savings are being generated from the new ‘Projects Team’ which has delivered a total of 30 kitchens and 32 bathrooms with resulting savings of £69k against sub-contractor costs. Savings generated by this team are expected to be in excess of £100k for 2016/17. This self-delivery model will be further expanded during 2016/17 with the establishment of the CSV to further reduce spend on subcontractors, generating savings in contractor profit and VAT in the areas of electrical works, gas servicing and other planned works. The Projects Team have also during the year carried out works to damaged properties following the extensive flooding in December 2015, the costs of which were covered by insurance.

Having an in-house repair team also enabled us to provide a rapid response to the floods, with our early response meaning more preventative measures could be undertaken such as sand bagging and installing flood barriers to door openings which meant fewer properties were flooded, but also enabled the earlier commencement of repair works, allowing properties to dry out sooner and allowing tenants back in their properties before any other housing association tenants in Cumbria. This is something which has been applauded by insurers as well as being gratefully received by our tenants.

This strategic approach to asset management will help ensure our properties will be of the right type, size and location to enable us to meet future housing need and deliver our corporate objectives. Our active asset management methodology, strategic approach to asset management, increased self-delivery and collaborative working across Cumbria together provide a robust platform which will inform future investment decisions, minimise costs and maximise return on our assets and the funding available for investment in new homes.

Developments

With the extension of the Right to Buy to new (post stock transfer) tenants there is an increasing need to replace stock losses through sales. These are already running at around 30 sales per annum from tenants with the protected Right to Buy. SLH therefore continues to work in partnership with SLDC to direct receipts from sales to investment in new SLH homes.

SLH signed up to the ‘Voluntary Right to Buy’ in 2015 as the proposals provided for reimbursement to SLH of the full market value of sales and promised exemptions for rural areas. Whilst the extension of the Right to Buy raised concerns about the loss of property for social housing rent, these proposals would help us protect our rural communities where planning restrictions mean stock sold cannot be replaced. Furthermore, with full market value compensation we can deliver in excess of a ‘one for one’ replacement on some disposals, allowing us to deliver additional properties in areas of high demand.

SLH’s board supports home ownership, expressing a keenness to deliver shared ownership and rent to buy properties in line with government’s home ownership policy and SLH will be making a bid for HCA grant in September 2016. There is also potential to acquire properties to sell on a shared ownership basis as part of existing developments where these are considered to be more appropriate tenures for their location.

SLH is keen to build longer term relationships with development partners to allow developers to generate greater efficiencies through longer term planning and savings for SLH and can also provide an opportunity for SLH to influence design and planning considerations. SLH has also had preliminary discussions with SLDC to enter into a joint venture for the provision of market for sale and affordable homes in the South Lakes area to achieve economies of scale through joint working and surpluses for SLH which could be reinvested into the provision of additional affordable homes.

Garage sites and land parcels are also being evaluated as part of our asset management strategy to assess their suitability for development, through systematic “health check” reviews carried out on a periodic basis to evaluate all options including remodelling, redeveloping or decommissioning sites of low demand, poor design or poor condition where capital investment would not provide a long-term solution. Disposal of these sites would be considered for areas with no development potential so that proceeds can be reinvested in new developments elsewhere. Our garage strategy also aims to reduce void costs and lead to cleaner and safer neighbourhoods.

Further details of new homes delivered and planned are provided in the full VFM Self Assessment document available on our website.

Income levels

As a Registered Provider of social housing, SLH is obliged to meet the requirements of the regulator’s Rent Standard. Rents also need to be set at levels which will generate sufficient income to sustain the SLH Financial Plan and meet the promises made in the Offer Document.

Last year’s VFM assessment reported that rents for 2015/16 had been set in accordance with the Government’s new ‘Ten Year rent Settlement’ which came into force in April 2015. This restricted the increase in individual rents each year to a maximum of CPI plus 1% and removed our ability to charge an additional £2 per week to move towards target rents which were still considerably higher than average rents for SLH. These new rules meant a reduction in rental income to SLH of over £1m over the first five years and an increase in funding requirement of £3m by the end of the settlement period. At this time SLH’s rents were still four years behind target rents and were lower than other housing association rents in the area. Further details on our rents and how they compare to other associations operating in Cumbria are shown in our full VFM Self Assessment document available on our website.

The subsequent rent reduction announced in July 2015 had a far more significant impact on our projected income levels, with the annual 1% cut for four years meaning rents would be 14% lower than levels assumed in the financial plan by the end of the four year period. This amounted to a reduction in income of £5m over the four years and £115m over the life of the 30 year financial plan (based on the assumption that rents would continue to rise at CPI only after the four year reduction period). As our rents were still well below target rents when the reductions were imposed this has had a greater impact than for those housing organisations charging target rents. SLH has however responded to this challenge and revised expenditure levels to accommodate the reduction in income, as explained below.

As for many other registered providers the cap on housing benefits introduced as part of Welfare Reform will have a detrimental effect on a number of tenants including the under 35s for whom benefits will be restricted to the single room rate and for sheltered housing tenants as the rents and service charges at many of our sheltered schemes are above the cap on benefits being imposed. This has forced SLH to reconsider the way in which it delivers services to sheltered schemes and the future viability of sheltered housing provision will continue to be monitored as the number of new tenants, to which the benefit cap will relate, increases.

Expenditure levels

Our spend levels are kept to a minimum with VFM playing an increasingly important role in all our decisions. In 2015/16 almost half of our income (44p of every £1 received) was reinvested in improvement works or in the provision of new homes for rent. Our overall spend over the last two years is broken down as follows:

How we spent each £1 of our income during the year:	2015/16	2014/15
Improving homes and communities	44p	45p
Management	21p	18p
Repairs and maintenance	18p	20p
Interest on loans	11p	9p
Service costs	4p	4p
Other costs	2p	4p
Total £1 spend	**100p**	**100p**

During the year SLH embarked on a major cost cutting exercise and revised its financial plans to accommodate the rent reductions effective from April 2016. This exercise identified significant savings over the life of the plan, as follows:

- Savings in management and administration costs totalling £440k in 2015/16, with recurrent savings of around £500k per annum from 2016/17 onwards.
- Responsive repair cost savings of 6% pa, achievable though improvements in efficiency and economies of scale experienced from the establishment of the CSV.
- Reduction in improvement works costs of 6% pa from 2017/18 achievable through better planning and procurement methods.
- Reduction in gas servicing costs of £150k pa from 2017/18 onwards, representing savings in VAT as a result of procurement through a CSV.
- Savings in pay costs rising to £120k pa by year 4 through the deletion of one vacant post per year over the next 4 years.
- Removal of £2m in 2022/23 earmarked for new office premises.
- Reduction in bad debts provision from 4.4% to 2.2% throughout the plan following revised predictions of the impact of Universal Credit based on recent experience.
- Removal of the ‘Growth Fund’ totalling £1.2m over the next 10 years, with new growth bids now needing to be ‘self-financing’.

The revised plan reflected the requirements of the board to retain as a minimum the current level of development capacity of 120 units and also the maintenance of a basic pay award each year in order to retain high calibre staff.

However following the floods in December 2015, which caused extensive damage to SLH’s properties, there has been an increase in insurance premiums of £135k per annum and an increase in policy excess payable to £1m per incident for flood related damage. SLH is therefore setting aside an additional £100k per annum, in addition to the increase in premiums, to build up a reserve to cover the excess payable should there be further flood causing damage of this magnitude.

The damage to SLH property caused by the floods, together with loss of rent and decant costs, amounted to around £2.3m. All but £5k of this was covered by insurance as a result of a cap on policy excess payable which was negotiated with insurers at renewal in April 2013. At that time the proposal from current insurers was not the lowest, but was considered to offer the best VFM given the existence of this clause. The policy excess payable had this not been in place would have been circa £35k, representing a VFM saving of £30k on this claim.

The HCA's recent review of operating costs, which aimed to gain a better understanding of the wide variations in costs across the sector, has revealed that although much of the differences between providers are explained by levels of supported and older people's housing, a significant proportion is down to differences in efficiency. It also concludes that there is no significant evidence of a relationship between size of provider and lower cost.

SLH's 'Headline social housing cost per unit' based on 2015 published accounts has been published as £5.29k, which falls into the upper sector when compared to all social housing landlords nationally. This headline indicator includes major repair costs of £2.96k per unit, demonstrating the significant investment in our housing stock which is typical of a recent stock transfer organisation, as shown in more detail below. For SLH, major repair costs also include new developments in the year amounting to £0.5k per unit, which it is argued should be excluded from figures intended to compare operational efficiency.

SLH also has an element of 'support' costs representing overheads which are included in service costs in the HCA's unit cost analysis but which have been reclassified in SLH's 2016 accounts as management costs. Published and reclassified figures for 2015 are shown against sector national averages in the table below. SLH also compares its costs to other housing providers of a similar size operating in Cumbria and the published results for these organisations are also shown below.

SLH Costs per Unit 2014/15 compared to other Cumbrian Housing Providers:

Cost per unit 2014/15	Headline social housing cost CPU (£K)	Manage-ment CPU (£K)	Service charge CPU (£K)	Mainten-ance CPU (£K)	Major repairs CPU (£K)	Other social housing costs CPU (£K)
SLH (as published)	**5.29**	0.51	0.72	1.01	2.96	0.10
SLH (excl. devel costs and support costs reclassified)	**4.79**	1.02	0.21	1.01	2.46	0.10
Eden (as published)	**2.76**	1.23	0.08	1.12	0.00	0.33
Impact (as published)	**4.30**	1.80	0.35	0.88	0.34	0.93
Two Castles (as published)	**2.87**	0.87	0.57	0.70	0.71	0.02
Sector - upper	**4.30**	1.27	0.61	1.18	1.13	0.41
- median	**3.55**	0.95	0.36	0.98	0.80	0.20
- lower	**3.19**	0.70	0.23	0.81	0.53	0.08

An analysis of day to day running costs (i.e. headline costs excluding major works costs) shows that SLH's operating costs per unit including management, services and maintenance costs represent lower to middle quartile results overall, lower quartile for management and service costs, and median quartile for maintenance costs when compared to the sector nationally. Our day to day running costs also compare favourably to other associations operating in Cumbria, as shown below:

SLH Costs per Unit 2014/15 comparison (excluding major repairs):

Cost per unit 2014/15	Cost PU Excl Major Repairs (£K)	Manage-ment CPU (£K)	Service charge CPU (£K)	Mainten-ance CPU (£K)	Other social housing costs CPU (£K)
SLH (excl devel costs and support costs reclassified)	**2.34**	1.02	0.21	1.01	0.10
Eden (based on published figs)	**2.76**	1.23	0.08	1.12	0.33
Impact (based on published figs)	**3.96**	1.80	0.35	0.88	0.93
Two Castles (based on published figs)	**2.16**	0.87	0.57	0.70	0.02
Sector - upper	**3.47**	1.27	0.61	1.18	0.41
- median	**2.49**	0.95	0.36	0.98	0.20
- lower	**1.82**	0.70	0.23	0.81	0.08

Comparing our costs to the average costs for a group of 16 recent stock transfer associations shows that SLH's reclassified costs are predominantly in line with the median score for this group.

SLH Costs per Unit 2014/15 compared to other recent LSVTs:

Cost per unit 2014/15	Headline social housing cost CPU (£k)	Manage-ment CPU (£K)	Service charge CPU (£K)	Mainten-ance CPU (£K)	Major repairs CPU (£K)	Other social housing costs CPU (£K)
SLH (as published)	**5.29**	0.51	0.72	1.01	2.96	0.10
SLH (excl. devel costs and support costs reclassified)	**4.79**	1.02	0.21	1.01	2.46	0.10
LSVT Group - upper	**5.23**	1.24	0.31	1.12	2.72	0.23
- median	**4.62**	1.16	0.23	1.01	2.11	0.11
- lower	**4.16**	0.71	0.14	0.84	1.39	0.06
Sector - upper	**4.30**	1.27	0.61	1.18	1.13	0.41
- median	**3.55**	0.95	0.36	0.98	0.80	0.20
- lower	**3.19**	0.70	0.23	0.81	0.53	0.08

As noted above, major repairs spend for the group as a whole is higher than sector averages, with SLH's major works spend falling with median to upper quartile compared to others in the group. SLH's management costs compare well, being in the lower to median range for this group, whilst SLH's headline indicator, service charge and maintenance costs per unit are in line with the median score for this group.

The establishment of a CSV to deliver repair and maintenance services in South Lakes, with plans to roll this out across Cumbria, will drive further operational efficiency, savings in VAT by reducing reliance on subcontractors for planned and other works, and generate further economies of scale. The investment in new housing management and maintenance systems and the continued investment in IT over the coming years will also enhance the efficiency of back office services to support the expansion of SLH's service offerings to other organisations. These strategies will collectively reduce SLH's operating costs in future years and facilitate cost reductions in other organisations operating in Cumbria.

Further analysis including a comparison to other organisations using Housemark's 'Global Accounts Storyboard' are set out in our full VFM Self Assessment document available on our website.

Ensuring VFM in our funding arrangements

The board have during the year reduced the cost of existing funding by cancelling £15m worth of loan facility, generating savings in commitment fees of £161k in 2016/17 and £180k per annum in 2017/18 onwards. This decision was not made lightly as the board are keen to maximise funding available to deliver new homes. However the change to the loan profile at each annual review as a result of changes in inflation and interest rates, and most significantly the cut in rental income in the most recent plan, has meant the full £55m funding facility could not be fully utilised without falling outside the required loan repayment year. As a result commitment fees were being incurred for funding which could not be accessed.

During the year we also began a review of our funding arrangements with a view to moving away from LSVT funding in order to benefit from the low interest rates currently available, release equity to fund additional new developments and to maximise our ability to raise additional finance in the future. With the weighted average cost of our current loans of 4.99% there is scope to improve the cost effectiveness of our debt and options currently being evaluated include a mix of bond finance and traditional bank loans. Early indications are that potential savings in interest will outweigh the break costs on existing loans and this will continue to be monitored with the intention of securing new funding in 2017/18 should this prove to be beneficial.

VFM performance and comparisons to others

It is essential that SLH understands not only its performance trends but how its costs and performance compare to others. This has become increasingly important as the sector continues to undergo significant changes in economic and operating environment and has to respond to increasing pressure to reduce costs whilst maintaining service standards. SLH continues to subscribe to Housemark's benchmarking service to access comparative data and knowledge about what is typical for the sector so as not to become complacent with its own performance improvement.

Housemark's 'VFM scorecard' provides a summary of organisational performance trends for SLH and a comparison to others. This shows that for 2014-15 (the latest data available):

- 50% of performance indicators are upper quartile, and a total of 69% in upper or middle-upper quartile.
- Only two (12.5%) of performance indicators are lower quartile, these being for service charges collected and growth in turnover.

In terms of costs, responsive, void and major works costs are upper quartile as a result of the significant spend on repair and improvement works required following stock transfer. Overhead costs as a percentage of turnover have reduced since the previous year, and costs are less than the average for our peer group.

As in previous years, SLH again scores well in terms of satisfaction both from customers and from staff, with the following indicators significantly better than the median for other providers:

- Satisfaction with service provided.
- Satisfaction with repairs and maintenance.
- Satisfaction with the neighbourhood.
- Staff satisfied with organisation as employer.

Housemark have this year also produced a ‘cost and performance summary’ table, setting out a selection of cost, performance and satisfaction measures. This shows that SLH has achieved top quartile for one third of these indicators and upper or middle-upper quartile for two thirds of the indicators. Low quartile performance is shown for repair and major works costs and for proportion of dwellings non-decent at year end which again is consistent with results for most stock transfer organisations. Further detail and analysis of Housemark’s benchmarking result can be found in our main VFM Self Assessment document available on our website.

VFM targets and monitoring delivery of future VFM improvement

SLH aims to maintain its high satisfaction ratings whilst also aiming to reduce costs and has set a number of VFM targets involving cost reduction, income generation, increased efficiencies and delivery of Social Value. In light of recent rent reductions the emphasis is on cost reduction and efficiency to ensure it can continue to develop news homes whilst maintaining service standards. Further details on delivery against these targets is set out in our full Self Assessment document available on our website.

Annual General Meeting and approval

Annual General Meeting

The Annual General Meeting is to be held on 29 September 2016 to receive the accounts to 31 March 2016.

Auditors

Beever and Struthers are the auditors of SLH. The annual appointment is subject to a resolution at the Annual General Meeting.

Approval

The Report of the Board was approved on 8 September 2016 by the Board and was signed on its behalf by:

John Holmes
Chairman

Report of the Independent Auditors to the Members of South Lakes Housing

We have audited the financial statements of South Lakes Housing ('the Society') for the year ended 31 March 2016 on pages 19 to 47, which comprise the statement of comprehensive income, the statement of financial position, the statement of cash flow and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (Generally Accepted Accounting Practice).

This report is made solely to the Society's members, as a body, in accordance with Section 87 of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them 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 Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Board and the Auditor

As explained more fully in the Statement of Board's Responsibilities set out on page 7, the Board is responsible for the preparation of the financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Association's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Board Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Society's affairs as at 31 March 2016 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance 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.

Matters on which we are required to report by exception

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

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

Beever and Struthers
Chartered Accountants and Statutory Auditors

St George's House
215 – 219 Chester Road
Manchester
M15 4JE

Date:

Statement of Comprehensive Income

For the year ended 31 March 2016 **Restated**

	Note	2016 £	2015 £
Turnover	2 & 3	16,670,667	16,375,069
Operating costs	2, 3 & 5	(8,377,736)	(8,087,416)
Operating surplus		8,292,931	8,287,653
Gain on disposal of property, plant and equipment (fixed assets)	6	736,447	561,213
Interest receivable	7	17,090	101,524
Interest and financing costs	8	(1,756,031)	(1,505,653)
Surplus for the year before and after taxation		7,290,437	7,444,737
Actuarial (loss)/gain in respect of pension schemes	19	699,000	(1,366,000)
Total comprehensive income for the year		7,989,437	6,078,737

The financial statements on pages 19 to 47 were approved and authorised for issue by the Board on 8th September and were signed on its behalf by:

J. Holmes
Chairman

P. Kuit
Vice Chairman

L. Simons
Company Secretary

The results relate wholly to continuing activities and the notes on pages 23 to 47 form an integral part of these accounts.

Statement of Financial Position

At 31 March 2016 **Restated**

	Note	2016 £	2015 £
Fixed assets			
Tangible fixed assets	12a & b	71,905,214	65,140,176
Debtors due after more than one year	22	63,272,520	68,812,521
Current assets			
Stock	13	169,517	91,878
Trade and other debtors	14	6,856,609	7,317,044
Cash and cash equivalents		1,543,719	4,427,312
		8,569,845	11,836,234
Less: Creditors: Amounts falling due within one year	15	(2,566,268)	(2,709,854)
Net current assets / (liabilities)		**6,003,577**	**9,126,380**
Total assets less current liabilities		**141,181,311**	**143,079,077**
Creditors: Amounts falling due after more than one year	16	(113,600,776)	(123,165,124)
Provisions for liabilities			
Pension Provision	17	(844,783)	(1,212,783)
Total net assets		**26,735,752**	**18,701,170**
Capital and reserves			
Non-equity share capital	18	33	33
Income and expenditure reserve		26,735,719	18,701,137
Total reserves		**26,735,752**	**18,701,170**

The financial statements on pages 19 to 47 were approved and authorised for issue by the Board on 8th September 2016 and signed on its behalf by:

J. Holmes	**P. Kuit**	**L. Simons**
Chairman	Vice Chairman	Company Secretary

The notes on pages 23 to 47 form an integral part of these accounts.

Statement of Changes in Reserves

For the year ended 31 March 2016

	Income and expenditure reserve £
Balance at 1 April 2014	12,248,051
Surplus / (deficit) from Statement of Comprehensive Income	5,870,103
Balance at 31 March 2015	**18,118,154**
Surplus / (deficit) from Statement of Comprehensive Income	7,989,437
Prior Year Adjustment	628,128
Balance at 31 March 2016	**26,735,719**

The notes on pages 23 to 47 form an integral part of these accounts.

Statement of Cash Flows

For the year ended 31 March 2016

	2016 £	2015 £
Net cash generated from operating activities	7,614,437	6,502,475
Cash flow from investing activities		
Purchase of tangible fixed assets	(8,060,689)	(9,457,814)
Proceeds from sale of tangible fixed assets	2,142,600	1,766,120
Grants received	125,000	649,152
Interest received	17,090	12,524
	1,838,438	(527,543)
Cash flow from financing activities		
Interest paid	(1,722,031)	(1,505,654)
New secured loans	0	4,000,000
Repayment of borrowings	(3,000,000)	0
Net change in cash and cash equivalents	(2,883,593)	1.966,803
Cash and cash equivalents at beginning of the year	4,427,312	2,460,509
Cash and cash equivalents at end of the year	1,543,719	4,427,312

Cash flow from operating activities

Surplus for the year	7,290,437	7,444,737
Adjustments for non-cash items		
Depreciation of tangible fixed assets	934,197	650,783
Amortisation of intangible assets	22,917	22,918
Interest and financing costs	1,756,031	1,505,654
Interest receivable	(17,090)	(101,524)
Gain on disposal of property, plant and equipment	(736,447)	(561,213)
(Increase)/decrease in stock	(77,639)	(58,549)
(Increase)/decrease in trade and other debtors	(321,372)	419,175
Increase/(decrease) in trade and other creditors	(96,957)	(2,744,873)
Pension costs less contributions payable	(297,000)	134,000
Government grants utilised in the year	(214,512)	(208,633)
Government grants utilised in prior years	(628,128)	0
Net cash generated from operating activities	7,614,437	6,502,475

The notes on pages 23 to 47 form an integral part of these accounts.

Notes to the Financial Statements

For the year ended 31 March 2016

Legal Status

South Lakes Housing Limited is incorporated in England under the Co-operative and Community Benefit Societies Act 2014 and is registered with the Homes and Communities Agency as a Private Registered Provider of Social Housing (Number 4686). The registered office is Bridge Mills Business Centre, Stramongate, Kendal, Cumbria, LA9 4BD.

1. Principal Accounting Policies

Basis of Accounting

The financial statements have been prepared in accordance with applicable United Kingdom Accounting Generally Accepted Accounting Practice (UK GAAP) and the Statement of Recommended Practice for registered housing providers: Housing SORP 2014.

The financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. The accounts are prepared on the historical cost basis of accounting and are presented in sterling £.

The financial statements have been prepared in compliance with FRS102 as it applies for the first time to the financial statements for the year ended 31 March 2016.

The society transitioned from previous UK GAAP to FRS102 as at 1 April 2014. An explanation of how the transition to FRS102 has affected the reported financial position and performance, as well as the exemptions taken on transition, is given in note 23.

Going concern

The financial statements have been prepared on a going concern basis which assumes an ability to continue operating for the foreseeable future. Government's announcements in July 2015 impacting on the future income of the society have led to a reassessment of the society's financial plan as well as an assessment of imminent or likely future breach in borrowing covenants. No significant concerns have been noted and we consider it appropriate to continue to prepare the financial statements on a going concern basis.

Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

a. **Development expenditure.** The society capitalises development expenditure in accordance with the accounting policy described on page 27. Initial capitalisation of costs is based on management's judgement that development scheme is confirmed, usually when Board approval has taken place including access to the appropriate funding. In determining whether a project is likely to cease, management monitors the development and considers if changes have occurred that result in impairment.

b. **Categorisation of housing properties.** The society has undertaken a detailed review of the intended use of all housing properties. In determining the intended use, the society has considered if the asset is held for social benefit or to earn commercial rentals.

Notes to the Financial Statements

For the year ended 31 March 2016

1. Principal Accounting Policies (continued)

Other key sources of estimation and assumptions:

a. **Tangible fixed assets.** Other than investment properties, tangible fixed assets are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

b **Pension and other post-employment benefits.** The cost of defined benefit pension plans and other post-employment benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables for the specific sector. Future salary increases and pension increases are based on expected future inflation rates for the respective sector. Further details are given in note 17.

c Impairment of non-financial assets. Reviews for impairment of housing properties are carried out when a trigger has occurred and any impairment loss in a cash generating unit is recognised by a charge to the Statement of Comprehensive Income. Impairment is recognised where the carrying value of a cash generating unit exceeds the higher of its net realisable value or its value in use. A cash generating unit is normally a group of properties at scheme level whose cash income can be separately identified.

During the year the government announced a change in rent policy which resulted in a material impact on the net income expected to be collected in the future for housing properties and the Society has assessed that this represents a trigger for impairment review.

Following a trigger for impairment, the Society performs impairment tests based on fair value less costs to sell or a value in use calculation. The fair value less costs to sell calculation is based on available data from sales transactions in an arm's length transaction on similar cash generating units (properties) or observable market prices less incremental costs for disposing of the properties. The value in use calculation is based on either a depreciated replacement cost or a discounted cash flow model. The depreciated replacement cost is based on available data of the cost of constructing or acquiring replacement properties to provide the same level of service potential to the Society as the existing property. The cash flows are derived from the financial plan for the next 30 years and do not include restructuring activities that the Society is not yet permitted to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes.

Following the assessment of impairment no impairment losses were identified in the reporting period.

Turnover and revenue recognition

Turnover represents rental income receivable, amortised capital grant, revenue grants from local authorities and the Homes and Communities Agency, and other income and are recognised in relation to the period when the goods or services have been supplied.

Rental income is recognised when the property is available for let, net of voids. Income from property sales is recognised on legal completion.

Sales of properties developed for outright sale are included in Turnover and Cost of Sales.

Notes to the Financial Statements

For the year ended 31 March 2016

1. Principal Accounting Policies (continued)

Loan finance issue costs
These are amortised over the life of the related loan. Loans are stated in the Statement of Financial Position at the amount of the net proceeds after issue, plus increases to account for any subsequent amounts amortised. Where loans are redeemed during the year, any redemption penalty and any connected loan finance issue costs are recognised in the Statement of Comprehensive Income account in the year in which the redemption took place.

Taxation

The Society had charitable status during the period and it is not liable to Corporation Tax on its charitable activities.

Value Added Tax
The Society is registered for VAT. A large proportion of its income, including rents, is exempt from VAT. Most of its expenditure is subject to VAT which cannot be reclaimed and expenditure is therefore shown inclusive of VAT. Any VAT recovered under partial exemption rules is credited to the Statement of Comprehensive Income. The Society has been able to take advantage of VAT shelter relief, with 50% of amounts recoverable under this scheme being repayable to the Council under the terms of the Transfer Agreement.

Tangible fixed assets and depreciation

Housing properties
Tangible fixed assets are stated at cost, less accumulated depreciation. Land and assets acquired at below market value from the local authority, are included as a liability in the Statement of Financial Position at the fair value less consideration paid.

Housing properties under construction are stated at cost and are not depreciated. These are reclassified as housing properties on practical completion of construction.

Notes to the Financial Statements

For the year ended 31 March 2016

1. Principal Accounting Policies (continued)

Freehold land is not depreciated.

Where a housing property comprises two or more major components with substantially different useful economic lives (UELs), each component is accounted for separately and depreciated over its individual UEL. Expenditure relating to subsequent replacement or renewal of components is capitalised as incurred.

The association depreciates freehold housing properties by component on a straight-line basis over the estimated UELs of the component categories.

UELs for identified components are as follows:

	Years
Main fabric	100
Roof structure and covering	70
Windows and external doors	30
Gas boilers and fires	15
Kitchens	15
Bathrooms	25
Mechanical systems	30
Electrics	30
Lifts	20
Disabled adaptations	10

Depreciation is charged on other tangible fixed assets on a straight-line basis over the expected economic useful lives which are as follows:

	Years
IT equipment	3
IT infrastructure	10
Furniture and fittings	10

Capitalisation of interest and administration costs
Interest on loans financing development is capitalised up to the date of the completion of the scheme and only when development activity is in progress.

Administration costs relating to development activities are capitalised only to the extent that they are incremental to the development process and directly attributable to bringing the property into their intended use.

Notes to the Financial Statements

For the year ended 31 March 2016

1. Principal Accounting Policies (continued)

Leasing and hire purchase

Where assets are financed by hire purchase contracts and leasing agreements that give rights approximating to ownership (finance leases), they are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as obligations to the lessor in creditors. They are depreciated over the shorter of the lease term and their economic useful lives.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to profit and loss over the term of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

Other leases are treated as operating leases and payments are charged to the Statement of Comprehensive Income on a straight line basis over the term of the lease.

Stock

Stocks of materials are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow moving items.

Short-term debtors and creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the income statement in other operating expenses.

Social Housing and other government grants

Where developments have been financed wholly or partly by social housing and other grants, the amount of the grant received has been included as deferred income and recognised in Turnover over the estimated useful life of the associated asset structure (not land), under the accruals model. SHG received for items of cost written off in the Statement of Comprehensive Income Account is included as part of Turnover.

When Social Housing Grant (SHG) in respect of housing properties in the course of construction exceeds the total cost to date of those housing properties, the excess is shown as a current liability.

SHG must be recycled by the Society under certain conditions, if a property is sold, or if another relevant event takes place. In these cases, the SHG can be used for projects approved by the Homes and Communities Agency. However, SHG may have to be repaid if certain conditions are not met. If grant is not required to be recycled or repaid, any unamortised grant is recognised as Turnover. In certain circumstances, SHG may be repayable, and, in that event, is a subordinated unsecured repayable debt.

Notes to the Financial Statements

For the year ended 31 March 2016

1. Principal Accounting Policies (continued)

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

Retirement benefits
The cost of providing retirement pensions and related benefits is charged to management expenses over the periods benefiting from the employees' services.

The disclosures in the accounts follow the requirements of Section 28 of FRS 102 in relation to multi-employer funded schemes in which the Group has a participating interest.

Notes to the Financial Statements

For the year ended 31 March 2016

2. Turnover, operating expenditure and operating surplus

31 March 2016	Turnover £	Operating expenditure £	Operating Surplus £
Social Housing Lettings (note 3)	15,352,208	8,050,815	7,301,393
Other Social Housing Activities	1,156,324	297,188	859,136
Activities other than social housing	162,135	29,733	132,402
TOTAL	16,670,667	8,377,736	8,292,931

Turnover, operating expenditure and operating surplus

31 March 2015	Turnover £	Operating expenditure £	Operating Surplus £
Social Housing Lettings (note 3)	14,877,754	7,604,761	7,272,993
Other Social Housing Activities	1,080,262	305,783	774,479
Activities other than social housing	417,053	176,872	240,181
TOTAL	16,375,069	8,087,416	8,287,653

Notes to the Financial Statements

For the year ended 31 March 2016

3. Turnover and operating expenditure

	General Housing	Supported Housing and Housing for Older People	Total 2016	Total 2015
	£	£	£	£
Income				
Rent receivable net of identifiable service charge	12,399,503	2,044,116	14,443,619	14,019,164
Service charge income	-	670,053	670,053	647,303
Amortised government grants	203,011	33,493	236,504	208,635
Other income from Social Housing Lettings	2,032	-	2,032	2,652
Turnover from Social Housing Lettings	12,604,546	2,747,662	15,352,208	14,877,754
Operating expenditure				
Management	(3,157,344)	(400,181)	(3,557,525)	(3,160,381)
Service charge costs	-	(678,323)	(678,323)	(653,273)
Routine maintenance	(1,686,172)	(19,050)	(1,705,222)	(1,979,352)
Planned maintenance	(1,204,775)	-	(1,204,775)	(1,154,059)
Bad debts	(70,582)	(11,644)	(82,226)	(77,954)
Depreciation of housing properties	(706,231)	(116,513)	(822,744)	(579,742)
Operating expenditure on Social Housing Lettings	(6,825,104)	(1,225,711)	(8,050,815)	(7,604,761)
Operating Surplus on Social Housing Lettings	**5,779,442**	**1,521,951**	**7,301,393**	**7,272,993**
Void Losses (being rental income lost as a result of property not being let, although it is available for letting)	(86,179)	(14,217)	(100,396)	(169,240)

Notes to the Financial Statements

For the year ended 31 March 2016

4. Accommodation owned, managed and in development

Under management at end of year:	2016 No. of properties	2015 No. of properties
General needs housing	2,662	2,661
Supported housing and housing for older people	440	442
Shared ownership properties	5	5
	3,107	3,108

In management, but not ownership, at end of year:	2016 No. of properties	2015 No. of properties
Housing accommodation	3	3
Leasehold properties	256	256
	259	259

5. Surplus on ordinary activities

	2016 £	2015 £
The operating surplus is stated after charging:		
Auditor's remuneration (excluding VAT):		
Statutory audit	11,500	11,000
Fees payable to the company's auditor and its associates for other services to the association:		
Tax compliance services	1,500	375
Service charge certification	-	-
Operating lease rentals		
Land and buildings	132,299	123,888
Office equipment	6,203	6,203
Motor vehicles	132,299	112,139
Depreciation of housing properties	822,774	579,742
Depreciation of other fixed assets	111,423	71,040
Surplus on sale of other fixed assets	736,447	561,213

Notes to the Financial Statements

For the year ended 31 March 2016

6. Gain/(loss) on disposal of property, plant and equipment (fixed assets)

	Property assets	**Total**	**Total**
	2016	**2016**	**2015**
	£	**£**	**£**
Proceeds of sales	2,142,600	2,142,600	1,766,120
Less: Costs of sales	(1,406,151)	(1,406,151)	(1,204,907)
Surplus	736,449	736,449	561,213

7. **Interest receivable**

	2016	**2015**
	£	**£**
Bank interest receivable	17,090	12,524
Deferred benefit pension charge	-	89,000
	17,090	101,524

Notes to the Financial Statements

For the year ended 31 March 2016

8. Interest and financing costs

	2016 £	2015 £
Deferred benefit pension charge	(34,000)	-
On loans repayable within five years	(365,151)	(205,889)
On loans wholly or partly repayable in more than five years	(996,933)	(991,643)
Total interest	(1,396,084)	(1,197,532)
Loan fees and charges	(359,947)	(308,121)
Total interest payable and similar charges	(1,756,031)	(1,505,653)

9. Employee information

	2016	2015
The average number of persons employed during the year, expressed in full time equivalents (37 hours per week) was:	115	114

Staff costs	2016 £	2015 £
Wages and salaries	3,022,666	2,842,999
Social security costs	209,622	195,192
Other pension costs	729,100	527,745
	3,961,388	3,565,936

The aggregate number of full time equivalent staff whose remuneration exceeded £60,000 in the period:	2016 Number	2015 Number
£60,000 to £69,999	1	-
£70,000 to £79,999	-	1
£80,000 to £89,999	2	-
£90,000 to £99,999	2	2
£100,000 +	-	1

Notes to the Financial Statements

For the year ended 31 March 2016

10. Directors' remuneration

	2016 £	2015 £
The aggregate emoluments paid to or receivable by non-executive directors and former non-executive directors	-	-
The aggregate emoluments paid to or receivable by executive Directors and former executive directors	373,563	383,833
The emoluments paid to the highest paid Director excluding pension contributions	83,070	92,007

The Chief Executive was an ordinary member of the pension scheme during the year. The pension scheme is a final salary scheme funded by annual contributions by the employer and employee. No enhanced or special terms apply. There are no additional pension arrangements. A contribution by SLH of £14,901(2015: £14,742) was paid in addition to the personal contributions of the Chief Executive.

Directors are defined as the members of the Board, the Chief Executive and any other person who is a member of the Executive Management Team or its equivalent.

Notes to the Financial Statements

For the year ended 31 March 2016

11. Tax on Surplus on Ordinary Activities

	2016 £	2015 £
Current taxation:		
UK Corporation Tax charge for the year	-	-
Deferred taxation:		
Net origination and reversal of timing differences	-	-
Tax on surplus on ordinary activities	-	-

The tax assessed

The tax assessed in the year is lower than the standard rate of corporation tax in the United Kingdom at 0% (2015 0%). The differences are explained as follows :	2016	2015
Total tax reconciliation	**£**	**£**
Surplus on ordinary activities before taxation	7,290,437	7,444,737
Theoretical tax at UK corporation tax rate of 20% (2015: 20%)	1,458,087	1,488,947
Effects of:		
-Surpluses relating to charitable period	(1,458,087)	(1,488,947)
Total taxation charge	-	-

Notes to the Financial Statements

For the year ended 31 March 2016

12a. Tangible fixed assets

	Social Housing Properties for Letting Completed £	Social Housing Properties for letting under Construction £	Shared Ownership Housing Properties £	Total Housing Properties £
Cost				
At start of the year	63,580,117	1,663,514	118,228	65,361,859
Additions to properties acquired	1,500,130	-	-	1,500,130
Works to existing properties	6,321,807	-	-	6,321,807
Interest capitalised	-	-	-	-
Schemes completed	1,655,014	(1,655,014)	-	-
Disposals	(361,454)	-	-	(361,454)
At end of the year	72,695,614	8,500	118,228	72,822,342
Depreciation and impairment				
At start of the year	(847,542)	-	-	(847,542)
Charge for the year	(822,774)	-	-	(822,774)
Impairment losses	-	-	-	-
At end of the year	(1,670,316)			(1,670,316)
Net book value at end of the year	71,025,298	8,500	118,228	71,152,026

Notes to the Financial Statements

For the year ended 31 March 2016

12b. OTHER TANGIBLE FIXED ASSETS

	Computer Equipment £	IT Infrastructure £	Furniture & Fittings £	Total £
Cost				
At 1 April 2015	459,770	186,702	313,715	960,187
Additions	224,859	-	13,892	238,751
At 31 March 2016	684,629	186,702	327,607	1,198,938
Depreciation				
At 1 April 2015	(240,498)	(37,011)	(56,819)	(334,328)
Charge for the year	(60,674)	(18,670)	(32,078)	(111,422)
At 31 March 2016	(301,172)	(55,681)	(88,897)	(445,750)
Net book value				
At 31 March 2016	383,457	131,021	238,710	753,188
At 31 March 2015	219,272	149,691	256,896	625,859

Notes to the Financial Statements

For the year ended 31 March 2016

13. STOCK

	2016 £	2015 £
Stocks held within:		
Stores	2,514	2,410
Trade vehicles	26,705	22,120
	-	-
	29,219	24,530
Work in progress on housing, land and buildings – potentially abortive costs	140,298	67,348
	169,517	91,878

The stores balances relate to lumber and emergency out of hours supplies.

14. Trade and Other Debtors

	2016 £	2016 £	2015 £	2015 £
Rent and service charge arrears	881,809		844,433	
Less: provision for bad debts	(357,257)		(311,537)	
		524,552		532,896
Trade debtors	163,407		95,552	
Less: provision for bad debts	(73,201)		(69,687)	
		90,206		25,865
Value Added Tax		240,411		307,422
Prepayments and accrued income		449,940		110,903
Other debtors		11,498		18,149
Stock transfer obligation (note 22)		5,540,000		6,321,807
		6,856,607		7,317,042

Notes to the Financial Statements

For the year ended 31 March 2016

15. Creditors: amounts falling within one year

	2016 £	Restated 2015 £
Rent and service charges received in advance	162,827	167,127
Trade creditors	412,819	719,305
Accruals and deferred income	1,662,285	1,518,979
Other taxation and social security	61,909	57,348
Other creditors	53,398	32,582
Deferred capital grant	213,030	214,513
	2,566,268	2,709,854

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

	2016 £	Restated 2015 £
Loans	24,405,801	27,382,880
Deferred Capital Grant	20,382,454	20,647,916
Stock transfer obligation	68,812,521	75,134,328
	113,600,776	123,165,124

Notes to the Financial Statements

For the year ended 31 March 2016

16(a). Creditors: Amounts falling due after more than one year

Debt Analysis	**2016 £**	**2015 £**
Loans not repayable by instalments		
Loan maturing under floating arrangement within one year, but wholly repayable in five years or more	0	3,000,000
Loan wholly repayable in five years or more	25,000,000	25,000,000
	25,000,000	28,000,000
Less loan arrangement fees	(594,199)	(617,120)
	24,405,801	27,382,880

South Lakes Housing has an agreed loan facility of up to £40m with Santander plc repayable over the next twenty-five years. These loans are secured by a charge over the Society's assets. During the year there were fixed and variable rate loans at various rates of between 3.18% and 5.04%.

Loan arrangement fees are capitalised and amortised over the remaining twenty-five years of the initial financial plan.

16(b) Deferred capital grant

	2016 £	**2015 £**
At start of year	20,862,429	20,592,772
Grant received in the year	125,000	649,152
Released to income in the year	(214,513)	(208,634)
Relating to disposals in the year	(177,432)	(170,861)
At the end of the year	20,595,484	20,862,429
Amount due to be released < 1 year	213,030	214,513
Amount due to be released > 1 year	20,382,454	20,647,916

Notes to the Financial Statements

For the year ended 31 March 2016

17. Pension obligations

Local Government Pension Scheme

The LGPS is a funded defined-benefit scheme, with the assets held in separate funds administered by Lancashire County Council. The total contributions made for the year ended 31 March 2016 were £615,287, of which employer's contributions totalled £431,527 and employees' contributions totalled £183,760. The agreed contribution rates for future years are 15.9% for employers and range from 5.5% to 12.5% for employees, depending on salary.

Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 31 March 2013 updated to 31 March 2016 by a qualified independent actuary.

	2016 % per annum	**2015 % per annum**
Rate of increase in salaries	3.5	3.6
Rate of increase in pensions in payment	2.0	2.1
Discount rate	3.8	3.4
Inflation assumptions (CPI)	2.0	2.1

The current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations on retirement age 65 are:

	2016 Years	**2015 Years**
Retiring today		
Males	23.1	23.0
Females	25.7	25.8
Retiring in 20 years		
Males	25.9	25.8
Females	28.9	28.8

Analysis of the amounts charged to operating costs in the Statement of Comprehensive Income

	2016 £'000	**2015 £'000**
Employer service cost (net of employee contributions)	719	514
Past service cost / (gain)	0	47
Total operating charge	**719**	**561**

Notes to the Financial Statements

For the year ended 31 March 2016

17. Pensions (continued)

Analysis of pension finance income/(costs)

Expected return on assets	(397)	(537)
Interest on pension liabilities	431	448
Amounts charged/credited to financing costs	**34**	**(89)**

Amount of gains and losses recognised in the Statement of Comprehensive Income

Actuarial gains/(losses) on pension scheme assets	(181)	954
Actuarial gains/(losses) on scheme liabilities	880	(2,320)
Actuarial gain/(loss) recognised	**699**	**(1,366)**

Notes to the Financial Statements

For the year ended 31 March 2016

17. Pensions (continued)

Movement in surplus/(deficit) during the year	**2016 £'000**	**2015 £'000**
(Deficit)/surplus in scheme at 1 April	(1,213)	198
Movement in year:		
Employer service cost (net of employee contributions)	(706)	(514)
Employee contributions	422	427
Past service cost	0	(47)
Net interest/return on assets	(34)	89
Re-measurements	699	(1366)
Administration expenses	(13)	-
(Deficit) in scheme at 31 March	**(845)**	**(1,213)**

Asset and Liability Reconciliation

Reconciliation of liabilities	**2016 £'000**	**2015 £'000**
Liabilities at start of period	12,769	9,554
Service cost	706	514
Interest cost	431	448
Employee contributions	184	171
Re-measurements	(880)	2,320
Benefits paid	(354)	(285)
Past service cost	0	47
Liabilities at end of period	**12,856**	**12,769**

Reconciliation of assets	**2016 £'000**	**2015 £'000**
Assets at start of period	11,556	9,752
Return on plan assets	397	537
Re-measurements	(181)	954
Administration expenses	(13)	-
Employer contributions	422	427
Employee contributions	184	171
Benefits paid	(354)	(285)
Assets at end of period	**12,011**	**11,556**
Actual return on plan scheme assets	**217**	**1,491**

Notes to the Financial Statements

For the year ended 31 March 2016

18. Non-equity share capital

	2016 No. of shares	2015 No. of shares
Allotted, Issued and Fully Paid	33	33
At the start of the year	33	33
Issued during the year	-	-
At the end of the year	33	33

The par value of each share is £1. The shares do not have a right to any dividend or distribution in a winding-up, and are not redeemable. Each share had full voting rights. All shares are fully paid.

19. Capital commitments

	2016 £	2015 £
Capital expenditure that has been contracted for but has not been provided for in the financial statements	1,789,935	1,711,624
Capital expenditure that has been authorised by the committee of management but has not yet been contracted for.	4,038,709	4,255,820
	5,828,644	5,967,444

SLH expects these commitments to be financed with:

	2016 £	2015 £
Committed loan facilities	5,828,644	5,967,444
	5,828,644	5,967,444

20. Operating leases

SLH holds properties, vehicles and plant and equipment under non-cancellable operating leases. At the end of the year SLH had commitments of future minimum lease payments as follows:

Notes to the Financial Statements

For the year ended 31 March 2016

20. Operating leases (continued)

Operating leases

	2016	2015
	£	£
Land and buildings		
In one year or more but less than two years	165,150	165,150
In two years or more and less than five years	563,250	574,650
In five years or more	235,200	369,600
Others		
In one year or more but less than two years	73,945	97,179
In two years or more and less than five years	6,202	29,480
In five years or more	-	-
	1,043,747	1,236,059

The lease agreements do not include any contingent rent or restrictions. Leases for land and buildings include renewal periods after 5 years throughout the lease.

21. Related party transactions

Tenant Board Members

The Board has tenant members who hold tenancy agreements on normal terms and cannot use their position to their advantage. Rent charged to the tenant board members was £20,391 (2015: £19,523). There are no arrears on their tenancies at the reporting period end (2015: £none).

22. STOCK TRANSFER OBLIGATIONS

Immediately prior to entering into the Stock Transfer Agreement between the Council and the Society, the Council and Society entered into a contract for the Society to perform the refurbishment works required to bring the properties into an agreed state.

The contract was for a fixed sum equal to the expected cost of the works i.e. £96.04 million. At transfer the Society contracted with the Council to acquire the benefit of the agreed refurbishment works (£96.04 million). The nature of the works under the initial agreement was specified and a right of set off exists between the contracts. These contracts have enabled the Society to recover VAT on repair/improvement costs that would otherwise have been expensed.

The impact of these two transactions is that whilst the Council has a legal obligation to the Society to complete the refurbishment works this work has been contracted back to the Society who are also legally obligated. The underlying substance of the transaction is therefore that the Society has acquired the properties in their existing condition at their agreed value, and will complete certain repairs/improvements in line with guarantees to Tenants of not less than £96.04 million.

The amount outstanding at the 31st March 2016 was £68,812,520 (2015: £75,348,841).

Notes to the Financial Statements

For the year ended 31 March 2016

23. First time adoption of FRS 102

On adoption of FRS 102 SLH has restated the comparatives, the impact on reserves is as follows:

	Note	Reserves as at transition date 1 Apr 2014 £	Surplus/ (deficit) Year ended 31 Mar 2015 £	Reserves as at 31 Mar 2015 £
As previously stated under former UK GAAP		12,248,053	5,871,103	18,118156
Transitional adjustments				
Increase in amortisation of grants relating to housing properties	a	419,494	208,634	628,128
Inclusion of holiday pay accrual	b	(45,147)	-	(45,147)
As stated in accordance with FRS102		12,622,400	6,078,737	18,701,137

Explanation of changes to previously reported profit and equity:

a. FRS102 requires that government capital grant previously deducted from the carrying cost of housing properties is treated as a deferred capital grant creditor and released to the statement of comprehensive income over the useful life of the associated assets. The effect compared to current UK GAAP is an increase in income recognised on transition of £419,494 and £208,634 increase in surplus for the year ended 31 March 2015.

b. FRS102 requires that the cost of unused entitlement and short term employee benefits is measured and recognised in the reporting period. The effect is that unused holiday entitlement has now been recognised as an accrual at the reporting period date. This has resulted in a decrease of reserves at transition of £45,147 and a decrease in the surplus for the year ended 31 March 2016 of £46,452.

Exemptions taken on transition to FRS102:

(1) To measure property, plant and equipment (fixed assets), investment property and goodwill using a previous GAAP revaluation as deemed cost at the variation date; and
(2) The exemption allowed for Public Benefit entity combinations to the ‘acquisition’ of HA1 in 2012.

24. Contingent liability

There are no contingent liabilities (2015: none)