



Annual Report and Financial Statements

For the year ended 31 March 2017

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Members of the Board of Management, Executive Officers and Advisers

Board Members

John Holmes (Chair)
Peter Kuit (Vice Chair)
Emma Beresford
Lorraine Birchall
Giles Archibald (resigned 19 May 2016)
Jonathan Brook (resigned 8 December 2016)
Sara Brown (resigned 8 December 2016)
Philip Dixon
Charles Howarth
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)

Executives

Chief Executive: Catherine Purdy OBE BA (Hons) FCIH MBA

Director of Customers and Communities: David Stubbs FCIH (retired 30 September 2016)
Alison Kinnon MBA CIHCM (appointed 1 October 2016)

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 Ltd
Richard House
9 Winckley Square
Preston PR1 3HP

Chairman's Statement

I am pleased to introduce the South Lakes Housing (SLH) annual report for 2016/17. This is my fourth year as Chairman of SLH and once again it has proved a challenging time under difficult and uncertain circumstances. Events which have shaped the year include;

- At the end of March 2017 all properties met with the requirements of the Decent Homes Standard – for the first time since 2009.
- The creation of a new subsidiary 'Cumbrian Housing and Property Services Limited' to deliver shared repair and improvement works as a cost sharing vehicle, initially with Two Castles Housing Association. The company commenced trading on a small scale in January 2017 and is projected to generate cost reductions for both organisations.
- Board's approval of a refinancing project to secure new funding to replace the Santander facility. This was completed in May 2017 when new funding was put in place with M&G Investments and RBS. This has resulted in a lower cost of borrowing and will give SLH greater flexibility to raise additional finance in the future and increase development capacity.
- The acquisition of 8 new properties in the year, 7 of which were at Kendal Parks Farm which in total will, on completion in 2017/18, add 25 new properties to the portfolio. The development work on 14 new properties on the Waterside Estate continues and is scheduled to complete in January 2018.
- Retaining the top ratings from the Social Housing Regulator on 'financial viability' and 'governance'.
- Completion of the £2.3M flood recovery works – all tenants back in their homes within 9 months.
- Improving rent collection from 99.7% to 100.2%, brought about with fewer evictions and a reduction in legal notices issued.
- Winning the 'Building Healthier Communities' category at an event organised by the Northern Housing Consortium in 2016 for its dementia friendly improvements at Birthwaite Sheltered Housing Scheme in Windermere.

Four board members have left during the year, Alan Walker, Giles Archibald, Sara Brown and Jonathan Brook, 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 and Peter Thornton as new board members 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 affordable housing in South Lakeland.



John Holmes,
Chairman
7th September 2017

Strategic Report for the year ended 31 March 2017

The Board presents its report and audited financial statements for the year ended 31 March 2017.

Principal activity

SLH's principal activity is the management and provision of affordable rented accommodation.

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 p.a. 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 recommendations 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 £7,885k (2016: £8,293k). The Society's turnover was £16,379k (2016: £16,671k). The decrease in turnover in 2017 is mainly due to a fall in income from other social housing activities. Income from social housing lettings has remained static despite the 1% reduction in rents applied to general needs tenants during the year, in accordance with the new Rent Standard, due to new tenancies commencing at a higher 'Target Rent'.

SLH had tangible fixed assets at the year-end of £76.9m (2016: £71.9m). The increase from last year is due to improvement works completed in the year together with the addition of eight new build general needs properties acquired under section 106 arrangements.

As part of the transfer in 2012, SLH entered into an agreement with Santander to provide a loan facility of £55m repayable over 30 years to fund the purchase of properties from SLDC and the programme of improvement works. In February 2016 £15m of this funding facility was cancelled as it could not be fully utilised and repaid during the required repayment period. At the year-end loans of £30m were outstanding under the Santander facility.

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 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 has delivered its five year promises made to tenants at transfer as well as developing a number of high quality new homes and continuing to demonstrate Value for Money (VFM). The most notable achievements in 2016/17 were:

Governance and financial viability

- Retaining top V1 viability and top G1 rating for governance by regulators
- Progressing the refinancing project through to the evaluation of indicative terms from funders which promised to achieve significant reductions in finance costs and generate additional development capacity
- VFM savings of over £900k achieved during the year from proactive procurement, further automation and budget reductions
- A revised financial plan which includes £11m savings in funding costs over the life of the plan following refinancing.

Developing new homes with SLDC and other developers

- Completion of a 13 home development at Natland Road Kendal and commencement of a 25 home development at Kendal Parks Farm, Kendal, both schemes facilitated through s106 agreements with Story Homes
- Commencement of the redevelopment of the Waterside estate in Kendal to provide 14 new homes on previously under-utilised land with grant support from the Homes and Communities Agency (HCA) and SLDC
- Revised financial plans providing for investment in an additional 150 new homes, and a potential £1m investment in a Joint Venture with SLDC, enabled through refinancing of stock transfer funding (which completed in May 2017).

Being at the heart of the South Lakeland community

- Continued employment of a part time Community Engagement Officer and a Financial Inclusion Officer to continue to deliver on social value
- Continued investment in partnerships and community organisations to generate social value through a range of initiatives including 'Seed, Plant and Equipment Swap' in partnership with

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MIND, DIY project in partnership with Bell Group and an ecological project in partnership with John Ruskin School

- Supporting tenants and leaseholders by paying the £5 joining fee per resident for Eden & South Lakeland Credit Union.

Digital transformation

- Increase in online customer generated transactions from 5% to 14% during 2016/17 following improvement of our website and introduction of 'live chat' functionality, resulting in 1 in every 6 customer generated transactions now being made online
- Achievement of 75% digital transactions in our 'digital by default' Choice Based Lettings service.

Improving our performance

- Completion of the 5 year offer document promises
- Creation of a subsidiary 'Cumbrian Housing & Property Services Limited'(CH&PS) in partnership with Two Castles Housing Association (TCHA), to provide shared repair and maintenance services to properties in South Lakeland area, bringing operational efficiencies for SLH and VAT savings for TCHA.

Future plans and challenges

The environmental context in which Housing Associations work has changed significantly since SLH was registered as a housing provider five 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 reduction in public subsidy for affordable rent have changed the risk profile which in turn necessitated the new business strategy.

These changes create additional cost pressures and heightened risk as SLH strives to deliver new homes. In December 2016 the Board approved a new Development Strategy which aims to increase the opportunity for people to rent or acquire ownership in a good quality home at an affordable price. SLH aims to deliver a minimum of 250 additional homes by 2025 facilitated through the take up of grant available for Shared Ownership developments and the provision of alternative tenures including outright sale where there are opportunities to meet local demand. It has also approved new financing arrangements in order to further increase development capacity and maximise flexibility and ability to respond to new opportunities including joint ventures or other partnerships to drive the delivery of new homes.

SLH aims to further build upon the savings being achieved from bringing more improvement and planned works in-house and the efficiencies achieved through the sharing of repair services with other housing associations. Demand for different property types and location will continue to be evaluated alongside property management and repair costs to ensure all our assets continue to deliver a positive 'return on investment' and will meet changing needs. SLH aims to introduce a wider range of support services to help older people to continue to live independently with a view to marketing this service to private residents. The viability of sheltered schemes continues to be closely monitored to ensure costs can be contained within affordable levels given restrictions on benefit levels.

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. To help ensure the board remains effective through a changing environment and will remain well placed to deliver its new corporate objectives, the recommendations made following a review of governance arrangements in 2015 have started to be implemented. These include a change in SLH's Rules, to provide for a move towards a skills based Board, following a special resolution by shareholders to amend SLH's Rules at a Special General Meeting held on 19th July, 2017.

Board and committee structure

At transfer SLH's Board was made up of twelve members comprising four tenant members, four Councillors and four independents, each category of membership having one third of the voting rights (with South Lakeland District Council holding the voting rights for the Council share). Following the rule change outlined above, the Board now consists of between five and twelve board members (including co-opted members) including up to two Council nominees and up to two residents.

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The shareholding follows the principles adopted in relation to Board composition with votes at a general meeting apportioned 24% to tenant shareholders, 52% to independent shareholders and 24% to the Council shareholder.

SLH has retained an Audit & Risk Committee and a Remuneration & Governance Committee. It also has a Development Panel to consider scheme proposals and new opportunities.

In addition to changing the composition of the Board, the agreed rule change provides for Board Member remuneration should the Board consider this appropriate in the future. No member is remunerated at present, although reasonable expenses are reimbursed.

Members of the Board of Directors and the senior executives who served during the year are set out on page 3. 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 nominees 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 3. 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 HCA's Regulatory Standards.

Governance and Financial Viability

The Board has adopted and is compliant with the National Housing Federation's 2015 '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 normally held twice 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

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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 is embedded within the normal management and governance process. This approach includes the regular evaluation of the nature and extent of risks to which the 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 are considered and approved by the Board quarterly. 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.

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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 meets with internal and external audit without staff present at least once per annum and 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 financial year and 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 Executive Team. 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 currently 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 2017, SLH's share of the scheme deficit was £2.3m (2016: £845k), as shown on the statement of financial position and in note 17.

Going concern and liquidity

At the year end the Society had in place a thirty year funding agreement with Santander. In May 2017 this was replaced by a new 20 year financing agreement with M&G Investments and a 10 year facility with the Royal Bank of Scotland. Robust financial forecasting and monitoring systems in place give the Board 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 3, 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

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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 following 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 has during the year established a Cost Sharing Vehicle (CSV) with Two Castles Housing Association (TCHA) to deliver repair and maintenance services to properties owned across South Lakes initially with a view to broadening provision across Cumbria over the next few years. This has been established as a subsidiary of SLH, with SLH owning 85% of the shares and TCHA owning 10%. The remaining shares are held for potential future members. This vehicle has been established to 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 around £650k over the first 6 years.

SLH has during the year further invested in IT systems with the implementation of Civica's 'Keystone' asset management system to complement Civica's 'Cx' housing management system implemented last year. This has enabled us to reduce the number of feeder systems required, streamline our processes and make significant savings in annual support and maintenance costs. 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 through customer self-help and agile working. A new HR system has also been implemented during the year, generating efficiency savings and improved controls in HR processes.

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. This was based on accounts for year ended March 2015. The latest results for SLH based on accounts for the year ended March 2016 and an explanation of variances to sector averages, together with a comparison to other local providers, is set out 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/value-for-money-2/>.

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

Asset performance

SLH actively manages its assets to ensure the use of all its resources are maximised. In 2014 a comprehensive evaluation of the return on all its housing assets was undertaken. 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

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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.

We have continued to review our assets through the data held within the appraisal model which has been updated with improved stock condition information and 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 investment programme which should lead to reduced voids and responsive repair costs. 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 meet identified demand).

Investment programmes have continued in 2016 and have been driven by the active asset management model combined with condition data to achieve the stock transfer promise of SLH meeting the requirements of the Decent Homes Standard by March 2017.

Planned improvement works have also been brought forward for low return assets and completed during void periods to improve lettable and reduce void rent losses and will result in lower responsive repair costs in future years. It is anticipated that this approach will result in a decrease in the annual turnover of void properties with tenants maintaining longer tenancies. The number of voids per annum has reduced from 249 in 2015/16 to 234 in 2016/17. The 2017/18 first quarter result of 49 indicates a potential further reduction for 2017/18.

The appraisal model is also being used to drive the works programme for communal areas and blocks of flats to improve the aesthetics, and therefore lettable, of our estates.

In 2016/17 a new Asset Management System (Civica's 'Keystone' system) has been introduced and the integration is progressing well. All condition data has been transferred and allows far greater visibility along with planning and forecasting functionality for programmes of work. The Asset Management System integrates with the new Housing Management System (Civica 'Cx') which was implemented in July 2016, improving access to asset data for all staff.

An independent survey has been undertaken and completed by Savills to validate the stock condition data held and support confidence in the improvement programme planning. An independent survey of structural elements has also been carried out to substantiate condition data held and assist in financial planning.

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 lettable. Over the next few years particular localities will be targeted for regeneration works 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 ('Cx') now provides more detailed repair cost information based on the National Housing Federation's 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 the review of five Sheltered Housing Schemes which resulted in one scheme being identified for alternative use appraisal, including disposal. We have also adopted a de-sheltering policy to target issues relating to demand by removing letting restrictions.

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.

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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

In 2016 a Development Strategy was approved by SLH Board. The Strategy outlines the approach for building 250 new homes by 2025.

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 targets and in 2016 SLH achieved HCA Development Partner status. This has enabled us to successfully bid for £245k funding in the first round of bids under the Shared Ownership Affordable Housing Programme 2016-2021 for the development of seven shared ownership units. We have also bid and successfully entered into a framework agreement with Cumbria County Council for the delivery of an Extra Care and Supported Living development.

To support the delivery of SLH's Development Strategy we have appointed a consultant Development Director and Development Project Manager to the Assets and Investment Directorate.

SLH is keen to build longer term relationships with existing and new 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. We have continued to acquire affordable housing units through Section 106 planning requirements and have strong relationships with several well established developers.

We are also looking to enter a Joint Venture with SLDC to tackle the predicted shortfall in numbers of affordable housing and negotiations are currently underway to enable a highly targeted approach which will accelerate the supply of affordable housing in the District.

We have also begun to review our existing estates for regeneration with one scheme currently undergoing works and two others undergoing in-depth analysis.

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 our strategic objectives.

The Government's 'Ten Year rent Settlement' which came into force in April 2015 restricted the increase in individual rents each year to a maximum of CPI plus 1%. This 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, resulting in a reduction in rental income of over £1m over the following five years. 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

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below. Pending further policy detail regarding future rent setting, financial plans have assumed increases of CPI only beyond the rent reduction period, with no additional income assumed which might result from new flexibilities in rent setting.

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 2016/17 almost half of our income (43p 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:	2016/17	2015/16
Improving homes and communities	43p	44p
Management	21p	21p
Repairs and maintenance	18p	18p
Interest on loans	10p	11p
Service costs	3p	4p
Other costs	<u>5p</u>	<u>2p</u>
Total £1 spend	<u>100p</u>	<u>100p</u>

The increase in 'other' costs is in predominantly due to the increase in depreciation charges which are accelerating in line with the cumulative spend on new homes and improvement works.

The cost cutting exercise undertaken in 2015 identified significant savings over the life of the financial plan. These included recurring management cost savings of around £500k per annum, and permanent reductions in responsive repair and improvement works costs of 6% per annum. These are being achieved through improvements in efficiency and economies of scale brought about by sharing services delivered through the CSV and from bringing further works in-house.

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. This represents an increase in our management cost of around £76 per property per annum.

The refinancing project which commenced during the year and completed on 31st May 2017 will bring considerable savings in interest in future accounting periods, with the average cost of borrowing reducing from 4.99% to 2.81% immediately after completion (with 74% fixed rate finance). Replacing an element of variable with fixed rate loans at the end of June 2017 raised the average cost of finance to 3.07% with fixed rate finance amounting to 96% of total borrowings. The evaluation carried out at the commencement of the refinancing project anticipated total savings in finance costs of around £11m over the life of the financial plan after taking into account breakage costs payable on existing loans.

Cost per Unit (CPU) analysis

The HCA's review of operating costs in 2015, which aimed to gain a better understanding of the wide variations in costs across the sector, revealed that although much of the differences between providers were explained by levels of supported and older people's housing, a significant proportion was down to differences in efficiency. It also concluded that there was no significant evidence of a relationship between size of provider and lower cost. Following this review associations were asked by the regulator to make a 'step-change' in operating efficiency and whilst accepting that no single metric can perfectly capture diversity in business models, it aims to use this data as a reference point in 'In depth Assessments' (IDA's) and stability checks.

The 2016 review showed that globally, at an entity level, average headline CPUs have increased by 1% to £3,970 per annum. These still showed a significant variation in costs with some providers with large amounts of supported housing have costs of over £10k per unit. Upper and lower quartiles are

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£3,120 and £4,350 respectively. For SLH the overall headline CPU has reduced by 7.5% from £4.79k per unit (the SLH adjusted CPU for last year which was lower than that published) to £4.43k per unit, representing a favourable movement of 8.5% better than the average for the sector.

The table also provides a comparison of SLH's costs with other housing providers of a similar size operating in Cumbria. CPUs excluding major repair costs have also been calculated to provide a more meaningful comparison of operating costs given the significant differences in the improvement programmes across these organisations.

SLH Costs per Unit 2015/16 compared to other Cumbrian Housing Providers:

Association	Published CPUs						Headline CPU excl Major repairs (£K)
	Headline social housing cost CPU (£K)	Management CPU (£K)	Service charge CPU (£K)	Maintenance CPU (£K)	Major repairs CPU (£K)	Other social housing costs CPU (£K)	
SLH	4.43	1.14	0.22	0.94	2.03	0.10	2.40
Eden	2.85	1.16	0.08	1.09	0.00	0.53	2.85
Impact	3.74	1.85	0.29	1.20	0.39	0.93	3.35
Two Castles	2.88	0.89	0.53	0.74	0.70	0.02	2.18
Sector average	3.97	1.08	0.53	1.01	0.89	0.47	3.08

An analysis of operating costs excluding major works shows that SLH's day to day running costs per unit (management, services and maintenance costs) at £2.4k per unit are significantly lower than the sector nationally which averages £3.08k per unit. Our day to day running costs also compare favourably to other associations operating in Cumbria the average costs across the other three Cumbrian associations being £2.79k per unit. At £1.14k per unit SLH's management costs were in 2015/16 higher than the sector average of £1.08k per unit and plans are in place to substantially reduce these (see projected CPUs below). There has in recent years been a significant investment in ICT with the implementation of new housing management, asset management and HR systems which have reduced the number of 'feeder' systems supported, resulting in efficiencies in system management and a reduction in third party support costs.

The reduction in service costs has been a result of the early stages of a restructure of sheltered services which saw a reduction in the number of Sheltered Scheme Managers employed. Further savings will follow in future years following the consolidation of sheltered scheme offices into two 'hubs' which aims to both reduce costs and improve service provision. This cost reduction is passed onto tenants by way of reduced service charges and will help to narrow the gap between total rents and service charges will remain within benefit caps being imposed under Welfare Reform.

SLH's Maintenance costs have reduced from the previous year which at £1.01k per unit were slightly higher than the sector average of £0.98k. However at £0.94k per unit for 2016 costs were 7% lower than the sector average of £1.01k per unit. This has been achieved following a review and more rigorous adherence to our repairs standard which was undertaken as part of our drive to improve Value for Money and reduce costs.

SLH's major repair costs of £2.03k per unit demonstrates the significant continued investment in our housing stock which is typical of a recent stock transfer organisation.

A comparison of SLH's costs to the average costs for a group of 9 recent stock transfer associations (less than 7 years old) shows that most of SLH's cost categories are lower than the averages for this group.

SLH Costs per Unit 2015/16 compared to other recent LSVTs:

Cost per unit 2015/16	Headline social housing cost CPU (£k)	Management CPU (£K)	Service charge CPU (£K)	Maintenance CPU (£K)	Major repairs CPU (£K)	Other social housing costs CPU (£K)
SLH	4.43	1.14	0.22	0.94	2.03	0.10
LSVT (<7 years) average	4.30	1.21	0.24	1.03	1.63	0.18

As expected for recent LSVTs major repairs spend is higher than sector averages, and at £1.63k per unit is almost double the average for the sector of £0.89k per unit. SLH's major works spend at £2.03k

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per unit in 2015/16, representing a spend of £6.3m on improvement works, is around 25% higher than the average for other recent transfer associations in 2015/16. This is due to the relatively high average spend per home required to bring stock to Decent Homes Standard, exacerbated by the geography and planning requirements in the area. This has impacted adversely on the headline cost indicator for SLH which is higher than the average for recent stock transfer organisations. However SLH's management, service and maintenance costs are all lower than the average for the organisations in this group.

Projected CPUs

SLH continues to make transformational changes in the way it operates in order to achieve significant recurrent cost reductions. Most significantly, the creation of a subsidiary to form a 'Cost Sharing Vehicle' for the delivery of shared repair services to other housing organisation's properties across Cumbria aims to achieve significant savings through economies of scale and savings in VAT as it brings additional work in house. Plans to roll this service out across Cumbria will drive further operational efficiency and economies of scale, and the further expansion of planned and improvement works will reduce reliance on subcontractors and generate additional VAT savings.

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 have the potential to facilitate cost reductions in other organisations operating in Cumbria.

Further analysis including a comparison with other organisations using Housemark's 'Global Accounts Storyboard' are set out in our full VFM Self Assessment document available on our website. SLH has participated in the 'Efficiency Scorecard' pilot project, which is to be used by the regulator to assess performance, the results of which will also be published as soon as they can be made available.

Although the HCA urges caution in comparing actual and forecast data across years due to changes in accounting treatment, it has projected that globally costs are expected to fall by 4.3% between 2016 and 2020 to £3,800 per annum. Compared to forecast CPI this represents a real terms reduction of 12% for the four years from 2015/16. SLH's overall costs are expected to reduce by 16% over the same period (23.7% in real terms compared to the 12% for the sector as a whole).

This overall cost reduction is inclusive of major repair costs which will reduce marginally in future years following delivery of the first five year improvement works promises, although SLH's investment in its homes continues at a relatively high level over the next few years. With a spend of around £4.1m per annum over the next three years and around £4.5m per annum for 2023 to 2027, costs will remain higher than the average major repairs spend for of LSVTs of less than 7 years old due to the continued spend to bring homes up to the South Lakes Standard, a level higher than the Decent Homes Standard. At £1.46k per unit at 2019/20 SLH's costs will still be significantly higher than the current £0.88k per unit average for the sector as a whole. This will continue to have an adverse impact on SLH's headline operating cost. The projected spend on major repairs has however reduced from levels estimated at transfer in 2012, with savings of around £6.4m expected to be achieved on future works over the remaining 25 year programme as a result of collaborative procurement and bringing additional works in house. This represents an average cost reduction of £212k per annum or £69 per unit, from an average of £1.55k per unit per annum to £1.48k per unit per annum average.

Management costs are expected to reduce over the next few years with continued savings in IT support costs and potentially staff cost savings from 2022/23 onwards, subject to agreement to changes in pension provision which are currently the subject of formal consultation. Should changes to pensions and terms and conditions be agreed, costs will increase by £0.09k per unit in 2017/18 and £.03k per unit in 18/19 but will reduce by £0.03k per unit from 19/20 onwards generating savings in management costs in the longer term. These figures have not been assumed in the projections below as SLH is still in a period of consultation on these proposals. There will also be an ongoing investment in ICT over the next few years as SLH strives to maximise customer access through the further digitalisation of its services.

Whilst SLH's maintenance costs are expected to reduce with the expansion of the CSV, potential further savings have not yet been assumed in forward projections pending confirmation of future membership and levels of economies of scale achievable.

Recent years actual and projected CPUs for SLH are summarised as follows:

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Actual and projected CPUs

	Headline social housing cost CPU (£k)	Management CPU (£K)	Service charge CPU (£K)	Maintenance CPU (£K)	Major repairs CPU (£K)	Other social housing costs CPU (£K)
2014/15 restated	4.79	1.02	0.21	1.01	2.46	0.10
2015/16 as published	4.43	1.14	0.22	0.94	2.03	0.10
Change on previous year	-8%	13%	4%	-7%	-17%	-3%
2016/17 per final accounts	4.20	1.15	0.17	0.96	1.81	0.11
Change on previous year	-5%	0%	-24%	3%	-11%	19%
2017/18 Projection per FFR	4.13	1.13	0.11	0.94	1.86	0.09
Change on previous year	-2%	-1%	-34%	-3%	3%	-19%
2018/19 Projection per FFR	3.64	1.13	0.11	0.94	1.38	0.08
Change on previous year	-12%	0%	2%	0%	-26%	-13%
Total change 15/16 to 18/19	-18%	-1%	-49%	0%	-32%	-16%

VFM performance and comparisons to others

SLH have used Housemark's VFM self-assessment Data Pack to compare its performance to others. The Data Pack brings together the most recent validated cost data available for SLH and our peer group (housing associations with between 3,000 and 7,000 homes). Data is sourced from 2015/16 published financial statements and uplifted by inflation based on September RPI of 2.0%.

The pack shows the following areas of above average comparator performance (where group 1 is best);

- Overheads as a percentage of adjusted turnover (group 2)
- Cost per property: housing management (group 1)
- Total tenant arrears as a % rent due (group 2)
- Rent arrears of current tenants as % rent due (group 1)
- Evictions due to rent arrears as a % of all tenancies (group 2)
- Rent loss due to voids (group 2)
- Responsive repairs: management costs as % of service provision costs (group 1)
- Percentage of repairs completed at the first visit (group 1)
- Major works: management costs as % of service provision costs (group 1)
- Total cost per property: estate services (group 1)
- Staff turnover (group 2)
- Average number of days lost to sickness (group 1)

The pack shows the following areas of below average comparator performance (where group 4 is worst);

- Rent arrears of former tenants as % rent due (group 3)
- Rent arrears of current and former tenants written-off as % rent due (group 3)
- Tenancy turnover rate (group 3)
- Total cost per property: responsive repairs and void works (group 3)
- Void works: management costs as % of service provision costs (group 3)
- Cost per property: total major works & cyclical maintenance (group 4)
- Cyclical maintenance: management costs as % of service provision costs (group 3)
- Average energy efficiency rating (group 4)

Key focus 1: Major works & cyclical costs

Major works costs and cyclical costs are higher than median levels as a result of the significant spend on repair and improvement works required following stock transfer. SLH met the requirements of the Decent Homes Standard in March 2017. The impact of maintaining properties in the National Parks and in conservation areas (39% of stock) together with dispersed geography are a key driver of higher than average costs. SLH will be undertaking further opportunities for joint procurement through Cumbria Housing Partners to further reduce future costs.

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Key focus 2: Responsive repairs and voids

SLH has a long term investment plan which aims to continue to reduce the demand for day to day repairs. The 2016/17 void expenditure was £1,842 per void property which is £285 less than in 2015/16 (£2,127). The development of our cost sharing vehicle (CH&PS) is already starting to pay dividends in lowering comparator costs with a 3% reduction in costs expected in 2017/18.

Key focus 3: Rent arrears

Rent collection has improved from 99.7% in 2015/16 to 100.2% in 2016/17 which is SLH's best ever performance level, achieved with fewer evictions and a reduction in legal notices issued. This follows a restructure of the department in January 2017 and the creation of a dedicated Income Team. Universal Credit contributes to 14% (£37k) of overall arrears, up from 12% in 15/16, and SLH has in place a welfare reform action plan in preparation for full service roll out in 2018.

Key focus 4: Tenancy sustainability

Around 14% of SLH's stock is sheltered housing which naturally means that there is an older persons profile in comparison to others. The occupancy rate in general needs accommodation is historically 99% and there are only a few areas of concern in relation to tenancy sustainability issues. There is no concern in relation to ASB and customer satisfaction with the neighbourhood remains high at 91% (2016 STAR survey).

SLH assets perform well overall but there is work underway to assess the viability and potential for regeneration schemes in some of our more difficult to let stock, including; Maryfell and Castle Garth at Sedbergh and Hall Park in Burneside.

SLH is also developing a business plan for expanding the Independent Living Service which will be targeted at private residents and older people living in general needs accommodation.

Prospective tenants now undergo a robust affordability and sustainability check before signing up to the tenancy and where it is deemed necessary, a pre-tenancy interview is undertaken with the Senior Financial Inclusion Officer. This helps SLH to identify any potential issues at an early stage and help ensure tenancy sustainability.

Key focus 4: Energy efficiency

SLH has a significant proportion (39%) of its stock within the National Parks and conservation areas and most of these properties are traditional stone built without cavity insulation. We are engaging with an external consultant to develop an energy efficiency strategy to make improvements to properties with low energy efficiency.

Annual General Meeting and approval

Annual General Meeting

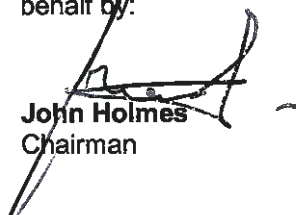
The Annual General Meeting is to be held on 7 September 2017 to receive the accounts to 31 March 2017.

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 7 September 2017 by the Board and was signed on its behalf by:


John Holmes
Chairman

Independent Auditor's Report to the Members of South Lakes Housing

Opinion

We have audited the financial statements of South Lakes Housing ('the Society') for the year ended 31 March 2017 on pages 22 to 49 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the Society's members, as a body, in accordance with section 87(2) of the Cooperative 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 of Management and the auditor

As explained more fully in the Statement of Board of Management's Responsibilities set out on page 8, the Board of Management 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.

Independent Auditor's Report to the Members of South Lakes Housing (continued)

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

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 2017 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of 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.

Independent Auditor's Report to the Members of South Lakes Housing (continued)

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 require us to report to you if, in our opinion:

- a satisfactory system of control over transactions has not been maintained; or
- the Society has not kept proper accounting records; or
- 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


**Beever and Struthers, Statutory Auditor
St George's House
215-219 Chester Road
Manchester
M15 4JE**


7th September 2017

Statement of Comprehensive Income

For the year ended 31 March 2017	Note	2017 £'000	2016 £'000
Turnover	2	16,379	16,671
Operating costs	2	(8,494)	(8,378)
Operating surplus		<u>7,885</u>	<u>8,293</u>
Gain on disposal of property, plant and equipment (fixed assets)	6	561	736
Interest receivable	7	32	17
Interest and financing costs	8	(2,227)	(1,756)
Surplus for the year before and after taxation		<u>6,251</u>	<u>7,290</u>
Actuarial (loss)/gain in respect of pension schemes	17	<u>(1,163)</u>	<u>699</u>
Total comprehensive income for the year		<u><u>5,088</u></u>	<u><u>7,989</u></u>

The financial statements on pages 22 to 49 were approved and authorised for issue by the Board on 7th September 2017 and were signed on its behalf by:


J. Holmes
 Chairman


P. Kuit
 Vice Chairman

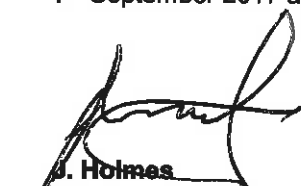

L. Simons
 Company Secretary

The results relate wholly to continuing activities and the notes on pages 26 to 49 form an integral part of these accounts.

Statement of Financial Position

At 31 March 2017	Note	2017 £'000	2016 £'000
Fixed assets			
Tangible fixed assets	12a & b	76,943	71,905
Debtors due after more than one year	22	57,686	63,272
Current assets			
Stock	13	459	170
Trade and other debtors	14	6,654	6,857
Cash and cash equivalents		9,086	1,544
		<u>16,199</u>	<u>8,571</u>
Less: Creditors: Amounts falling due within one year	15	(2,307)	(2,566)
Net current assets		<u>13,892</u>	<u>6,005</u>
Total assets less current liabilities		<u>148,521</u>	<u>141,182</u>
Creditors: Amounts falling due after more than one year	16	(114,443)	(113,601)
Provisions for liabilities			
Pension Provision	17	(2,254)	(845)
Total net assets		<u>31,824</u>	<u>26,736</u>
Capital and reserves			
Non-equity share capital	18	-	-
Income and expenditure reserve		31,824	26,736
Total reserves		<u>31,824</u>	<u>26,736</u>

The financial statements on pages 22 to 49 were approved and authorised for issue by the Board on 7th September 2017 and signed on its behalf by:


J. Holmes
 Chairman


P. Kuit
 Vice Chairman


L. Simons
 Company Secretary

The notes on pages 26 to 49 form an integral part of these accounts.

Statement of Changes in Reserves

For the year ended 31 March 2017

	Income and expenditure reserve £'000
Balance at 1 April 2015	18,118
Surplus from Statement of Comprehensive Income	7,989
Prior Year Adjustment	629
Balance at 31 March 2016	26,736
Surplus from Statement of Comprehensive Income	5,088
Balance at 31 March 2017	31,824

The notes on pages 26 to 49 form an integral part of these accounts.

Statement of Cash Flows

For the year ended 31 March 2017

	2017 £'000	2016 £'000
Net cash generated from operating activities	8,144	7,614
Cash flow from investing activities		
Purchase of tangible fixed assets	(6,542)	(8,060)
Proceeds from sale of tangible fixed assets	1,562	2,143
Grants received	979	125
Interest received	32	17
	<u>4,175</u>	<u>1,839</u>
Cash flow from financing activities		
Interest paid	(1,633)	(1,722)
New secured loans	5,000	-
Repayment of borrowings	-	(3,000)
	<u>-</u>	<u>(3,000)</u>
Net change in cash and cash equivalents	7,542	(2,883)
Cash and cash equivalents at beginning of the year	1,544	4,427
	<u>1,544</u>	<u>4,427</u>
Cash and cash equivalents at end of the year	9,086	1,544
	<u>9,086</u>	<u>1,544</u>
Cash flow from operating activities		
Surplus for the year	6,251	7,290
Adjustments for non-cash items		
Depreciation of tangible fixed assets	1,211	934
Amortisation of intangible assets	593	23
Interest and financing costs	1,633	1,756
Interest receivable	(32)	(17)
Gain on disposal of property, plant and equipment	(561)	(736)
(Increase)/decrease in stock	(459)	(78)
(Increase)/decrease in trade and other debtors	203	(321)
Increase/(decrease) in trade and other creditors	(259)	(97)
Pension costs less contributions payable	(222)	(297)
Government grants utilised in the year	(214)	(215)
Government grants utilised in prior years	-	(628)
	<u>1,211</u>	<u>934</u>
Net cash generated from operating activities	8,144	7,614
	<u>8,144</u>	<u>7,614</u>

The notes on pages 26 to 49 form an integral part of these accounts.

Notes to the Financial Statements

For the year ended 31 March 2017

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 £, rounded to the nearest £1,000.

The financial statements have been prepared in compliance with FRS102.

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 above. 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 2017

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.

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.

- D Financial Instruments.** Financial assets such as cash and current asset investments are held at cost and classified as current assets. Financial liabilities such as bonds and loans are held at cost with the associated costs of raising finance amortised over the life of the financial instrument to which they relate.

Notes to the Financial Statements

For the year ended 31 March 2017

1. Principal Accounting Policies (continued)

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.

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 2017

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 2017

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 2017

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 2017

2. Turnover, operating expenditure and operating surplus

31 March 2017	Turnover £'000	Operating expenditure £'000	Operating Surplus £'000
Social Housing Lettings (note 3)	15,342	8,115	7,227
Other Social Housing Activities	905	351	554
Activities other than social housing	132	28	104
TOTAL	<u>16,379</u>	<u>8,494</u>	<u>7,885</u>

Turnover, operating expenditure and operating surplus

31 March 2016	Turnover £'000	Operating expenditure £'000	Operating Surplus £'000
Social Housing Lettings (note 3)	15,352	8,051	7,301
Other Social Housing Activities	1,157	297	860
Activities other than social housing	162	30	132
TOTAL	<u>16,671</u>	<u>8,378</u>	<u>8,293</u>

Notes to the Financial Statements

For the year ended 31 March 2017

3. Turnover and operating expenditure from social housing letting

	General Housing	Supported Housing and Housing for Older People	Total 2017	Total 2016
	£'000	£'000	£'000	£'000
Income				
Rent receivable net of identifiable service charges and net of voids	12,463	2,016	14,479	14,444
Service charge income	-	640	640	670
Amortised government grants	190	31	221	236
Other income from Social Housing Lettings	2	-	2	2
Turnover from Social Housing Lettings	12,655	2,687	15,342	15,352
Operating expenditure				
Management	(3,253)	(271)	(3,524)	(3,558)
Service charge costs	-	(511)	(511)	(678)
Routine maintenance	(1,810)	(10)	(1,820)	(1,705)
Planned maintenance	(1,161)	-	(1,161)	(1,205)
Bad debts	(78)	(13)	(91)	(82)
Depreciation of housing properties	(868)	(140)	(1,008)	(823)
Operating expenditure on Social Housing Lettings	(7,170)	(945)	(8,115)	(8,051)
Operating Surplus on Social Housing Lettings	5,485	1,742	7,227	7,301
Void Losses (being rental income lost as a result of property not being let, although it is available for letting)	(104)	(17)	(121)	(100)

Notes to the Financial Statements

For the year ended 31 March 2017

4. Accommodation owned, managed and in development

Under management at end of year:	2017 No. of properties	2016 No. of properties
General needs housing	2,654	2,662
Supported housing and housing for older people	431	440
Shared ownership properties	5	5
Discounted sale properties	<u>3</u>	<u>-</u>
	3,093	3,107
	<hr/>	<hr/>
	2017 No. of properties	2016 No. of properties
In management, but not ownership, at end of year:		
Housing accommodation	3	3
Leasehold properties	<u>260</u>	<u>256</u>
	263	259
	<hr/>	<hr/>

5. Surplus on ordinary activities

	2017 £'000	2016 £'000
The operating surplus is stated after charging:		
Auditor's remuneration (excluding VAT):		
Statutory audit	13	12
Fees payable to the company's auditor and its associates for other services to the association:		
Tax compliance services	-	2
Service charge certification	-	-
Operating lease rentals		
Land and buildings	139	132
Office equipment	6	6
Motor vehicles	176	132
Depreciation of housing properties	1,008	823
Depreciation of other fixed assets	203	111
Surplus on sale of other fixed assets	<u>561</u>	<u>736</u>
	<hr/>	<hr/>

Notes to the Financial Statements

For the year ended 31 March 2017

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

	Property assets	Total	Total
	2017	2017	2016
	£'000	£'000	£'000
Proceeds of sales	1,562	1,562	2,142
Less: Costs of sales	(1,001)	(1,001)	(1,406)
	<hr/>	<hr/>	<hr/>
Surplus	561	561	736
	<hr/>	<hr/>	<hr/>

7. Interest receivable

	2017	2016
	£'000	£'000
Bank interest receivable	32	17
	<hr/>	<hr/>

Notes to the Financial Statements

For the year ended 31 March 2017

8. Interest and financing costs

	2017 £'000	2016 £'000
Deferred benefit pension charge	(24)	(34)
On loans repayable within five years	(498)	(365)
On loans wholly or partly repayable in more than five years	(992)	(997)
	<hr/>	<hr/>
Total interest	(1,514)	(1,396)
Loan fees and charges	(713)	(360)
	<hr/>	<hr/>
Total interest payable and similar charges	(2,227)	(1,756)
	<hr/> <hr/>	<hr/> <hr/>

9. Employee information

	2017 Number	2016 Number
The average number of persons employed during the year, expressed in full time equivalents (37 hours per week) was:	106	115
	<hr/>	<hr/>

Staff costs	2017 £'000	2016 £'000
Wages and salaries	2,882	3,023
Social security costs	265	209
Other pension costs	616	729
	<hr/>	<hr/>
	3,763	3,961
	<hr/> <hr/>	<hr/> <hr/>

	2017 Number	2016 Number
The aggregate number of full time equivalent staff whose remuneration exceeded £60,000 in the period:		
£60,000 to £69,999	2	1
£70,000 to £79,999	-	-
£80,000 to £89,999	1	2
£90,000 to £99,999	1	2
£100,000 +	1	-

Notes to the Financial Statements

For the year ended 31 March 2017

10. Key management personnel remuneration

	2017	2016
	£'000	£'000
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	464	436
The emoluments paid to the highest paid Director excluding pension contributions	112	83

The Chief Executive was not a 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. The highest paid Director in 2017 was not the highest paid Director in the previous year due to joining part way through the year.

Key management personnel are defined as the members of the Board, the Chief Executive and any other person who is a member of the Executive or Senior Management Teams or their equivalent.

Notes to the Financial Statements

For the year ended 31 March 2017

11. Tax on Surplus on Ordinary Activities

	2017 £'000	2016 £'000
Current taxation:		
UK Corporation Tax charge for the year	-	-
Deferred taxation:		
Net origination and reversal of timing differences	-	-
	<hr/>	<hr/>
Tax on surplus on ordinary activities	<hr/> - <hr/>	<hr/> - <hr/>
 The tax assessed		
 The tax assessed in the year is lower than the standard rate of corporation tax in the United Kingdom at 0% (2016 0%). The differences are explained as follows :	2017	2016
Total tax reconciliation	£'000	£'000
Surplus on ordinary activities before taxation	6,251	7,290
	<hr/>	<hr/>
Theoretical tax at UK corporation tax rate of 20% (2016: 20%)	1,250	1,458
Effects of:		
-Surpluses relating to charitable period	(1,250)	(1,458)
	<hr/>	<hr/>
Total taxation charge	<hr/> - <hr/>	<hr/> - <hr/>

Notes to the Financial Statements

For the year ended 31 March 2017

12a. Tangible fixed assets

	Social Housing Properties for Letting Completed £'000	Social Housing Properties for letting under Construction £'000	Shared Ownership Housing Properties £'000	Total Housing Properties £'000
Cost				
At start of the year	72,697	9	118	72,824
Additions to properties acquired	517	323	-	840
Works to existing properties	5,592	-	-	5,592
Schemes completed	9	(9)	-	-
Disposals	(295)	-	-	(295)
	<hr/>	<hr/>	<hr/>	<hr/>
At end of the year	78,520	323	118	78,961
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation and impairment				
At start of the year	(1,670)	-	-	(1,670)
Charge for the year	(1,008)	-	-	(1,008)
At end of the year	(2,678)	-	-	(2,678)
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value at 31 st March 2017	75,842	323	118	76,283
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value at 31 st March 2016	71,027	9	118	71,154
	<hr/>	<hr/>	<hr/>	<hr/>

100% of the housing properties are pledged as security with the bank as security for the loans as at 31 March 2017.

Notes to the Financial Statements

For the year ended 31 March 2017

12b. Other tangible fixed assets

	Computer Equipment £'000	IT Infrastructure £'000	Furniture & Fittings £'000	£'000
Cost				
At 1 April 2016	685	187	327	1,199
Additions	84	-	26	110
Disposals	(259)	-	-	(259)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2017	510	187	353	1,050
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation				
At 1 April 2016	(301)	(56)	(89)	(446)
Charge for the year	(149)	(19)	(35)	(203)
Disposals	259	-	-	259
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2017	(191)	(75)	(124)	(390)
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 31 March 2017	319	112	229	660
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2016	384	131	238	753
	<hr/>	<hr/>	<hr/>	<hr/>

Notes to the Financial Statements

For the year ended 31 March 2017

13. Stock

	2017 £'000	2016 £'000
Stocks held within:		
Stores	2	3
Trade vehicles	30	27
	<u>32</u>	<u>30</u>
Properties held for sale:		
Discounted sale properties completed	300	-
Discounted sale properties under construction	90	-
Work in progress on housing, land and buildings – potentially abortive costs	37	140
	<u>459</u>	<u>170</u>

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

14. Trade and Other Debtors

	2017 £'000	2017 £'000	2016 £'000	2016 £'000
Rent and service charge arrears	1,048		882	
Less: provision for bad debts	(339)		(357)	
	<u>709</u>		<u>525</u>	
Trade debtors	176		163	
Less: provision for bad debts	(73)		(73)	
	<u>103</u>		<u>90</u>	
Value Added Tax		129		240
Prepayments and accrued income		178		450
Other debtors		-		12
Stock transfer obligation (note 22)		5,535		5,540
		<u>6,654</u>		<u>6,857</u>

Notes to the Financial Statements

For the year ended 31 March 2017

15. Creditors: amounts falling within one year

	2017	2016
	£'000	£'000
Rent and service charges received in advance	214	163
Trade creditors	470	413
Accruals and deferred income	1,240	1,662
Other taxation and social security	69	62
Other creditors	87	53
Deferred capital grant	227	213
	<hr/>	<hr/>
	2,307	2,566
	<hr/> <hr/>	<hr/> <hr/>

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

	2017	2016
	£'000	£'000
Loans	30,000	24,406
Deferred Capital Grant	21,223	20,382
Stock transfer obligation	63,220	68,813
	<hr/>	<hr/>
	114,443	113,601
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements

For the year ended 31 March 2017

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

Debt Analysis	2017 £'000	2016 £'000
Loans not repayable by instalments		
Loan maturing under floating arrangement within one year, but wholly repayable in five years or more	-	-
Loan wholly repayable in five years or more	30,000	25,000
	<hr/>	<hr/>
	30,000	25,000
Less loan arrangement fees	-	(594)
	<hr/>	<hr/>
	30,000	24,406
	<hr/> <hr/>	<hr/> <hr/>

South Lakes Housing has an agreed loan facility of up to £40m with Santander plc that was repaid in May 2017. The Royal Bank of Scotland and M&G Investments provided alternative finance of £40m in May 2017. These loans are secured by a charge over the Society's assets to a value of 110% of the loans. During the year there were fixed and variable rate loans at various rates of between 4.93% and 5.65% with Santander.

Loan arrangement fees are capitalised and amortised over the remaining life of the loan.

16(b) Deferred capital grant

	2017 £'000	2016 £'000
At start of year	20,595	20,862
Grant received in the year	1,214	125
Released to income in the year	(214)	(215)
Relating to disposals in the year	(145)	(177)
	<hr/>	<hr/>
At the end of the year	21,450	20,595
	<hr/> <hr/>	<hr/> <hr/>
Amount due to be released < 1 year	227	213
Amount due to be released > 1 year	21,223	20,382

Notes to the Financial Statements

For the year ended 31 March 2017

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 2017 were £532,543, of which employer's contributions totalled £376,567 and employees' contributions totalled £155,976. The agreed contribution rates for future years are 17.1% 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 2017 by a qualified independent actuary.

	2017 % per annum	2016 % per annum
Rate of increase in salaries	3.5	3.5
Rate of increase in pensions in payment	2.0	2.0
Discount rate	2.6	3.8
Inflation assumptions (CPI)	2.0	2.0

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

	2017 Years	2016 Years
Retiring today		
Males	23.1	23.1
Females	25.7	25.7
Retiring in 20 years		
Males	25.4	25.9
Females	28.4	28.9

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

	2017 £'000	2016 £'000
Employer service cost (net of employee contributions)	588	719
Past service cost / (gain)	-	-
	<hr/>	<hr/>
Total operating charge	588	719
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements

For the year ended 31 March 2017

Analysis of pension finance Income/(costs)	2017	2016
	£'000	£'000
Expected return on assets	(435)	(397)
Interest on pension liabilities	459	431
	<hr/>	<hr/>
Amounts charged/credited to financing costs	24	34
	<hr/>	<hr/>
Amount of gains and losses recognised in the Statement of Comprehensive Income	2017	2016
	£'000	£'000
Actuarial gains/(losses) on pension scheme assets	(2,798)	(181)
Actuarial gains/(losses) on scheme liabilities	3,961	880
	<hr/>	<hr/>
Actuarial gain/(loss) recognised	1,163	699
	<hr/>	<hr/>

Notes to the Financial Statements

For the year ended 31 March 2017

17. Pensions (continued)

	2017 £'000	2016 £'000
Movement in surplus/(deficit) during the year		
(Deficit)/surplus in scheme at 1 April	(845)	(1,213)
Movement in year:		
Employer service cost (net of employee contributions)	(574)	(706)
Employee contributions	366	422
Past service cost	0	0
Net interest/return on assets	(24)	(34)
Re-measurements	(1,163)	699
Administration expenses	(14)	(13)
	<hr/>	<hr/>
(Deficit) in scheme at 31 March	(2,254)	(845)
	<hr/> <hr/>	<hr/> <hr/>
Asset and Liability Reconciliation		
	2017	2016
Reconciliation of liabilities	£'000	£'000
Liabilities at start of period	12,856	12,769
Service cost	574	706
Interest cost	459	431
Employee contributions	165	184
Re-measurements	3,961	(880)
Benefits paid	(384)	(354)
Past service cost	-	-
	<hr/>	<hr/>
Liabilities at end of period	17,631	12,856
	<hr/> <hr/>	<hr/> <hr/>
	2017	2016
Reconciliation of assets	£'000	£'000
Assets at start of period	12,011	11,556
Return on plan assets	435	397
Re-measurements	2,798	(181)
Administration expenses	(14)	(13)
Employer contributions	366	422
Employee contributions	165	184
Benefits paid	(384)	(354)
	<hr/>	<hr/>
Assets at end of period	15,377	12,011
	<hr/> <hr/>	<hr/> <hr/>
Actual return on plan scheme assets	2,302	217
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements

For the year ended 31 March 2017

18. Non-equity share capital

	2017 No. of shares	2016 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

	2017 £'000	2016 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	1,119	1,790
Capital expenditure that has been authorised by the committee of management but has not yet been contracted for.	2,241	4,039
	3,360	5,829
SLH expects these commitments to be financed with:		
Committed loan facilities	3,360	5,829
	3,360	5,829

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:

Operating leases	2017 £'000	2016 £'000
Land and buildings		
In one year or more but less than two years	165	165
In two years or more and less than five years	540	564
In five years or more	101	235
Others		
In one year or more but less than two years	28	74
In two years or more and less than five years	196	6
In five years or more	-	-
	1,030	1,044

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.

Notes to the Financial Statements

For the year ended 31 March 2017

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 £19,761 (2016: £20,391). There are no arrears on their tenancies at the reporting period end (2016: £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 2017 was £63,221k of which £5,535k is due in less than one year and £57,686k is due in more than one year (2016: £68,812k, £5,540 & £63,272 respectively).

23. Contingent liability

There are no contingent liabilities (2016: none).

24. Financial instruments

The Society had the following financial instruments:

Financial liabilities at amortised cost:

	2017 £'000	2016 £'000
Loans	30,000	24,406
Trade creditors	470	413
Deferred capital grant	21,223	20,382
	<hr/>	<hr/>
Loan commitments measured at cost less impairment	30,000	24,406
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Notes to the Financial Statements

For the year ended 31 March 2017

Financial assets at amortised cost:	2017 £'000	2016 £'000
Rent and service charge arrears	709	525
Trade debtors	103	90
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Cash at bank and in hand	9,086	1,544
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