Co-operative and Community Benefit Societies
Registration No 31419R

Annual Report and Financial Statements

For the year ended 31 March 2018

Contents of the Annual Report

Members of the Board of Management, Executive Officers and Advisers

Board Members

John Holmes (resigned as Chair 30 April 2018)
Peter Kuit (Vice Chair)
Emma Beresford (retired 7 September 2017)
Loraine Birchall
Philip Dixon (retired 7 September 2017)
Charles Howarth (resigned 16 August 2018)
Brian McDonough
David Richardson (retired 7 September 2017)
George Taylor
Peter Thornton (resigned 15 June 2018)
Eve Martin (appointed 7 September 2017)
Michael Hulme (appointed 7 September 2017, resigned 20 November 2017)
Keith Bevan (appointed 7 September 2017)
Maggi Morris (appointed 7 September 2017)
Ian Munro (appointed 7 September 2017) (appointed Chair 1 May 2018)
Rupert Audland (appointed 26 June 2018)

Executives

Chief Executive:	Catherine Purdy OBE BA(Hons) FCIH MBA
Director of Customers & Communities:	Alison Kinnon MBA CIHCM
Director of Corporate Services:	Lindsay Simons FCCA (resigned 31 May 2018) Hilda Kaponda FCCA MBA BEng(Hons) (appointed 1 June 2018)
Director of Assets & Investment:	Richard Hayes BSc(Hons)
Secretary:	Lindsay Simons FCCA (resigned 30 April 2018) John Mansergh BA (Hons) PGCert (appointed 1 May 2018)

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:	Royal Bank of Scotland plc Kirkstane House, 5th Floor, 159 St Vincent Street,

Funders:	Glasgow, G2 5JF. EC4M 7RE M&G Investments Laurence Pountney Hill, London EC4R 0HH
Financial Advisers:	David Tolson Partnership Ltd Richard House 9 Winckley Square Preston PR1 3HP

Chair's Statement

I am pleased to introduce the South Lakes Housing (SLH) annual report for 2017/18. This is my first report as Chair of SLH following my appointment in May 2018. I take great pleasure in providing an overview of the performance of the business on behalf of the Board for 2017/18. The following highlights are worthy of noting;

- The financial health of the organisation continues to improve and we have invested significantly in the delivery of our business objectives. Of particular note is the sustained focus in increasing the number of new homes developed by SLH which has been supported by releasing capacity from refinancing arrangements.

- The Board commissioned an external 'effectiveness review' which was completed in late 2017 which confirms that there are good governance arrangements in place. A Governance Improvement Plan has been agreed to take forward the recommendations which includes expanding the scope of the Audit & Risk Committee terms of reference amongst some other minor 'housekeeping' measures. In addition, Internal Auditors RSM also reviewed governance arrangements concluding with 'substantial assurance'.

- Revenue performance has improved with record levels achieved for rent collection of 100.22% following on from last year's previous high (2017: 100.2% last year). Rent arrears were 1.32% which represents a £74k reduction from last year (2017: 1.76%). Rent loss due to empty properties has also fallen to 0.46% (2017: 0.69%). The roll out of Universal Credit will be a challenge for the next few years and performance is being monitored closely.

- At the end of March 2018 all properties met with the requirements of the Decent Homes Standard – with additional assurance provided to the Board following a tenant scrutiny review.

- The Board consulted staff on changes to the pension scheme available. 78% of staff have now left the Local Government Pension Scheme (LGPS), which in turn has helped to reduce long term pension risk.

- SLH's subsidiary ('Cumbrian Housing and Property Services Limited', also known as CH&PS) was formed in December 2016 to deliver shared repair and improvement works through a cost sharing vehicle, initially with Castles & Coasts Housing Association. The company has completed its first year of trading and has delivered success outcomes including efficiencies of circa £150k and achieved good customer satisfaction levels.

- For the first time, SLH has developed more homes than has been sold through Right to Buy (RTB). There were 20 sales and 24 new developments/acquisitions (2017: 22 sales, 8 developments). The 14-impressive new affordable homes at Dowkers Lane, which combines generous space standards and recycled Lakeland stone, is testament to the quality of housing SLH can achieve. This involved the regeneration of old garage blocks which were blighted with anti-social behaviour. The development pipeline includes over 300 new homes over the next few years and SLH has recruited to an internal development team to add capacity.

- SLH has held discussions with South Lakeland District Council regarding low-cost development finance from the council. The funding will be used to build rural schemes as part of the Board's commitment to the National Housing Federation's & Rural Housing Alliance's Rural Housing 5 Star Plan. Homes England have been consulted and they are supportive of what we are trying to achieve.

- SLH was successful in accessing Cumbria County Council's framework agreement for 'Extra Care' and is in discussions on a range of options to improve services to older people.

  On Health & Safety, the Board receives an annual report which is supplemented by quarterly exception reports. The recommendations arising from an internal audit report on health and safety have been completed. Fire Risk Assessments are up-to-date, and improvements have been made to compliance performance in relation to electrical, gas servicing, legionella, electrical and asbestos. Following Grenfell, the Board decided to offer leaseholders the option of a free fire door to reduce risk. The Financial Plan contains further compliance investments into this important area.

- Retaining the top ratings from the Regulator of Social Housing on 'financial viability' and 'governance'. SLH did self-report an issue to the regulator during the year regarding inaccuracies in one of our data returns to the regulator with the mistake going back several years. The Board commissioned an internal audit review which concluded with a 'reasonable assurance' rating.

- SLH consulted the Tenants' Committee on changing the Shareholder Membership Policy. Previously, any tenant could become a shareholder and have the right to vote on proposed changes at general meetings. In the past, many shareholders have not attended or given apologies. The new policy will mean that future shareholders will have to engage with the organisation and that they are engaged early in decision making. The Tenants' Committee supported this change in the interest of better governance.

- The Investors in People (IIP) assessment concluded that SLH had met the new framework to meet the new 'silver' accreditation. SLH had achieved 'gold status' under the previous framework however the assessment is different and with a 'higher bar'. The feedback collated from questionnaires and interviews with staff highlights improvements that are needed, so the 'silver' accreditation acknowledges many of the things we do well and offers recommendations for improvements we can make. An action plan has been developed to achieve the 'gold' standard by next year.

- In 2017, the government introduced regulations that require all organisations with 250 or more employees to report annually on their gender pay gap. Whilst there is no legal requirement for SLH to do so, we have conducted a gender pay gap analysis as at 31st March 2018, to measure the difference in median average pay between men and women across the whole organisation, regardless of their job role. It does not measure equal pay which relates to what men and women are paid for the same or similar job or work of equal value. SLH uses job evaluation to ensure that jobs of equal value are paid at the same rate. The UK average median gender pay gap is 9.7% and SLH compares favourably with -1.97% (in favour of women).

Four Board members have left during the year; Emma Beresford, Philip Dixon and David Richardson retired after their fixed terms ended. In addition, Michael Hulme also resigned during the year. I would like to use this opportunity to thank them for their past services and contributions. We welcome Eve Martin, Maggi Morris in addition to myself as new board members, together with Keith Bevan who previously served as co-optee on our Audit & Risk Committee. We also welcome John Burt who joins as an independent co-optee on our Audit & Risk Committee from May 2018. All of the new members have been recruited based upon skills and I am sure they 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 both within South Lakeland and pursuing opportunities outside of the district.

Ian Munro,
Chair
16 August 2018

Strategic Report for the year ended 31 March 2018

The Board presents its report and audited financial statements for the year ended 31 March 2018.

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*'.

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 are as follows:

1. **Providing good and cost-effective management of our properties**
2. **Increasing our portfolio**
3. **Developing commercial and partnership opportunities**
4. **Improving the running of our business**

Financial Overview

SLH is in a strong financial position. The key points of note from the Financial Statements are summarised as follows:

- Turnover has reduced partly as a direct result of the 3rd year of the 1% rent reduction and partly due to RTB sales. Although more properties were acquired in the year than sold, the majority of the new properties were not completed until March 2018 thus providing a minimal rent in the 2017/18 year. Additional 'one-off' payments to staff relating to changes in the provision of a pension scheme has led to an increase in operating costs in the year but will lead to significant reductions in future years.
- 24 new properties were acquired / built during the year and a further £4.7m was spent on the improvement of existing dwellings.
- The surplus on disposal of fixed assets of £500k relates to RTB sales of which there were 20 during the year (2016/17 – 22). This represents the amount retained by SLH after amounts due to the Council under the RTB clawback agreement.
- The provision of an alternative pension scheme to be introduced in 2018/19 has resulted in a reduction of the pension deficit of £456k. The deficit now stands at £1,798k (2016/17 - £2,254k).
- A refinancing exercise was completed during the year and a loan break fee of £2.7m has been written off as part of the Interest & financing costs shown in the Statement of Comprehensive Income.
- Loan balances with the funders have been reduced by £5.0m.
- Reserves have increased from £31.8m to £36.9m.

Value for Money review

Value for Money (VfM)

The Regulator of Social Housing revised their VfM Standard in April 2018 requiring Association's to publish evidence of VfM annually within the statutory accounts. The regulator also published an accompanying Code of Practice. This part of the Annual Report demonstrates to stakeholders how SLH is meeting those new requirements. SLH will not be publishing a separate self-assessment this year but will report here on the actions contained within last year's self-assessment to aid transparency. The Board will also publish performance and benchmarking information on its website throughout the year. This section of this year's statutory accounts will focus on; *Board leadership and strategy, developing new homes, delivery structures, asset management and performance against regulator and local metrics.*

1. Board leadership & strategy

We report SLH's performance against this element of the VfM Standard, focusing on the Board's **leadership on VfM, showing how use of resources is embedded within the delivery of the business strategy including; a rigorous appraisal of potential options for improving performance, complying with our charitable objectives and ensuring continued investment into the stock as well as continuing to meet health and safety compliance.**

The SLH Business Strategy 2016-20 responds to the challenges in the external operating environment whilst pursuing the following objectives; *providing good and cost-effective management of our properties, increasing our portfolio, developing commercial and partnership opportunities and improving the running of our business.* SLH has fulfilled its main commitments and core objectives during the first five years since the transfer of the housing stock. The focus in the next phase was to improve the governance resulting in a more ambitious and focused Board; to refinance in order to deliver increased development, introduce cost sharing of our maintenance service and strengthening our performance. We have made good progress and there is a strong platform to build greater levels of resilience and improve organisational effectiveness in the year-ahead.

Our business model is underpinned by access to borrowing from the financial markets and it is heavily influenced and regulated by Government policy. Rent and welfare reform policies have had, and increasingly will have, a detrimental effect on our income levels and affect affordability and demand for our homes. Ultimately the forensic assessment of Value for Money and benchmarking sector performance is a key focus for the Board and they have commissioned an external review by an independent consultant.

Working in partnership with others will be key to delivering our ambitions, and the Board recognises that we need the skills and culture to do this successfully. An organisational development programme under the brand 'LEAP' *('**L**eading, **E**ngaging, **A**dapting & **P**erforming')* has been commissioned. New business opportunities, a more commercial and business-like approach to our operation and potentially close partnership working with another association require our people to be agile and resilient to help them to operate at their best.

Use of resources and maximising VfM is embedded within the delivery of the Business Strategy. Our four business objectives, key actions and performance indicators in our current Business Strategy are summarised as follows:

Objectives	Top 3 Actions	Top 3 KPIs
1. Providing good and cost-effective management of our properties	• Strategic Asset Performance Model - a plan for all assets • Older persons offer & restructuring the sheltered service • Digitalised self-service	• Cost per property • Decent homes • Health & Safety Compliance

2. Increasing our portfolio	• Build/acquire 100 new homes p.a. • Develop sales/shared ownership • Develop our garage sites	• Investment in new supply • RTB sales • Stock numbers
3. Developing commercial and partnership opportunities	• Establish a Cost Sharing Vehicle (CSV) across Cumbria, alongside other collaboration and delivery models • Partner with South Lakeland District Council (SLDC) to develop new homes • Implementation of the Independent Living Service	• 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, including pensions • Refinancing	• Annual top rating from the Regulator for Governance • Housemark VFM Scorecard • Cost of borrowing/additional capacity released

SLH is in a strong financial position. In May 2017 we completed our refinancing exercise and reduced the cost of borrowing from 4.99% to 2.81% (harnessing c£11M savings over the life of the plan and releasing £40M of equity from security). The new £40M facility is made up of a ten-year £20M facility with RBS and a twenty-year £20M private placement with M&G. The new package also removed the onerous restrictions imposed by the previous arrangement (an inability to access the agreed facility and lender approval required for any third-party indebtedness) which was hindering the Board's ambition to develop homes as well as achieve lower finance costs through lending from our local authority partner.

Measuring social return on investment and resources is an important element of the organisation's vision. In 2017/18, we planned to undertake an appraisal of the options for developing social value accounting. Due to changes in finance leadership, this was not undertaken. The Board will review its position on social value as part of the wider review of its Business Strategy scheduled for an 'away day' in October 2018. The results will be reflected in the future Business Strategy Action plan starting in 2019/20.

Customer satisfaction remains good (median levels on the Sector Scorecard comparisons). However we noted an increase in official complaints, councillor enquiries and slight falls in customer satisfaction trends compared to previous years. Changing customer expectations and increased use of digital technology requires different ways of doing things, with the implementation of new digital services. There are a number of management and tenant scrutiny reviews underway and additional digital services will be launched in summer 2018. Customer satisfaction is an important indicator of VfM and SLH has commissioned an external company to undertake the biennial survey in autumn 2019 to assess the impact of improvements we have made.

SLH undertook an OJEU procurement exercise in 2017/18 for the provision of insurance services, an identified key risk to the Association. A new deal, through brokers JLT, was approved by the Board in February 2018. SLH has a relatively low claims history but one significant event relating to the 2015 floods (involving a £2.4M claim) hampered our capacity to obtain a better deal with many leading players not willing to insure Cumbrian stock. The Board considered a range of options and agreed to reduce the level of risk exposure to another major flood event, which is considered likely at some point in the near future. The new insurance provision increased premiums by £135k per annum but the maximum excess payable per event has reduced from £1M under the previous cover to £100k for each event with up to two events per annum. We negotiated a reduction in policy excesses payable by leaseholders from £5k to £250 per event and utilising flood risk information with our new insurers.

The Audit & Risk Committee receives a quarterly Compliance Report which includes monitoring on compliance with the organisation's charitable objectives. The Board did not enter into any new non-social housing activity during the year and currently has no plans to do so. The commercial objectives around expanding the potential from the cost sharing vehicle is limited to housing association activity and the development of the Independent Living Service is restricted to using our assets and resources in an enabling/referral role. There has been a conscious decision not to enter into a care regulatory environment.

The Board receives a quarterly exception report and annual report on Health & Safety Compliance with the Audit & Risk Committee reviewing more detailed performance on a quarterly basis. The recommendations arising from an internal audit report on health and safety were all implemented during 2017/18. Fire Risk Assessments are up-to-date, and improvements have been made to compliance performance in relation to electrical, gas servicing, legionella, electrical and asbestos. Following Grenfell, the Board monitored a detailed action plan and decided to offer leaseholders the option of a free fire door to incentive take-up and thereby reduce risk.

SLH has made significant investment in ICT over the last few years (£783k since 2012) as part of a strategy to reduce costs and improve effectiveness. This is starting to pay dividends for customer service and asset management decision making, following investments into leading products such as Civica Cx and Keystone with a published case study and a leading reference site for other's in the sector. There will be further investments into repairs delivery technology targeting £370k savings over the next 15 years switching repairs scheduling and ordering systems. Other VfM benefits will be better job costing information and productivity reporting which is a key demand from the Board in determining VfM and appraisal of delivery structures.

2. Developing new homes

We report SLH's performance against this element of the VfM Standard, focusing on **articulating the Board's strategy for delivering new homes in the region, including better meeting the needs of older client groups and unmet need in rural areas, in addition to acquiring other Association stock to improve cost per unit.**

The Board is committed to significantly increasing the number of homes delivered in support of the local authority's objectives, whilst also striving for high standards of existing homes and services.

Having harnessed considerable value for money savings and re-financed last year it has significantly increased new build programme and expansion of services. This is demonstrated by SLH's £33M development programme, representing around 350 new homes over 4 years 2018-22 (growth of 3% annually) with capacity to develop more, whilst maintaining a robust financial position with good interest cover, low gearing and significant levels of unencumbered stock. SLH has recruited an internal development team to add capacity and retained the services of a development consultant to source new land and development opportunities.

SLH is at the forefront of assisting South Lakeland District Council's review of housing delivery; including exploring low cost finance options to enable the delivery of affordable housing on rural sites which would otherwise be uneconomical. The arrangement could deliver over 100 homes in rural communities, fulfilling a Board's commitment to the National Housing Federation's and Rural Housing Alliance' 'Rural Housing 5 Star Plan'. Good progress has been made in working with rural communities, our local district council and Community Land Trusts.

Managing the development programme risks is a key priority for the Board. The Board approved a Development Approvals Framework including a scheme appraisal framework and approval procedure. This framework includes monitoring key financial metrics like Internal Rates of Return (IRR - min 4.5% for affordable rent, rising to 7.5% for market sale). The current development programme of c350+ new homes includes; 70% rented, 5% rent to buy, and 25% for sale. The programme IRR is forecast at 5.6% and Net Present Value (NPV) is forecast at +£3.4m.

SLH has developed more homes than has been sold through Right to Buy during 2017/18. There were 20 sales and 24 new additions (2017: 22 sales, 8 additions). The impressive 14 new affordable homes at Dowkers Lane, combine generous space standards and recycled Lakeland stone. This involved the replacement of old garage blocks which were blighted by anti-social behaviour. The community and stakeholder response to the development is very positive which is a reflection of SLH innovative solution to a local problem whilst increasing housing supply.

During the year we also acquired 66 properties in Kendal from Guinness Trust and 4 at Nether Kellett in north Lancashire from Great Places Housing Group.

The long-term development vision includes regeneration of existing estates like Maryfell in Sedbergh, the Waterside estate in Kendal and in Burneside. Garage sites and our vacant land evaluated last year in Sedbergh, Kendal and Windermere will be used for our development programme.

SLH is able to provide 'Extra Care' services under the Cumbria County Council's framework agreement and is currently in discussions to improve service options to older people, with the launch of our new Independent Living Service in early 2018. The 'Help Around You' service is based around a personalised plan supported by the latest digital technology and aims to keep people independent for as long as possible.

3. Delivery structures

We report SLH's performance against this element of the VfM Standard, focusing on **consideration of the costs and benefits of alternative commercial, organisational and delivery structures and where applicable, setting out investment in non-social housing activity and showing how this is commensurate with the Board's Risk Appetite Statement.**

One of the Business Strategy objectives is to optimise VfM through '*developing commercial and partnership opportunities*' in repairs, maintenance and major works by working collaboratively in Cumbria. SLH has a Cost Sharing Vehicle, Cumbrian Housing & Property Services (CH&PS) launched in early 2017 with Castles & Coasts Housing Association (CCHA). CH&PS is utilising SLH internal repairs workforce to deliver repairs & maintenance services for CCHA and other potential Housing Associations. This collaboration has wider benefits including business resilience (both in terms of protecting against the market volatility, better control of costs/quality and responses to disasters like floods), creating and sustaining local employment (keeping the £ in Cumbria) and, as an outcome, also deliver efficiencies. CH&PS has brought in £284k of additional income. Customer satisfactions with the CH&PS service is high at 93% and the feedback from CCHA is very positive regarding VfM compared to their previous contractor delivery model. The Board is waiting to hear from HMRC regarding the appeal against the decision not to grant VAT exemption to CH&PS which has affected growth of the cost sharing vehicle's activities.

SLH is performing well against the sector's VfM metrics. In 2018/19, we will undertake further work on our relative Cost Per Unit (CPU) reviewing our overheads a major component of our CPU which are symptomatic of our size. Our new supply metric will increase following our refinancing to increase development capacity. The Board continue to explore various options for partnership. During the year, a potential partnership was explored but our bid was not successful. The experience will be used to evaluate partnership opportunities in the future, with the SLH Board open to local merger and partnership opportunities to reduce costs, develop services and build more homes.

The Board approved a new Procurement Strategy in June 2018 which details how SLH will approach its business wide procurement requirements (c£10M per annum), in line with our Financial Regulations and EU legislation, to ultimately deliver the business objectives. SLH undertakes numerous forms of procurement in its annual activity, adopting the most appropriate procurement route for the size, value, risk, specialism of the procurement requirements to ensure VFM is maximised by regular review and procurement of services and contracts. SLH is a member of Cumbria Housing Partners (CHP) a local procurement consortia. SLH utilises CHP specialist skills to support the more complex procurement processes and provides knowledge and opportunity to jointly procure works or services to achieve value for money. Procurement through CHP has created savings of 13% on average, obtaining c10% cost reductions on items such as kitchens and bathrooms and 3% for cyclical painting. The business planning processes within CHP have been examined and there is a commitment for further collaboration in the delivery of wider asset management and corporate services e.g. internal audit.

£13.6k was saved through collaborative procurement with the Northern Housing Consortium, mainly achieved through tenant contents insurance.

The demand for traditional sheltered housing is reducing because people's changing lifestyles and service charges costs. To reduce the overall cost to tenants, scheme managers were streamlined and now operate from two hubs. 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 that had been proposed under Welfare Reform. A new Independent Living Service has been launched which provides a range of services to enable people to live independently. This includes; assistive technologies (pendant, pull cords and alarm monitoring service), key safes and personal health and well-being visits from staff. This service is available to all vulnerable adults and not just those living in sheltered schemes. The service will be evaluated by the Board after the first six months of operation at the end of 2018.

In 2017/18 we reviewed our pension arrangements and terms and conditions. This, combined with continued savings in IT support costs, will result in a a net reduction in management over the next few years with significant savings from 2022/23. In 2018/19, budget shows a reduction in pension costs that offset the additional salaries and one-off bonus payments used to incentivise staff to move away from the Local Government Pension Scheme into the Social Housing Pension Scheme. This one-off incentive means reduction in long term pension costs.

We will continue investment in ICT over the next few years as SLH strives to maximise efficiency via digitalised customer access services like '*My Account*' and '*My New Home*'. We have implemented new ICT systems for housing management, asset management and HR which have reduced the number of 'feeder' systems supported, resulting in efficiencies in system management and a reduction in third party support costs. These strategies will collectively reduce SLH's operating costs in future years.

The Board has commissioned an independent external financial review during 2018/19 of potential options for improving performance and delivery structures, including an appraisal of:

- cost inputs versus outputs achieved
- opportunity cost of using assets and resources in their current function
- comparison against potential alternatives
- evaluation of implications for delivery of objectives

The Board agreed a new Risk Appetite Statement in April 2018 and identified the following main risks and uncertainties facing the business as;

- *Falling demand for the sheltered housing service* – the Board are regularly updated on demand and market assessments.

- *Universal Credit risks to revenue* – the Board receive a quarterly report about performance and there is a Welfare Reform Action Plan in place. The Board has received assurance from internal audit reports but will continue to monitor this area closely and the associated bad debt provision within the Financial Plan.

- *Delivery of the development programme and risks to shared ownership and sales products* – the Board receives regular updates on development activities including approval for all development scheme commitments. Each market sale/shared ownership scheme appraisal includes a sales and marketing plan together with flexibility to switch products.

- *Growing Cumbrian Housing & Property Services (CH&PS) in line with the revised Business Plan* – the Board receives regular progress reports, reviews financial performance quarterly and receives copies of minutes for the subsidiary. The Board is waiting to hear from HMRC regarding the appeal against the decision not to grant VAT exemption to CH&PS which has affected growth of the cost sharing vehicle's activities. This has meant that the original Business Plan assumptions included in last year's VfM report will no longer be achievable.

- *Compliance with legal and regulatory responsibilities* – the Audit & Risk Committee receives a quarterly compliance report setting out any non-compliances, actions being taken and appropriate assurance levels.

4. Asset Management

We report SLH's performance against this element of the VfM Standard, focusing on **demonstrating a rigorous approach to 'return on assets', showing how it varies across the asset base, explaining the rationale for continued support of an asset which is not achieving the optimum level expected as well as the opportunity cost of using assets and resources in their current function against the potential alternatives.**

The Board approved a new Asset Management Strategy 2018-23 in April 2018 and agreed to develop a suite of supporting documentation to be completed by the end of the year, including; the SLH Homes Standard, Disposal Strategy, Option Appraisal Strategy, and Energy Efficiency Strategy. The Asset Management Strategy will continue to ensure that we invest appropriately in our assets, continuing to maintain 100% compliance with the Decent Homes Standard and regulatory compliance, and will build upon new goals and aspirations such as reducing fuel poverty and the adoption of modern and innovative technology to improve services and reduce costs.

Core to SLH's Financial Plan is our stock condition survey which is used to develop the 5 and 30-year investment plans which show the planned investment for all properties based on agreed lifecycles. This information is driven by data held within the asset management system (Keystone). Data accuracy is key to a viable Financial Plan and this is regularly validated through surveys and data "health checks". An independent stock validation exercise is undertaken on a five-yearly basis and was last undertaken by Savills in May 2017 which raised no major concerns, but did recommend some changes to lifecycles and elemental rates to bring SLH more in-line with the sector. The Board will review the elemental lifecycles and rates as part of the SLH Home Standard and Five Year Improvement Plan in November 2018.

An active asset management approach is critical to achieving the goals set out within the strategy and this is underpinned by carrying out option appraisals on poor performing stock. The appraisal process document sets out the parameters for scoring an assets performance and the subsequent outcomes which should be explored including the DRIPs methodology of; **D**ispose, **R**epair, **I**mprove, **P**ostpone or **S**ell. The process also sets out our approach to appraising acquisitions such as opportunities to 'buy back' previously sold properties under Right to Buy or acquire properties from other landlords with investment deals being secured in early 2018/19. The core asset management principles that will be applied when making appraisal decisions such as social value which may override the financial return on an asset will be outlined in the appraisal process at a future date. The appraisal process and supporting asset classification data will enable us to evidence our rationale behind these decisions.

Option Appraisals are carried out in conjunction with data held in the Strategic Asset Performance (ASAP) model which classifies the stock's performance (financial and qualitative) into groups rated A, being the best performers, through to C, as the lowest. This allows us to understand the contribution each asset makes to the business (based upon a financial and quality appraisal). In the last 18 months the number of Class A assets has increased from 68% to 81.4% and Class C has reduced from 17% to 10.5% as a result of the stock investment.

Table one

Summary of Outcomes										
Outcome	Schemes		Units in Schemes		Average scheme size	30 Year Planned p.u.p.a.	Annual Contribution	Contribution p.u.p.a.	Annual Profit	Profit p.u.p.a.
Asset Class A	263	81.4%	2,445	79.5%	9	£1,226	£6,940,839	£2,839	£2,825,260	£1,156
Asset Class B	26	8.0%	336	10.9%	13	£1,205	£880,534	£2,621	£289,023	£801
Asset Class C	34	10.5%	294	9.6%	9	£1,331	£545,853	£1,857	£22,860	£78
Total	323	100.0%	3,075	100.0%	10	£1,234	£8,367,226	£2,721	£3,117,143	£1,014

(Model run June 2018)
(PUPA – per unit, per annum)

Table two

Summary of Outcomes									
Outcome	Schemes		Units		30 Year Planned p.u.p.a.	Annual Contribution	Contribution p.u.p.a.	Annual Profit	Profit p.u.p.a.
Asset Class A	219	68%	2,226	72.0%	£1,188	£5,532,703	£2,485	£1,583,028	£711
Asset Class B	48	15%	439	14.2%	£1,233	£1,049,285	£2,390	£203,234	£463
Asset Class C	53	17%	428	13.8%	£1,200	£817,584	£1,910	(£20,690)	(£48)
Total	320	100%	3,093	100.0%		£7,399,572	£2,392	£1,765,572	£571

(Model run November 2016)

During 2018 we completed the development of 14 new build homes on the Waterside estate which had previously been a Class C/B scheme. The demolition of 72 garages enabled the development which has seen the overall scheme rating increase to a Class A in the most recent analysis. We have also carried out in-depth analysis on void turnover since 2012 and identified particularly high turnover areas for focused action. In addition, we are carrying out a programme of estate assessments to evaluate the wider areas of our stock which will feed into the option appraisal model. Additional Building Surveyor posts and a new Data Analyst post have enabled us to apply active asset management principles whilst inspecting repairs.

We have continued to deliver significant investment of £206k in adapting our properties to meet people's needs, in addition to the Council's Disabled Facilities Grant (DFG) for major adaptations.

The disposals process sets out the parameters for disposing of assets (land or garages) under £10k. This document will be reviewed in 2018 to incorporate the parameters whereby SLH may dispose of assets over £10k. A criteria will be set for the disposal of inefficient stock following option appraisal and stating the minimum condition that housing assets can reach before they must be disposed of. A review of related assets (such as land and garage sites) is underway with a view to maximising income by offering these on the open market for tenancies or disposal where there is no development potential.

Repairs & Maintenance standards have been reviewed following consultation with tenants and following scrutiny by two separate Tenant Scrutiny Reviews (reported to the Board in June and August 2018) and this will inform the Board's strategy for a local Home Standard. The strategy currently aligns our component lifecycles and replacement costs with those recommended by Savills. At the latest stock validation survey undertaken in 2017, Savills recommended a number of amendments to our cost model to bring SLH back into line with sector norms, the most notable being a move from 15 to 20 years for the replacement of Kitchens.

All Energy Performance Certificates (EPCs) have been loaded onto the new Asset Management system (Keystone). Keystone will use the EPC assessment date to programme the next assessment date (10 years) so that no certificate expires. All properties rated E,F and G are being surveyed to inform a programme of works to increase the overall efficiency score. The current SAP score is 68.0, compared to 66.4 last year but this is still within the bottom quartile. The change in EPC regulations from April 18 applies to Private Landlords (RPs are excluded) however we are targeting our lowest performing properties to minimise any properties in the lowest three categories to less than 2% by 2022 (there will always be properties in this rating due to their construction/age/location). The updated register is held within Keystone which is the main register. We currently have approximately 50% of stock surveyed for energy performance and will achieve 100% by 2023. Around 87 properties are 'off gas', which consisted of solid fuel, storage heaters and electric boilers. SLH was successful in obtaining external funding through Warm Homes Grant (£444k) and have targeted this to Air Source Heat Pumps (ASHP). The ASHP installs generate an income for the first seven years from the renewable heat initiative which combined with the grant funding makes the programme cost neutral. Tenant feedback has been incredibly positive with reduced fuel bills of up to £55 per month, easier running and warmer homes.

SLH owned garages have the potential to generate an additional rental of £0.5m if fully let, however many now require considerable investment. The Garage Strategy, which was approved in 2017, sets out the approach for appraising garage sites for retaining and repairing, improving or demolishing. The strategy takes into account wider concerns when appraising a site such as localised parking constraints, development potential and levels of demand so that appraisals are not purely based on return on investment calculations. Some of the schemes are now part of the SLH Development Strategy.

The Procurement Strategy aligns with the requirements of the Asset Management Strategy to ensure that all procurement activity is undertaken in full compliance with SLH and EU regulations. The strategy sets out measures to ensure that our procurement activities achieve Value for Money through collaborative procurement or full market testing. The CH&PS Business Plan details the role of CH&PS in delivering responsive and planned repairs, void works and planned improvement works. The plan also details Key Performance targets which align with our Service Standards.

The demand for traditional sheltered housing is reducing, partly because people's lifestyles are changing but also because of the costs. The Board are regularly updated on demand and market assessments, with the future of Yewbarrow Lodge in Grange to be considered during 2018/19. As part of the appraisal process, SLH worked with Cumbria County Council to consider sheltered schemes which could be converted onto 'extra care' facilities. To reduce the overall cost to tenants, scheme managers now operate from two hubs. A new Independent Living Service has been launched which provides a range of services to enable people to live independently. This includes; assistive technologies (pendant, pull cords and alarm monitoring service), key safes and personal health and well-being visits from staff. This service is available to all vulnerable adults and not just those living in sheltered schemes.

5. Measuring Performance

We report SLH's performance against this element of the VfM Standard, focusing on **where SLH is performing against its own targets as well as those metrics set out by the regulator and where possible, showing how performance compares to peers, how costs have changed over time and setting out the reasons for underperformance and articulating plans to address any shortfalls.**

VfM is embedded within the business strategy and the Board receives quarterly reports on progress against local performance targets in addition to the regulator's VfM metrics. These were identified as key targets within last year's VfM self-assessment and stakeholders will be able to judge performance in the attached table (see 'local metrics'). The annual revisions to the Financial Plan also includes a projection against the regulator's metrics and approved by the Board. This data is then reported to the regulator as part of the Financial Forecast Return (FFR) submitted annually in June.

The table below shows how SLH is performing against the 7 national and 15 local VfM metrics, showing how performance compares to peers (using Housemark 'core benchmarking' and 'Sector Scorecard' validated data), how performance and costs have changed since last year (using 'direction of travel' symbols) and setting out the reasons for underperformance. The dashboard also includes targets for the next three years, aligned to the Financial Plan and set by the Board, and includes actions to address the performance gap between current performance and target.

Regulator's Metrics

The table below illustrates SLH's performance against the regulator's VfM metrics a comparison against national medians for 2016/17 (taken from the Regulator's Global Accounts) and housemark peer group (2,500 to 7,500 units) for 2017/18, together with projections:

SLH VFM Metric	National Medians 2016/17	Peer group	2017/18	Targets (Financial Forecast Return)		
				2018/19	**2019/20**	**2020/21**
Re-investment %	-	**6.48%**	**9.6%**	23.4%	12.0%	4.3%
New supply delivered	1.1%	**1.1%**	**0.8%**	0.7%	2.9%	0.1%
Gearing	42.0%	**43.05%**	**27.6%**	32.5%	30.7%	26.4%
EBITDA MRI interest cover	228.0%	**194.6%**	**349.4%**	445.0%	437.0%	420.0%
Headline social housing CPU	£3.3k	**£3.5k**	**£4.0k**	£3.8k	£3.6k	£3.8k
Operating margin (overall)	30.3%	**28.54%**	**45.5%**	41.8%	40.1%	43.0%
Return on Capital Employed (ROCE)	4.0%	**4.26%**	**5.5%**	5.2%	4.9%	4.9%

- The reinvestment % is 9.6%, lower than budgeted (16.0%) as improvement works expenditure is lower than expected. Re-investment in new and existing properties (development plus improvement work spend) will peak next year at over 23.0%.

- The new supply % is 0.8% and slightly lower than the national median. SLH will deliver a significant amount of new additions to the stock in 18/19 but 60 of these will be acquisitions from other Housing Associations rather than new supply. The development programme will accelerate thereafter but the current profile reflects the profile in the approved 2018 Financial Plan. Board will review the development profile in Autumn 2018.

- Gearing is lower than both the national median and the funder's maximum requirement which provides scope for future borrowing and when necessary. Gearing will remain well below national median levels.

- Earnings Before Interest Tax and Amortisation Major Repairs Included (EBIDTA-MRI) is showing as a higher % than anticipated as a result of the improvement programme re-profiling. EBITDA interest cover will remain high despite considerable continued investment in major repairs (N.B this calculation is lower than that used for covenants due to a different treatment of depreciation between funders and regulator).

- Cost per Unit has improved over last year (from £4.2k to £4.0k) mainly due to lower than expected improvement expenditure but remains higher than the median. The Headline social housing cost per unit will decrease due to the increase in units delivered over the next two years. The Financial Plan was approved by Board in May 2018 and reflects the revised profile of repairs & maintenance works projected following updated stock condition survey information. This has resulted in projected costs of between £3.8m and £4.6m per annum for the remainder of the plan (an average of between £1.2k and £1.6k per unit per annum) representing a significant and sustained stock investment programme in addition to the c£60M invested since transfer in 2012. Management costs are expected to reduce over the next few years with continued savings in IT support costs and staff cost savings from 2022/23 following the impact of changes to pensions and terms and conditions. Other costs remain reasonably static having reduced from £4.8k in 2014/15 when the metric was first introduced in 2014/15 to £4.0k in 2017/18).

- Operating margin remains consistent and at acceptable levels although affected by higher than expected depreciation regarding the purchasing of IT equipment and treatment of pension fund adjustment. Operating margin will reduce over the next two years due to shared ownership sales income significantly increasing the turnover figure, but will remain above the national median level.

- Return on Capital Employed (ROCE) also remains consistent and at acceptable levels. ROCE reduces marginally as a result of the increasing investment in assets and reasonably static operating surplus.

Global accounts analysis

The following tables shows that analysis of SLH's performance for 2017 and 2018 against the sector averages, taken from the regulator's Global Accounts. The areas highlighted in 'red' shows where SLH is within the 3rd quartile i.e. worst. Areas in 'amber' relate to measures which rank close to median and areas in 'green' are within the 1st quartile i.e. best.

SLH performs well on most measures with the exceptions of unit costs and gearing. Our gearing is low which reflects the additional capacity generated through last year's refinancing and this capacity will be partly exploited over the next few years as is reflected within the new development pipeline. The Board will continue to review options, capacity and risk as part of its financial planning and target setting processes. Our costs are reflective of the significant investment programme since stock transfer in 2012 and continued investment and plans to deal with issues arising from a recent structural survey. SLH continues to maintain stock within the national parks and conservation areas (37% of stock) which skews costs as properties have to be improved and maintained to additional standards (e.g. timber framed windows/doors, stone and render and natural slate roofs). Two other Housing Associations are included as local comparators within the analysis to aid benchmarking. SLH's unit costs are predicted to reduce based upon a combination of operational efficiencies and additional new units but is still on course to be higher than median as a direct result of the Board's informed decision to continue with the significant investment within the existing stock.

All England Quartile data 2017	Reinvestment	New supply delivered (social housing units)	EBITDA MRI interest cover	Headline social housing cost per unit	Return on capital employed	Gearing	Operating margin (overall)
1st quartile	8.54%	2.21%	282%	£2,932	5.69%	54.2%	33.40%
Median	5.62%	1.24%	216%	£3,298	4.37%	43.2%	27.52%
3rd quartile	3.56%	0.45%	175%	£4,329	3.60%	33.0%	21.44%
Mean	6.52%	1.73%	334%	£4,180	5.20%	41.7%	26.87%
Housing Association	**1. Reinvestment**	**2a. New supply delivered (social housing units)**	**EBITDA MRI interest cover**	**Headline social housing cost per unit**	**Return on capital employed**	**Gearing**	**Operating margin (overall)**
Eden Housing Association Limited	3.81%	0.94%	155%	£3,486	5.45%	66.2%	25.8%
Two Castles Housing Assocation Limited	4.53%	1.85%	211%	£2,989	2.72%	34.7%	26.6%
South Lakes Housing 2017	8.43%	0.26%	149%	£4,190	5.69%	27.4%	44.7%
South Lakes Housing 2018	9.60%	0.80%	349%	£4.0k	5.50%	27.6%	45.50%
South Lakes Housing 2019 target	23.40%	0.70%	445%	£3.8k	5.20%	32.5%	41.80%

Sector Scorecard

SLH benchmarks performance and cost data with other Housing Associations via the '*Sector Scorecard*' which contains a range of VfM metrics in order to judge 'economy', 'efficiency' and 'effectiveness'. The data for 2017/18 shows performance against the All England peer group of 117 Housing Associations with stock over 2,500 properties (taken on 06.8.18) with the nearest quartile position flagged as Red, Amber or Green;

Sector Scorecard Metric	SLH performance 2017/18	Quartile data (Housemark, 6th August 2018)		
		Upper	**Median**	**Lower**
1. Re-investment %	9.6%	8.2%	6.0%	4.0%
2. New supply delivered (as a % of units owned)	0.8%	2.2%	1.1%	0.6%
3. Gearing	27.6%	54.4%	46.0%	35.4%
4. EBITDA MRI interest cover	349.4%	260.8%	203.2%	161.9%
5. Headline social housing Cost Per Unit (CPU)	£4.0k	£2.9k	£3.2k	£4.0k
6. Management CPU	£1.2k	£0.8k	£0.9k	£1.2k
7. Maintenance CPU	£0.5k	£0.8k	£0.9k	£1.1k
8. Major repairs CPU	£2.0k	£0.6k	£0.8k	£1.0k
9. Operating margin (overall)	45.5%	35.3%	29.4%	24.0%
10. Operating margin (social housing lettings)	45.0%	36.8%	32.4%	26.2%
11. Return on Capital Employed (ROCE)	**5.5%**	5.6%	4.4%	3.6%
12. Satisfaction with the overall service provided	**86.0%**	90.6%	86.3%	81.8%
13. Investment in community activities	£89.8k	£790.0k	£365.0k	£88.2k
14. Rent collected (general needs only)	101.0%	100.4%	99.8%	99.4%
15. Overheads (as a % of turnover)	12.5%	9.2%	11.1%	13.0%
16. Ratio of responsive repairs to planned maintenance	0.2%	0.5%	0.7%	0.8%
17. Occupancy (general needs only)	99.6%	99.6%	99.3%	99.0%

The analysis shows the following;

- SLH is making considerable investment in current stock ('headline social housing CPU', 'maintenance CPU' and 'major repairs CPU') and is getting a good return from that investment ('re-investment' and 'return on capital employed') alongside operational efficiency ('rent collected', 'ratio of response to planned maintenance' and 'occupancy').
- 'Overheads' is a symptom of our relative size and the Board's strategy has been to maximise partnerships and commercial opportunities e.g. CH&PS. Reducing overheads will be a prime motivation for any merger activity. Similarly, 'management CPU' is high but will start to reduce following the effects of the pension changes and increase in the stock numbers forecast for 18/19. The Board is open to consider mergers to increase cost efficiency.
- 'Gearing' is low and reflects the new position following the refinancing deal. Financial Plan shows significant headroom within its covenants with low gearing and comfortable levels of interest cover ('EBITDA').
- 'New supply' delivered is low and does not reflect the new development pipeline c100 homes per annum (although the Housing Association acquisition deals will not count towards this KPI as they are not 'new supply').
- Expenditure on 'community investment' (employment skills, community groups etc and not capitalised spend pm estates/developments) is low and reflects Board strategy in relation to maximising resources for development and past efficiencies made following the 2016 rent cuts.

Local Metrics

In addition to the regulator's metrics, the Board also monitors additional local VfM metrics on a quarterly basis with comparisons against the Housemark 2,500 to 7,500 unit peer group (December 2017). These were identified as key targets within last year's VfM self-assessment and stakeholders will be able to judge performance in the table below. The 'red' status refers to target not met, 'amber' relates to target not met but best performance level achieved, and 'green' means target met'.

Measure	17/18 Actual	Direction of travel	Top Quartile	Median	Bottom Quartile	18/19 target	19/20 target	20/21 target
Business Objective 1: Providing good and cost effective management of our properties								
% rent collection	100.2%	⇧	100.4%	99.8%	99.4%	100.0%	100.0%	100.0%
% rent arrears	1.32%	⇧	2.84%	4.07%	5.39%	1.6%	1.6%	1.6%
% rent loss due to voids	0.46%	⇧	0.57%	0.79%	1.14%	0.6%	0.6%	0.6%
% of properties with a valid gas safety record	100%	⇨	100%	100%	100%	100%	100%	100%
% of customer transactions undertaken by 'self-service'	31%	⇧	N/A	N/A	N/A	40%	60%	70%
% of homes failing to meet the 'decent homes' standards	0%	⇨	0%	0%	0%	0%	0%	0%

% customer satisfaction with overall services	No survey	N/A	89%	87%	85%	88%	N/A	91%
Ratio of response repairs to planned maintenance	0.21		0.44	0.68	1.00	0.17	0.19	0.19
Business Objective 2: Increasing our portfolio								
Number of homes owned	3089		N/A	N/A	N/A	3149	3334	3434
Right to Buy sales	20		N/A	N/A	N/A	20	20	20
Business Objective 3: Developing commercial and partnership opportunities								
CH&PS (efficiencies generated)	£150k	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Income from the Independent Living Service	New measure	N/A	N/A	N/A	N/A	TBC	TBC	TBC
Business Objective 4: Improving the running of our business								
Average days sickness per employee	9.8		7.25	9.36	11.28	7.0	6.0	5.0
Overheads as a % of adjusted turnover	12.5%		10%	11%	13%	13.8%	14.4%	14.1%

Key highlights and variance analysis are as follows;

- *CH&PS*– efficiencies of circa £150k was achieved through partnership with Castles & Coasts Housing Association (C&CHA). Future targets will be set following the outcome of the HMRC matter which is affecting the growth plan (refer to page 11).

- *Rent collection and arrears* – for the second successive year, rent collection rates are above 100% and we are making a significant dent in historic arrears (a reduction of £74k from last year). There were £17.7k rents and service charges 'written off' in 17/18 compared to £70k in 16/17 and £23.6k in 15/16.

- *Void rent loss* – this is our best ever performance result (achieving a saving of £38k compared to last year). There is however a small build-up of vacant sheltered properties where demand is low.

- *Gas servicing* – all properties have an up-to-date Landlord Gas Safety Record. The Board's annual Health & Safety report indicates full compliance with other compliance responsibilities.

- *Digital transactions* – 31% of all transactions are now through digital channels, a rise from 14% in the previous year. Further transformation is planned for 18/19 with the implementation of *My Account* and a target of 40% in 18/19.

- *Decent homes* – all properties continue to meet the decent homes standard. There are four properties where tenants have refused decent homes works.

- *Ratio of responsive repairs to planned/capital works* – slightly behind target of 0.21 (target 0.22) less than target due to the improvement works programme being £1.5M behind budget.

- *Overheads* – improvements have been made to the reporting of this indicator but SLH continues to be bottom quartile. Investment in digital technology, CH&PS delivery and other partnerships and reduction in pension costs should help going forward. In 2018/1, a detailed review of overheads will be carried out to understand the main cost drivers and opportunities for achieving efficiencies in this area.

- *Sickness levels* – was a challenge during 2017/18 following a long period of sustained results. Average number of days lost was 9.8 days against a target of 7 days. Long term sickness was the main cause not achieving the target. The Sickness Absence Policy was reviewed, including the use of 'triggers', senior managers are involved in the 'formal' stages of the sickness absence procedure and warning letters/ disciplinary action have been issued where this is appropriate. Occupational Health advice is sought for all long-term sickness absences and their advice is acted upon, particularly when supporting people back into work.

Future plans and challenges

The external operating environment continues to be challenging for Housing Associations although there is now a more supportive policy environment with current Government recognising the role that Housing Associations can play in delivering much-needed new homes. This follows a volatile period in the past few years in which social housing providers were forced to adapt to a number of challenges, including an annual decrease in social rents. The sector is set to benefit from a return to a Consumer Price Index plus one per cent rent regime from 2020, access to an additional grant of £2bn to support affordable housing, and the removal of the Local Housing Allowance benefit cap, all of which aim to leverage housing association resources to help the government achieve its target of building 300,000 new homes per year up to the mid-2020s.

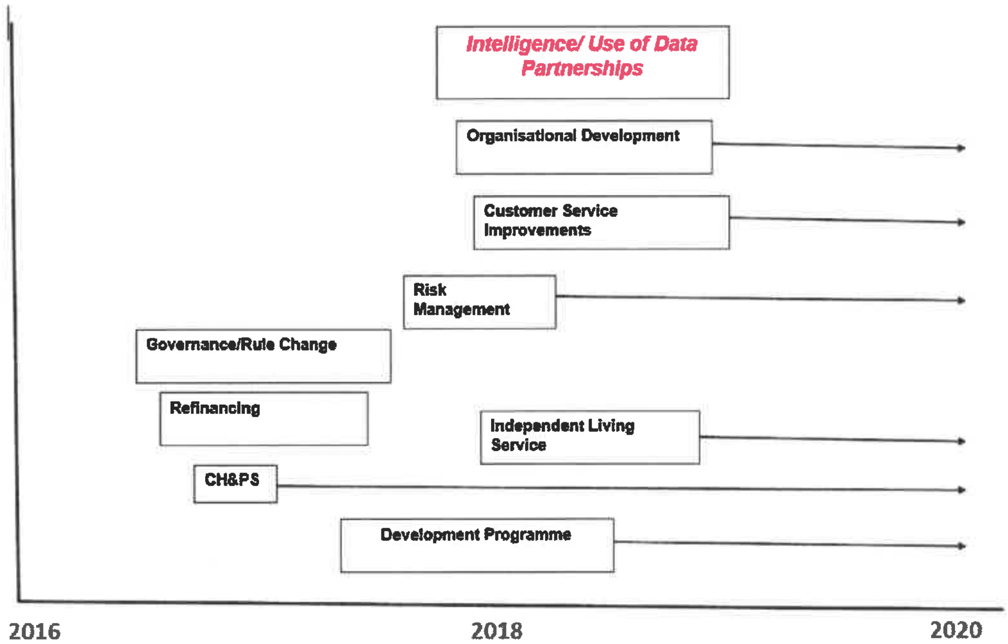
The Brexit and wider political uncertainty means that nothing can be taken for granted. Adverse policies announced in the past few years will continue to weaken revenues from social housing lettings especially the 1% annual decrease in social rents (until the 2020 financial year) and the rollout of Universal Credit (a pillar of broader welfare reform measures). SLH has demonstrated both resilience and flexibility in the face of these challenges and has been proactive in mitigating the impact by reassessing business plans to accommodate the changing policy landscape and cutting costs to maintain strong margins.

Stress testing will continue to be important in helping the organisation respond to risks both within the external environment and internally through our Business Strategy. These risks have evolved over recent years, but for SLH the main new risk on the horizon is posed by our increased development activity and diversification into building for shared ownership and other tenures. This will support SLH's core activities and the Board will assure themselves that this is maintained.

At the time of writing, the full causes and potential policy and regulatory changes arising from the terrible fire at Grenfell Tower have not yet been determined but this will have ramifications for the sector and likely to be a downward pressure on the Financial Plan going forward. The Board are also anticipating an 'In Depth Assessment '(IDA) from the Regulator of Social Housing as part of their routine cycle of reviews. This will help to provide stakeholders with additional assurance over the governance and viability of the association.

The Board reviewed its current Business Strategy (2016-20) at an 'away day' in March 2018. The discussion concluded that the priorities identified in the short term should be continued with a refocus on customer service and on organisational development, in response to feedback from customers and staff via the Investor in People Assessments. The priorities for the remaining two years of the current strategy are shown in the diagram below. However, the Board were keen that we are more ambitious for the medium/long term and need to put more emphasis on our intelligence gathering and how we use the data and information that is already available to us. A second key area of focus needs to be around partnering with others to achieve our objectives. The two strands of work are shown in the diagram below in red and it is proposed that further work in these two areas will inform the development of future strategy beyond 2020. Ideally this would be concluded by the spring of 2019, commencing with the Board shaping of the future strategy at the Development Day scheduled in October 2018.

Business Strategy Priorities



The Board will recruit to vacant non-executive position in September 2018 and this will be recruited on the basis of skills required which matches the gaps identified by the Board. SLH has recently put in place interim arrangements for the vital role of Executive Finance Director as the previous employee left at the end of May 2018. This will be reviewed during the year.

Board and committee structure

SLH previously had a traditional stock transfer governance structure based upon a 'customer and constituency' model but took action during 2016 to review its effectiveness following changes in the external operating environment and recommendations arising from an external review. This included plans for 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.

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.

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. The terms of reference for the Audit & Risk Committee was revised in March 2018 following the recommendations of a further external governance review with the main additions being oversight on procurement, health and safety, whistleblowing, fraud, risk appetite and business continuity planning.

SLH has an unregistered subsidiary 'Cumbrian Housing & Property Services Limited' (CH&PS) following its incorporation to Companies Housing in December 2016. The subsidiary acts as a 'Cost

Sharing Vehicle' for the purpose of sharing services efficiently and operates as a private company limited by shares. There is an associated Member Agreement and Articles of Association. SLH owns 85% of voting shares.

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 shareholders 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, the Director of Assets & Investment and the Company Secretary, 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 Regulator of Social Housing's (RSH) 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 RSH's Governance and Financial Viability Standard (the last review was August 2018). 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, risk reports 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 business objectives. Governance arrangements are reviewed annually to ensure these remain effective and SLH's affairs continue to be managed with an appropriate degree of independence.

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

Risk management is deeply embedded within the governance framework in order to ensure ongoing financial viability and to safeguard SLH's assets from undue risk. The Board monitors the assets and liabilities register and oversees a framework of internal controls within the context of an agreed risk appetite statement. SLH does not currently undertake any non-regulated activity, it has an unregistered subsidiary.

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 SLH'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. The assurance mapping is presented alongside the quarterly Strategic Risk Summaries to the Board & Audit & Risk Committee.

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:

Risk Appetite Statement:

The Board adopted a Risk Appetite Statement in April 2018. The Risk Appetite Statement sets out the level of risk that the organisation is prepared to accept in order to deliver its strategic objectives, remain consistent with its values and meet its targets in terms of performance and outcomes.

A high-level risk matrix is also reviewed which provides the Board with a useful overview of SLH's key risks. These will be reported to the Board as part of the quarterly performance and risk reports. The Audit & Risk Committee will review the Risk Appetite Statement (as part of the review of the Business Strategy and risk management process) and recommend to the Board on at least an annual basis.

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 is reviewed annually by the Audit & Risk Committee, which provides for the regular reporting of risk to the Committee, with a high-level Strategic Risk Summary being reported quarterly to the Board as part of performance and risk reports. The summary includes assurance mapping based upon a '*three lines of defence*' model.

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 including comparisons with housemark benchmarking reports against the '*Sector Scorecard*' KPIs. This is supplemented by 'golden rules' which were agreed by the Board in December 2017 and are reported in Quarterly Finance Reports, covering; *interest cover* (golden rule 121%), *gearing* (golden rule 54%), *asset cover* (golden rule 121%), *proportion of fixed rate debt* (golden rule between 70% and 100%), *cash balances* (golden rule minimum level of £500k), *free equity* (golden rule at least 10% EUV-SH valuation basis) and 18 months liquidity at any one point.

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.

A quarterly Compliance Report is presented to the Audit & Risk Committee together with an assurance statement against each of the main areas of compliance together with any plans to improve. The areas covered are included within the Committee's Terms of Reference; including compliance with the regulatory framework and other relevant legislation such as health and safety; data security, charitable rules, fraud and tax.

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

The Audit and Risk Committee conducts an annual review of the effectiveness of the system of internal control and has taken account of any changes needed to maintain the effectiveness of risk management and control process. The Audit and Risk Committee 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 an effective 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 and contract liabilities 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) and the Social Housing Pension Scheme (offering a range of defined benefit and defined contribution options). 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 2018, SLH's share of the LGPS scheme deficit was £1.8m (2017: £2.3m), as shown on the statement of financial position and in note 17.

Going concern and liquidity

At the of March 2017 the Society had in place a thirty-year funding agreement with Santander of £20M. 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 RSH'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.

Annual General Meeting and approval

Annual General Meeting

The Annual General Meeting is to be held on 27 September 2018 to receive the accounts to 31 March 2018.

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 16 August 2018 by the Board and was signed on its behalf by:

Ian Munro
Chair

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

Opinion
We have audited the financial statements of South Lakes Housing ("the Association") and its subsidiary ("the Group") for the year ended 31 March 2018 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Reserves, the Statement of Cash Flows and notes to the financial statements including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and the Association's affairs as at 31 March 2018 and of their surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Cooperative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Basis for opinion
We conducted our audit in accordance with International Standards on auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern
We have nothing to report to you in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Board's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Board have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or Association's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information
The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Board is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Cooperative and Community Benefit Societies Act 2014

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Board's report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which Cooperative and Community Benefit Societies Act 2014 requires us to report to you if, in our opinion:

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

Responsibilities of the Board

As explained more fully in the Statement of Board's Responsibilities set out on page 22, the Board are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Board determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board are responsible for assessing the Group's and Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board either intend to liquidate the Group or Association or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's web-site at http://www.frc.org.uk/auditorsresponsibilities This description forms part of our auditor's report.

Use of our report

This report is made solely to the Association'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 Association'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 Association and the Association's members as a body for our audit work, for this report, or for the opinions we have formed.

Beever and Struthers

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

Date: 16 August 2018

Group & Association Statement of Comprehensive Income

For the year ended 31 March 2018	Note	2018 £'000	2017 £'000
Turnover	2	16,062	16,379
Operating costs	2	(8,748)	(8,494)
Gain on disposal of property, plant and equipment (fixed assets)	6	500	561
Operating surplus		7,814	8,446
Interest receivable	7	6	32
Interest and financing costs	8	(3,747)	(2,227)
Surplus for the year before and after taxation		4,073	6,251
Actuarial gain/(loss) in respect of pension schemes	17	1,060	(1,163)
Total comprehensive income for the year		5,133	5,088

The financial statements on pages 33 to 56 were approved and authorised for issue by the Board on 16th August 2018 and were signed on its behalf by:

I. Munro
Chair

P. Kuit
Vice Chair

J. Mansergh
Company Secretary

The results relate wholly to continuing activities and the notes on pages 33 to 56 form an integral part of these accounts.

Group Statement of Financial Position

At 31 March 2018	Note	2018 £'000	2017 £'000
Fixed assets			
Tangible fixed assets	12a & b	83,524	76,943
Debtors due after more than one year	22	53,254	57,686
Current assets			
Stock	13	154	459
Trade and other debtors	14	6,426	6,654
Cash and cash equivalents		1,638	9,086
		8,218	16,199
Less: Creditors: Amounts falling due within one year	15	(2,065)	(2,307)
Net current assets		**6,153**	**13,892**
Total assets less current liabilities		**142,931**	**148,521**
Creditors: Amounts falling due after more than one year	16	(104,176)	(114,443)
Provisions for liabilities			
Pension Provision	17	(1,798)	(2,254)
Total net assets		**36,957**	**31,824**
Capital and reserves			
Non-equity share capital	18	-	-
Income and expenditure reserve		36,957	31,824
Total reserves		**36,957**	**31,824**

The financial statements on pages 33 to 56 were approved and authorised for issue by the Board on 16th August 2018 and signed on its behalf by:

I. Munro	**P. Kuit**	**J. Mansergh**
Chair	Vice Chair	Company Secretary

The notes on pages 33 to 56 form an integral part of these accounts.

Company Statement of Financial Position

At 31 March 2018	Note	2018 £'000	2017 £'000
Fixed assets			
Tangible fixed assets	12a & b	83,524	76,943
Debtors due after more than one year	22	53,254	57,686
Current assets			
Stock	13	154	459
Trade and other debtors	14	6,409	6,654
Cash and cash equivalents		1,638	9,086
		8,201	16,199
Less: Creditors: Amounts falling due within one year	15	(2,048)	(2,307)
Net current assets		**6,153**	**13,892**
Total assets less current liabilities		**142,931**	**148,521**
Creditors: Amounts falling due after more than one year	16	(104,176)	(114,443)
Provisions for liabilities			
Pension Provision	17	(1,798)	(2,254)
Total net assets		**36,957**	**31,824**
Capital and reserves			
Non-equity share capital	18	-	-
Income and expenditure reserve		36,957	31,824
Total reserves		**36,957**	**31,824**

The financial statements on pages 33 to 56 were approved and authorised for issue by the Board on 16th August 2018 and signed on its behalf by:

I. Munro	**P. Kuit**	**J. Mansergh**
Chair	Vice Chair	Company Secretary

The notes on pages 33 to 56 form an integral part of these accounts.

Group & Association Statement of Changes in Reserves

For the year ended 31 March 2018

	Income and expenditure reserve £'000
Balance at 31 March 2017	**31,824**
Surplus from Statement of Comprehensive Income	5,133
Balance at 31 March 2018	**36,957**

The notes on pages 33 to 56 form an integral part of these accounts.

Group & Association Statement of Cash Flows

For the year ended 31 March 2018

	2018 £'000	2017 £'000
Net cash generated from operating activities	7,913	8,144
Cash flow from investing activities		
Purchase of tangible fixed assets	(8,284)	(6,542)
Proceeds from sale of tangible fixed assets	1,467	1,562
Grants received	197	979
Interest received	6	32
	1,299	4,175
Cash flow from financing activities		
Interest paid	(3,747)	(1,633)
New secured loans	-	5,000
Repayment of borrowings	(5,000)	-
Net change in cash and cash equivalents	(7,448)	7,542
Cash and cash equivalents at beginning of the year	9,086	1,544
Cash and cash equivalents at end of the year	1,638	9,086

	2018 £'000	2017 £'000
Cash flow from operating activities		
Surplus for the year	4,073	6,251
Adjustments for non-cash items		
Depreciation of tangible fixed assets	1,434	1,211
Amortisation of intangible assets	17	593
Interest and financing costs	3,788	1,633
Interest receivable	(6)	(32)
Gain on disposal of property, plant and equipment	(500)	(561)
(Increase)/decrease in stock	305	(459)
(Increase)/decrease in trade and other debtors	4,839	203
Increase/(decrease) in trade and other creditors	(5,163)	(259)
Pension costs less contributions payable	(604)	(222)
Government grants utilised in the year	(229)	(214)
Government grants utilised in prior years	-	-
Net cash generated from operating activities	7,913	8,144

The notes on pages 33 to 56 form an integral part of these accounts.

Notes to the Financial Statements

For the year ended 31 March 2018

Legal Status

The group comprises of the following:

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.

Cumbrian Housing and Property Services, anon-registered subsidiary, incorporated under the Companies Act 2006.

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. 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 2018

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 2018

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 2018

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 2018

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 2018

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 2018

2. Turnover, operating expenditure and operating surplus

31 March 2018	Turnover £'000	Operating expenditure £'000	Operating Surplus £'000
Social Housing Lettings (note 3)	15,038	8,266	6,772
Other Social Housing Activities	945	451	494
Activities other than social housing	79	31	48
TOTAL	16,062	8,748	7,314

Turnover, operating expenditure and operating surplus

31 March 2017	Turnover £'000	Operating expenditure £'000	Operating Surplus £'000
Social Housing Lettings (note 3)	15,342	8,155	7,227
Other Social Housing Activities	905	351	554
Activities other than social housing	132	28	104
TOTAL	16,379	8,494	7,885

Notes to the Financial Statements

For the year ended 31 March 2018

3. Turnover and operating expenditure from social housing letting

	General Housing £'000	Supported Housing and Housing for Older People £'000	Total 2018 £'000	Total 2017 £'000
Income				
Rent receivable net of identifiable service charges and net of voids	12,202	1,973	14,175	14,479
Service charge income	-	587	587	640
Amortised government grants	236	38	274	221
Other income from Social Housing Lettings	2	-	2	2
Turnover from Social Housing Lettings	12,439	2,598	15,038	15,342
Operating expenditure				
Management	(3,328)	(322)	(3,650)	(3,524)
Service charge costs	-	(512)	(512)	(511)
Routine maintenance	(1,416)	(64)	(1,480)	(1,820)
Planned maintenance	(1,416)	-	(1,416)	(1,161)
Bad debts	(24)	(4)	(28)	(91)
Depreciation of housing properties	(1,016)	(164)	(1,180)	(1,008)
Operating expenditure on Social Housing Lettings	(7,200)	(1,066)	(8,266)	(8,115)
Operating Surplus on Social Housing Lettings	**5,239**	**1,532**	**6,772**	**7,227**
Void Losses (being rental income lost as a result of property not being let, although it is available for letting)	(42)	(7)	(49)	(121)

Notes to the Financial Statements

For the year ended 31 March 2018

4. Accommodation owned, managed and in development

Under management at end of year:	2018 No. of properties	2017 No. of properties
General needs housing	2,658	2,654
Supported housing and housing for older people	431	431
Shared ownership properties	5	5
Discounted sale properties	-	3
	3,094	3,093

In management, but not ownership, at end of year:	2018 No. of properties	2017 No. of properties
Housing accommodation	3	3
Leasehold properties	261	260
	264	263

5. Surplus on ordinary activities

	2018 £'000	2017 £'000
The operating surplus is stated after charging:		
Auditor's remuneration (excluding VAT):		
Statutory audit	13	13
Fees payable to the company's auditor and its associates for other services to the association:		
Tax compliance services	-	-
Service charge certification	-	-
Operating lease rentals		
Land and buildings	178	139
Office equipment	5	6
Motor vehicles	159	176
Depreciation of housing properties	1,180	1,008
Depreciation of other fixed assets	254	203
Surplus on sale of other fixed assets	500	561

Notes to the Financial Statements

For the year ended 31 March 2018

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

	Property assets 2018 £'000	Total 2018 £'000	Total 2017 £'000
Proceeds of sales	1,467	1,467	1,562
Less: Costs of sales	(967)	(967)	(1,001)
Surplus	500	500	561

7. Interest receivable

	2018 £'000	2017 £'000
Bank interest receivable	6	32

Notes to the Financial Statements

For the year ended 31 March 2018

8. Interest and financing costs

	2018 £'000	2017 £'000
Deferred benefit pension charge	(53)	(24)
On loans repayable within five years	(257)	(498)
On loans wholly or partly repayable in more than five years	(626)	(992)
Total interest	(936)	(1,514)
Loan fees and charges	(2,811)	(713)
Total interest payable and similar charges	(3,747)	(2,227)

9. Employee information

	2018 Number	2017 Number
The average number of persons employed during the year, expressed in full time equivalents (37 hours per week) was:	102	106

Staff costs

	2018 £'000	2017 £'000
Wages and salaries	3,030	2,882
Social security costs	295	265
Other pension costs	404	616
	3,729	3,763

The aggregate number of full time equivalent staff whose remuneration exceeded £60,000 in the period:	2018 Number	2017 Number
£60,000 to £69,999	1	2
£70,000 to £79,999	1	-
£80,000 to £89,999	2	1
£90,000 to £99,999	-	1
£100,000 +	2	1

Notes to the Financial Statements

For the year ended 31 March 2018

10. Key management personnel remuneration

	2018 £'000	2017 £'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	519	464
The emoluments paid to the highest paid director excluding pension contributions	114	112

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.

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 2018

11. Tax on Surplus on Ordinary Activities

	2018	**2017**
	£'000	**£'000**
Current taxation:		
UK Corporation Tax charge for the year	-	-
Deferred taxation:		
Net origination and reversal of timing differences	-	-
Tax on surplus on ordinary activities	-	-

The tax assessed

The tax assessed in the year is lower than the standard rate of corporation tax in the United Kingdom at 0% (2017 0%). The differences are explained as follows :	**2018**	**2017**
Total tax reconciliation	**£'000**	**£'000**
Surplus on ordinary activities before taxation	4,073	6,251
Theoretical tax at UK corporation tax rate of 20% (2017: 20%)	815	1,250
Effects of:		
-Surpluses relating to charitable period	(815)	(1,250)
Total taxation charge	-	-

Notes to the Financial Statements

For the year ended 31 March 2018

12a. Tangible fixed assets (Group & Association)

	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	78,520	323	118	78,961
Additions to properties acquired	2,906	435	26	3,367
Works to existing properties	4,774	-	-	4,774
Schemes completed	170	(170)	-	-
Disposals	(269)	-	-	(269)
At end of the year	86,101	588	144	86,833
Depreciation and impairment				
At start of the year	(2,678)	-	-	(2,678)
Charge for the year	(1,180)	-	-	(1,180)
At end of the year	(3,858)	-	-	(3,858)
Net book value at 31st March 2018	82,243	588	144	82,975
Net book value at 31st March 2017	75,842	323	118	76,283

The financial covenants entered into with the funders require that the asset cover ratio (property value to loan outstanding) needs to be at least 110% of the value of loans at the year end when using the "existing use value for social housing (EUV-SH) basis of valuation.

Notes to the Financial Statements

For the year ended 31 March 2018

12b. Other tangible fixed assets (Group & Association)

	Computer Equipment £'000	IT Infrastructure £'000	Furniture & Fittings £'000	Total £'000
Cost				
At start of the year	510	187	353	1,050
Additions	100	-	43	143
Disposals	-	-	-	-
At end of the year	610	187	396	1,193
Depreciation and impairment				
At start of the year	(191)	(75)	(124)	(390)
Charge for the year	(202)	(17)	(35)	(254)
At end of the year	(393)	(92)	(159)	(644)
Net book value at 31st March 2018	217	95	237	549
Net book value at 31st March 2017	319	112	229	660

13. Stock (Group & Association)

	2018 £'000	2017 £'000
Stocks held within:		
Stores	3	2
Trade vehicles	21	30
	24	32
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	130	37
	154	459

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

Notes to the Financial Statements

For the year ended 31 March 2018

14a. Group Trade and Other Debtors

	2018 £'000	2018 £'000	2017 £'000	2017 £'000
Rent and service charge arrears	1,129		1,048	
Less: provision for bad debts	(317)		(339)	
		812		709
Trade debtors	138		176	
Less: provision for bad debts	(59)		(73)	
		79		103
Value Added Tax		130		129
Prepayments and accrued income		180		178
Other debtors		1		-
Stock transfer obligation (note 22)		5,224		5,535
		6,426		6,654

14b. Company Trade and Other Debtors

	2018 £'000	2018 £'000	2017 £'000	2017 £'000
Rent and service charge arrears	1,129		1,048	
Less: provision for bad debts	(317)		(339)	
		812		709
Trade debtors	145		176	
Less: provision for bad debts	(59)		(73)	
		86		103
Value Added Tax		130		129
Prepayments and accrued income		156		178
Other debtors		1		-
Stock transfer obligation (note 22)		5,224		5,535
		6,409		6,654

Notes to the Financial Statements

For the year ended 31 March 2018

15a. Group Creditors: Amounts falling within one year

	2018 £'000	2017 £'000
Rent and service charges received in advance	179	214
Trade creditors	489	470
Accruals and deferred income	979	1,240
Other taxation and social security	76	69
Other creditors	112	87
Deferred capital grant	230	227
	2,065	2,307

15b. Company Creditors: Amounts falling within one year

	2018 £'000	2017 £'000
Rent and service charges received in advance	179	214
Trade creditors	489	470
Accruals and deferred income	962	1,240
Other taxation and social security	76	69
Other creditors	112	87
Deferred capital grant	230	227
	2,048	2,307

16. Creditors: Amounts falling due after more than one year (Group & Association)

	2018 £'000	2017 £'000
Loans	24,510	30,000
Deferred Capital Grant	21,188	21,223
Stock transfer obligation	58,478	63,220
	104,176	114,443

Notes to the Financial Statements

For the year ended 31 March 2018

16(a). Debt Analysis

	2018 £'000	2017 £'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	25,000	30,000
	25,000	30,000
Less loan arrangement fees	(490)	-
	24,510	30,000

South Lakes Housing had 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 1.81% and 3.18%.

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

16(b) Deferred capital grant

	2018 £'000	2017 £'000
At start of year	21,450	20,595
Grant received in the year	328	1,214
Released to income in the year	(229)	(214)
Relating to disposals in the year	(131)	(145)
At the end of the year	21,418	21,450
Amount due to be released < 1 year	230	227
Amount due to be released > 1 year	21,188	21,223

Notes to the Financial Statements

For the year ended 31 March 2018

17. Pension obligations (Group & Association)

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 2018 were £618,745, of which employer's contributions totalled £446,370 and employees' contributions totalled £172,375. 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 2018 by a qualified independent actuary.

	2018 % per annum	**2017 % per annum**
Rate of increase in salaries	3.6	3.5
Rate of increase in pensions in payment	2.2	2.0
Discount rate	2.7	2.6
Inflation assumptions (CPI)	2.1	2.0

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

	2018 Years	**2017 Years**
Retiring today		
Males	23.2	23.1
Females	25.8	25.7
Retiring in 20 years		
Males	25.5	25.4
Females	28.5	28.4

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

	2018 £'000	**2017 £'000**
Employer service cost (net of employee contributions)	944	588
Past service cost / (gain)	0	0
Total operating charge	**944**	**588**

Notes to the Financial Statements

For the year ended 31 March 2018

Analysis of pension finance income/(costs)	**2018**	**2017**
	£'000	**£'000**
Expected return on assets	(404)	(435)
Interest on pension liabilities	457	459
Amounts charged/credited to financing costs	**53**	**24**

Amount of gains and losses recognised in the Statement of Comprehensive Income	**2018**	**2017**
	£'000	**£'000**
Actuarial gains/(losses) on pension scheme assets	198	2,798
Actuarial gains/(losses) on scheme liabilities	862	(3,961)
Actuarial gain/(loss) recognised	**1,060**	**(1,163)**

Notes to the Financial Statements

For the year ended 31 March 2018

17. Pensions (continued)

Movement in surplus/(deficit) during the year	**2018 £'000**	**2017 £'000**
(Deficit)/surplus in scheme at 1 April	(2,254)	(845)
Movement in year:		
Employer service cost (net of employee contributions)	(928)	(574)
Employee contributions	393	366
Past service cost	0	0
Net interest/return on assets	(53)	(24)
Re-measurements	1,060	(1,163)
Administration expenses	(16)	(14)
(Deficit) in scheme at 31 March	**(1,798)**	**(2,254)**

Asset and Liability Reconciliation

Reconciliation of liabilities	**2018 £'000**	**2017 £'000**
Liabilities at start of period	17,631	12,856
Service cost	928	574
Interest cost	457	459
Employee contributions	177	165
Re-measurements	(862)	3,961
Benefits paid	(284)	(384)
Past service cost	0	0
Liabilities at end of period	**18,047**	**17,631**

Reconciliation of assets	**2017 £'000**	**2017 £'000**
Assets at start of period	15,377	12,011
Return on plan assets	404	435
Re-measurements	198	2798
Administration expenses	(16)	(14)
Employer contributions	393	366
Employee contributions	177	165
Benefits paid	(284)	(384)
Assets at end of period	**16,249**	**15,377**
Actual return on plan scheme assets	**603**	**2,302**

Notes to the Financial Statements

For the year ended 31 March 2018

18. Non-equity share capital (Group & Association)

	2018 No. of shares	2017 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 (Group & Association)

	2018 £'000	2017 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	650	1,119
Capital expenditure that has been authorised by the committee of management but has not yet been contracted for.	4,229	2,241
	4,879	3,360
SLH expects these commitments to be financed with:		
Committed loan facilities	4,879	3,360
	4,879	3,360

20. Operating leases (Group & Association)

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	2018 £'000	2017 £'000
Land and buildings		
In one year or more but less than two years	18	165
In two years or more and less than five years	654	540
In five years or more	243	101
Others		
In one year or more but less than two years	-	28
In two years or more and less than five years	484	196
In five years or more	-	-
	1,399	1,030

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 2018

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 £9,308 (2017: £19,761). There are no arrears on their tenancies at the reporting period end (2017: £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 2018 was £58,478k of which £5,224k is due in less than one year and £53,254k is due in more than one year (2017: £63,221k, £5,535 & £57,686 respectively).

23. Contingent liability

There are no contingent liabilities (2017: none).

24. Financial instruments

The Society had the following financial instruments:

Financial liabilities at amortised cost:

	2018 **£'000**	**2017** **£'000**
Loans	24,510	30,000
Trade creditors	489	470
Deferred capital grant	21,418	21,223
Loan commitments measured at cost less impairment	24,510	30,000

Notes to the Financial Statements

For the year ended 31 March 2018

Financial assets at amortised cost:

	2018 £'000	2017 £'000
Rent and service charge arrears	812	709
Trade debtors	79	103
Cash at bank and in hand	1,638	9,086

25. Group Undertakings

The Consolidated financial statements incorporate the results of Cumbrian Housing and Property Services (CH&PS).

Expenditure of £3,204k was incurred in relation to CH&PS.

South Lakes Housing provides the labour and associated costs to CH&PS which is a cost sharing vehicle. Costs are shared with another Housing Association and are allocated between the two organisations according to volume of work each organisation provides. There is no mark up or profit generated as all transactions are made at cost.