



Unlocking the potential
of people and places

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The consolidated financial statements of:
Southern Housing Group Limited
Southern Housing Home Ownership Limited
South Wight Housing Association Limited
James Butcher Housing Association Limited
Southern Housing Foundation
Southern Space Limited

The Board, Senior Executives and Advisers

Members of the Board of Southern Housing Group Limited as at 31 March 2009

Andrew McIntyre	Chairman
John Argent	Deputy Chairman of SHGL
Tony Bourne	
John Castelberg	
Tom Dacey	Group Chief Executive
Peter Goodacre	
Chris Hampson	
Jim Hitch	
Jane Hives	
Neville Hudson	
David Kelly	
Malcolm Groves	

Group Strategy Team as at 31 March 2009

Tom Dacey	Group Chief Executive
Alene Wilton	Corporate Services Director
Barry Nethercott	Finance Director
Dale Meredith	Development Director
Paul Smith	Operations Director
Caroline Tiller	Executive Director, James Butcher Housing Association
Margaret Wright	Executive Director, South Wight Housing Association

Secretary and Registered office

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Principal solicitors

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Operating and Financial Review

31 March 2009

Overview of the Business

Southern Housing Group is one of the largest affordable housing providers in Southern England. We house some 66,000 residents, own and manage more than 25,000 homes employ 900 people and work with over 70 local authorities. Our activities centre on four key areas: the development of affordable housing; housing and neighbourhood management; a range of housing options for rent and home ownership; and social investment.

We are also a major developer of new affordable housing and a Homes and Communities Agency (previously Housing Corporation) preferred partner.

Southern Housing Group Limited (SHGL) which is the parent organisation, Southern Housing Home Ownership Limited (SHHO), South Wight Housing Association Limited (SWHA) and James Butcher Housing Association Limited (JBHA) are all Registered Social Landlords (RSLs) regulated by the Housing Corporation until the end of November 2008, with the new Tenant Services Authority (TSA) taking responsibility from 1 December 2008. Southern Space Limited (SSL) develops properties for outright sale.

The consolidated accounts will be published on the Association's website, www.shgroup.org.uk.

Southern Housing Foundation (SHF) was a charitable organisation which, in partnership with other agencies, funded a range of community initiatives to help create sustainable neighbourhoods where people want to live. To improve efficiency and value for money SHF was wound up as a separate legal entity at the end of the 2008 financial year. Its activities are now managed as a discrete and transparent operating unit within SHGL but its core purpose and objectives remain unchanged.

The Housing Corporation has given SHG 'green lights' for all four areas of regulatory compliance, ie; Viable, Properly Governed, Properly Managed and Development.

External Influences

The passage of the Housing and Regeneration Bill into legislation heralded the creation of the Homes and Communities Agency (HCA) and the Tenant Services Authority (TSA) during the course of 2008-09. Although the original intention was that both agencies would become operational from 1 April 2009, this date was brought forward to 1 December 2008.

Both new agencies became heavily involved in managing the impact of the recession within our sector very early in their new guises. The HCA engaged in discussion with the sector on tailored programmes to convert unsold home ownership stock into affordable and intermediate rent products. This move should facilitate the sale of these homes to sitting tenants when market circumstances improve thus enabling modest programmes of new provision going forward.

The TSA faced a more immediate challenge in its early days in the shape of cash calls from lenders against hedging instruments used by housing associations, prompted by a dramatic fall in swap rates in the international money markets. Its creative solution was to broker loans from associations with surplus cash balances to underpin the exposure of other associations.

Both agencies have shown a welcome flexibility and desire to innovate to help mitigate the impact of the credit crunch and subsequent economic turmoil on the health and wellbeing of the sector.

Clearly, the most critical external influence in this review of 2008-09 is the worldwide economic situation, which is covered elsewhere in this document in more detail. However, we must also acknowledge that we have a General Election on the horizon in 2010, if not before. This prospect inevitably brings a higher political profile for housing as the parties prepare their manifestos and test the temperature of public opinion with policy papers and position statements.

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In the current climate, where there exists a consensus that the current model of provision of affordable housing is irreparably broken, we are seeing fertile ground for alternative means of ensuring a supply of affordable housing against a backdrop of limited capital liquidity and a shortage of affordable mortgage finance for first time buyers. Without some progress on the supply of capital and mortgage finance it is difficult to foresee a return to the level of former housing development programmes.

The year ahead is going to be demanding but through robust and realistic planning, innovation and continuous improvement we are in good shape to deliver our business plan strategies and hit our targets.

Objectives and strategies

During the year we continued to deliver against the four fundamental objectives of our Business Philosophy:

- **Growth:** where the objectives are to enhance the status of social housing, ensuring that people wish to occupy our homes and to increase our housing stock.
- **Influence:** through providing an excellent service on a daily basis and actively seeking opportunities to enhance and improve our image.
- **Expertise:** we aim to seek and implement innovative solutions and to work together as a Group.
- **Assets:** our objective is to work in partnership with residents to ensure that housing stock is continuously of the highest standard. It is imperative that we continue to operate in surplus in order to undertake this work and also to invest in new developments.

Backing up these objectives are the critical success factors which were most recently reviewed to cover the period 2006-09. The critical success factors are monitored and regularly reported to the Board.

A key objective for the organisation for 2008-09 was delivery of our Equality and Diversity Strategy which applies to the whole Group, and encompasses every aspect of our internal and external activities. We made

significant progress in implementing the Strategy in 2008-09 with further and ongoing development planned for the future to ensure we continue to recognise and respond to diversity issues in all areas of activity.

During 2008-09 we also developed a new Corporate Plan for the organisation. Prepared with input from residents and staff, it covers all parts of the Group for the period 2009-12, and takes effect from 1 April 2009.

The Plan sets out six strategic objectives for 2009-2012, each of which is defined by three priorities. The objectives and priorities are supported by an explanation of why they are important for the organisation, and the outcome we seek to achieve. To assess our progress, we have also identified measurable three-year performance targets.

The Plan marks a new approach to corporate planning for us and we have devised a new planning and performance management framework and planning cycle to support its delivery.

Stronger links have been established between our corporate and financial planning processes. For example, the budget planning cycle now fits within the new annual planning cycle and we have integrated staff performance management and organisational risk management into the planning framework. Similarly, staff performance targets will now be directly linked to our strategic objectives from 2009-10.

Our new risk framework is also structured on the basis of the Corporate Plan objectives. The result is a far more integrated approach to corporate planning, and a flexible system that will support future organisational development and change.

One of our key objectives is to make sure that residents are at the heart of our work and we have used feedback from around 9,000 residents to create the Plan. We directly consulted resident focus groups about our proposed strategic objectives and aim to keep them informed of our performance throughout its duration. A summary of the plan has already been sent to all residents.

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The table below shows the six strategic objectives, together with the key annual performance targets for the coming year.

Strategic Objectives	Annual Performance Targets
<p>Understand residents' needs and ensure our residents shape the continuous improvement of our products and services in meeting those needs</p>	<ul style="list-style-type: none"> ● Overall resident service rating improves from 7 out of 10 to 8 out of 10 by March 2010 ● Our new Service Charter is implemented and performance meets the targets it contains ● Development of a Continuous Improvement Strategy by 2010
<p>Secure the long-term growth and future of Southern Housing Group</p>	<ul style="list-style-type: none"> ● Complete approximately 600 new build homes for rent and sale in 2009-10 ● Meet the Decent Homes Standard for all existing properties across the Group by 2010 ● Deliver an operating surplus in line with budget
<p>Enhance the reputation of Southern Housing Group through building effective relationships with residents and all other interested parties</p>	<ul style="list-style-type: none"> ● Maintain our current regulatory and Preferred Development status ● Key performance indicator (KPI) performance improves from 2008-09 towards upper quartile performance ● Deliver the Foundation's annual programme
<p>Instil a culture of value for money throughout the organisation to ensure we effectively meet the needs of our residents</p>	<ul style="list-style-type: none"> ● Achieve the targets set out in the Value for Money Strategy ● Resident satisfaction in relation to value for money of rent and service changes improves ● Group operating expenditure is within +/-3% annual budget tolerance for all costs in 2009-10
<p>Recognise, value and promote the diversity of our staff, board members and the communities in which we work in all aspects of our activities</p>	<ul style="list-style-type: none"> ● Deliver the objectives of the Equality and Diversity Strategy ● Improve BME and disabled residents' satisfaction with the Group
<p>Enable staff and board members to work across all areas, to develop their skills and maximise their potential contribution to the Group for the benefit of residents.</p>	<ul style="list-style-type: none"> ● Develop an Organisational Development Strategy ● Ensure all staff and board members have annual appraisals and personal development plans

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Service improvement

Reviewing and challenging the way we deliver services to residents has remained a priority for us this year. In June 2008 we commissioned consultants, Housing Quality Network, to undertake a 'mock inspection' of all service areas delivered by SHGL. This inspection was a useful tool to help gauge our performance on continuous improvement and services to residents, and we used its outcomes to develop our new service improvement plan (SIP).

We have widely promoted the SIP over the year, and delivering its targets has been a key priority for all staff. Progress has been overseen by senior managers and monitored by a sub group of the Customer Services Committee which also includes residents. We are continuing to deliver some elements of the SIP during the current year.

In January 2009, we became one of the first housing associations to experience an Audit Commission short notice inspection. They inspected resident involvement, income management and repairs reporting and examined cross cutting themes of access and customer care, equality and diversity and value for money. The Audit Commission found that we provide good services with 'strengths outweighing weaknesses' in resident involvement and our arrangements for customer care and access to services. For the other service areas they felt that 'strengths and weaknesses were in balance'.

The Audit Commission made a number of recommendations and asked us to develop an improvement plan, in consultation with residents, showing how we will address these areas. It is pleasing that many of these areas were ones we were already improving or had plans to do so. We think the positive assessment for resident involvement and access and customer care show the importance and focus that our staff give to these areas. The assessment also reflects the progress that has been made since the mock inspection. We have now received the Audit Commission's judgement on our improvement plan and SHGL has been assessed as having 'promising prospects for improvement' for the service areas that were included in the scope of the inspection.

In the year ahead we will complete the remaining areas of the service improvement plan and deliver on the recommendations that came out of the short notice inspection. Beyond this, we will concentrate on ensuring our service improvements continue to deliver better outcomes for residents. We want to move towards a position where residents work with us in determining future priorities for service improvement and will be using our newly established Customer Involvement Panels to help us achieve our aims.

Risks and uncertainties

The Group's Risk Management Adviser was a member of the project team which helped to develop our new Corporate Plan. As part of this work, he took the opportunity to begin to recast the Group risk maps. By the time the new Corporate Plan was launched we had a comprehensive set of risk maps which identified risks to the new objectives.

In June 2008, the Group Strategy Team produced a Group Top Risks Map. This work was followed by reviews of the risk maps for all significant subsidiaries and for the four main operating departments of Southern Housing Group. The maps identify significant risks, list existing controls, and rate each risk based on the likelihood of it crystallising, the impact of the risk and the effectiveness of existing controls. The maps also include a section on improvements designed to further mitigate risks. The maps are updated twice each year. The Board reviewed them in December 2008 and the Audit Committee considered them twice during the year.

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The key (high rated) risks identified during the year were:

Key Risks	Mitigation	Corporate Plan Link
<p>Failure to sell new vacant homes on a full or shared ownership basis.</p>	<p>Converted units for sale to both intermediate and social rented status. Obtained increased grant funding to reduce loan requirement and associated costs.</p>	<p>Secure the long-term growth and future of Southern Housing Group</p>
<p>Failure to secure sufficient loan finance to fund our development programme.</p>	<p>Funding for the next two years has been secured with additional funds in the pipeline.</p>	<p>Secure the long-term growth and future of Southern Housing Group</p>
<p>Poor Audit Commission inspection result causes damage to the Group's reputation.</p>	<p>The Housing Quality Network completed a full spectrum inspection of Southern Housing Group in June 2008. A detailed service improvement plan is being implemented. We were subjected to a Short Notice Inspection in January 2009.</p> <p>In the areas of Access and Customer Care and Resident Involvement inspectors found strengths to outweigh weaknesses and in the remainder – Diversity, Value for Money, Repairs Reporting and Income Collection – found strengths and weaknesses to be in balance.</p>	<p>Understand residents' needs and ensure our residents shape the continuous improvement of our products and services in meeting those needs.</p>
<p>Management information project fails to deliver the high quality information required to effectively manage the Group.</p>	<p>Progress has been made in the development of a data warehouse facility that will enhance the capacity and accuracy of reporting across the business. The initial phase, which will provide for reporting in relation to the key business performance indicators, will be completed by the end of the year. Envisaged further phases will embrace our wider operational reporting needs.</p>	<p>Understand residents' needs and ensure our residents shape the continuous improvement of our products and services in meeting those needs.</p>
<p>Poor service delivery through failure to effectively communicate with residents.</p>	<p>We have undertaken extensive research into the most compelling and appropriate methods of communication with different resident groups. Using the findings, we launched a new website and redesigned the resident newsletter, Open Door, to reflect resident preferences.</p>	<p>Understand residents' needs and ensure our residents shape the continuous improvement of our products and services in meeting those needs.</p>

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The impact of these risks has reduced over time as a result of strong management producing effective outcomes.

We keep the risk map under review and see the key risks for the financial year 2009 -10 as:

- A poor inspection result for a Group subsidiary impacting on the regulatory status of the Group.
- Failure to complete the Service Improvement Plan work to a good standard and / or implement the Audit Commission inspection recommendations leading to a downgrading of the regulatory status.
- The recession deepens, impacting significantly on our income and its ability to develop and operate normally.
- The management information project fails to deliver the high quality information required to effectively support the Group.

The scarcity of liquidity and the downturn in property prices generated significant risks for us and our customers during 2008-09. We were quick to respond by commissioning a detailed financial survey of our leaseholders early in 2008. The results showed that leaseholders were coping, but were exposed if interest rates increased significantly or they were unable to refinance their debts at affordable rates. We were able to improve our arrangements for supporting leaseholders and the effect of the downturn has been manageable. At the same time, our treasury management team has worked effectively to secure development finance that will enable us to continue to develop through the period of recession.

A potential risk to any housing association is fraud. Our procedures are designed to minimise fraud and we have a new Fraud Policy and Response Plan. We keep a fraud register and no material frauds were identified during the year.

Operational performance

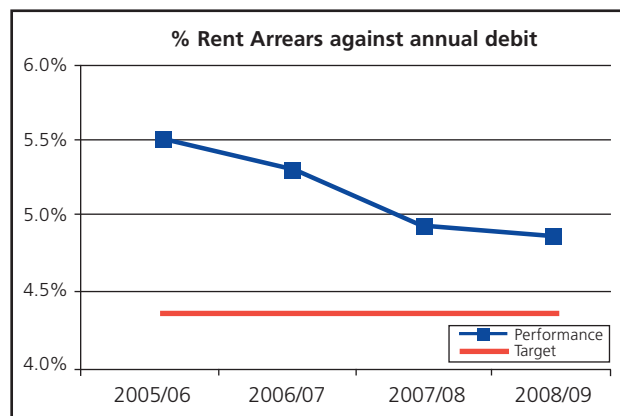
Our performance in key operational areas for 2008-09, against that achieved in previous years, is set out below. This identifies the context of the performance as well as future plans for continuous improvement. These performance areas reflect priorities from the annual performance targets in the Corporate Plan and are the key performance indicators monitored by the Board.

Resident Satisfaction

We have developed a comprehensive approach to measuring resident satisfaction through our ongoing 'What Matters to Residents' surveys which cover our key service areas. On average residents rated satisfaction with the service at 7.6 out of 10 for the current year. Although we have no direct comparison, this does indicate a slight improvement on overall satisfaction levels in the last Status survey completed in 2006. In the coming year we will be completing a new Status survey and compare the results to make sure we are addressing residents' concerns.

Rent Arrears

We marginally reduced rent arrears during the year. This was an achievement in the current economic climate, which has led to arrears increases at other housing providers. We undertook substantial work to maximise rent collection, including acting swiftly when arrears started to appear and offering financial advice for those who fall into significant debt. In the coming year we will be developing an income management strategy and we will continue to act at the first signs of problems emerging. We will also further research the impact of the 'credit crunch' on residents and will act on the findings of this work.



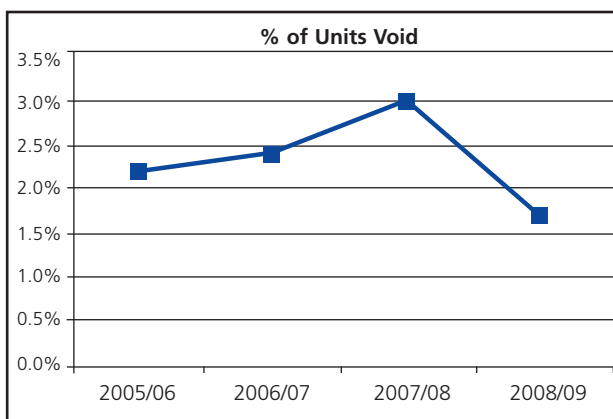
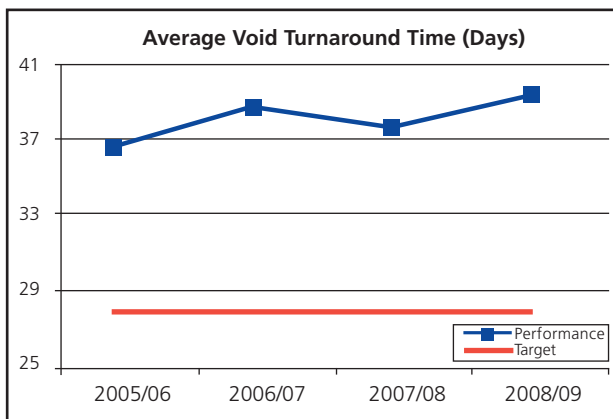
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Voids

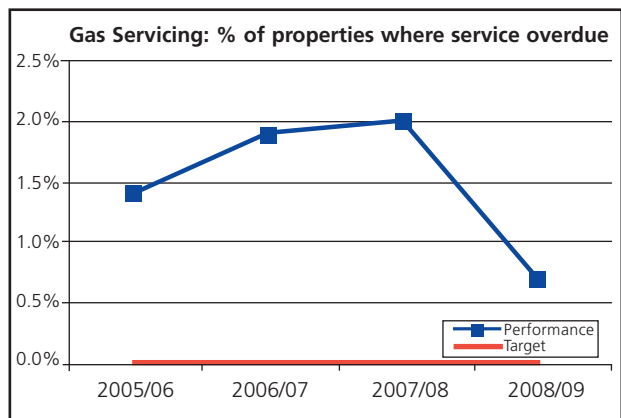
During the year we have significantly reduced the number of our homes that lie empty, which has consequently increased the rent we collect. However, the average time it takes to let homes has increased. We are refurbishing the small number of our homes that have been empty for some time to further reduce the number of units void. An unavoidable consequence of this is that it will in turn worsen the average turn around time in the short term.

We have piloted a new 'voids' process within one area of stock and will now implement it across the Group in the coming year. We are optimistic that this approach, along with improved management information, will help us improve our performance in this area.



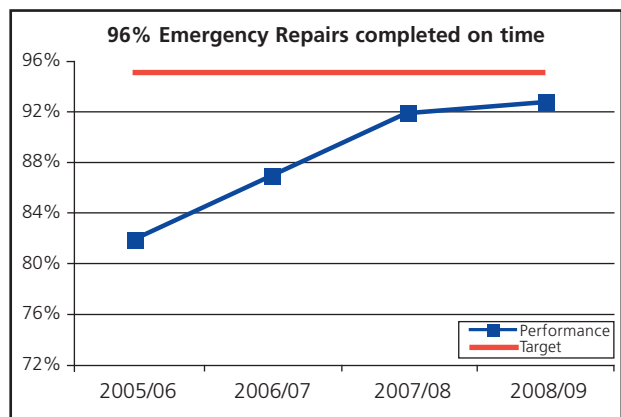
Gas Servicing

We have made great strides in improving gas servicing performance this year, reducing the number of properties without a valid gas certificate by 65%. This can be attributed to our regional teams making gas servicing a key focus, as well as the implementation of a number of other initiatives. Further work will continue in the coming year to ensure we use the most effective methods to improve performance.



Day to Day Repairs

We have improved our performance on Emergency Repairs in each of the last four years. Emergency Repairs are those due to be completed within 24 hours of their report which is an important way our performance is measured.



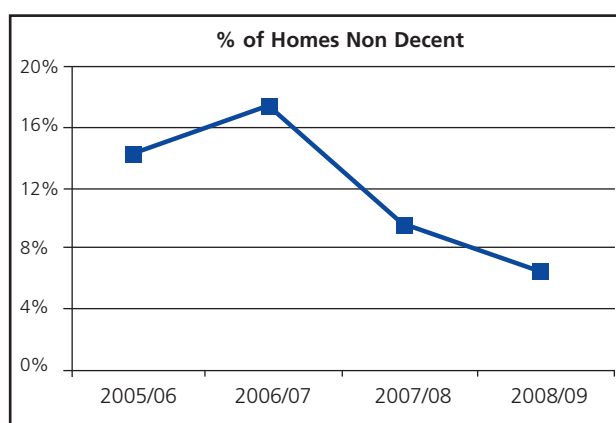
Our Continuous Service Improvement (CSI) Team aims to improve our repairs service by looking at maintenance procedures and by making sure we use the most efficient working methods. We also involve residents by making sure the way we measure our performance reflects their experience of the service. In addition to more traditional measures, we are working to embed 'First Time Fix' and 'End to End time' indicators for repairs which our residents tell us are important for their assessment of us.

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Decent Homes

Our comprehensive reinvestment programme has enabled us to reduce the number of non-decent homes over the last year. This programme is being delivered in line with projections, and we expect it to be completed by the end of 2010 in line with the sector target.



NB: The increase in 2006-07 was mainly due to mergers bringing additional non-decent stock into the Group. Much of this was tackled in the subsequent year to bring the programme back on track.

Progress towards the Decent Homes Standard is another of our key performance indicators and is reported to the Group's Boards and Committees in some detail. We update the report on a quarterly basis to demonstrate progress and the table below sets out the position as at 31 March 2009 for the Group.

The chart takes account of properties which do not currently meet the Decent Homes Standard as well as those which we predict will fail before December 2010 (referred to as potentially non-decent).

The top portion of the table sets out the current position with regard to the number and percentage of non-Decent Homes and the current average SAP rating for the stock. The second portion sets out the starting position for the year, the target rate of progress required (properties completed per quarter) to meet the Decent Homes target by the end of 2010 and actual achievement in each quarter. We have used a traffic light system to show whether progress is ahead of, or behind, target. The chart in the centre of the table illustrates this graphically, with the red line setting out the target for the year and the blue bars representing the number of homes remaining non-decent or potentially non-decent at the end of each quarter. Blue bars ending below the red line

represent an improvement against trajectory. The bottom part of the table shows the number and type of individual components installed or renewed which contribute to achieving the target.

The overall position at 31 March 2009 shows that we were ahead of our target to meet Decent Homes by December 2010 with around 19,000, out of more than 20,000 homes, meeting the decency standard. 1,332 properties (6.5%), were non-decent, reduced from 1,923 (9.8%) in March 2008 which was 102 ahead of trajectory. The total also includes 454 homes on schemes where major redevelopment is planned. Subject to final approval by the Tenant Services Authority (TSA), this stock will be omitted from the targets during the coming year. The adjusted start of year target for homes requiring work to meet the decency standard will be fewer than 900 properties (4.5%) once this is implemented.

Environmental

In June 2008-09 we published our new sustainability strategy. Work on this began in 2008-09 and we will review it again in 2011. The strategy was prepared by a team of employees drawn from across the group and is intended to find ways we can address environmental issues within the Group.

We aim to make our residents' homes as energy efficient as possible and be aware of the challenges faced by those at risk of fuel poverty. We will also be addressing the wider environmental impact of our existing homes and aim to raise energy efficiency levels across our stock, using renewable energy technologies wherever possible. We will also be looking at the way we fund these initiatives.

Energy

During the year we expanded our programme of energy efficiency work in existing stock. This included extending the Carbon Emissions Reduction Target funded programme of loft and cavity insulation to properties heated by gas as well as carrying out fuel tariff and company switches.

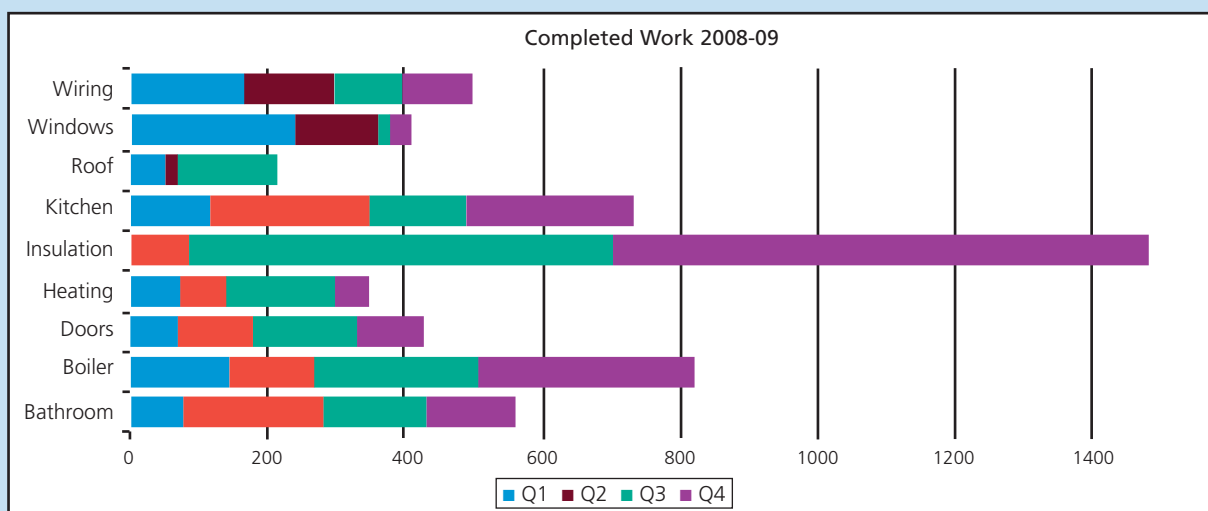
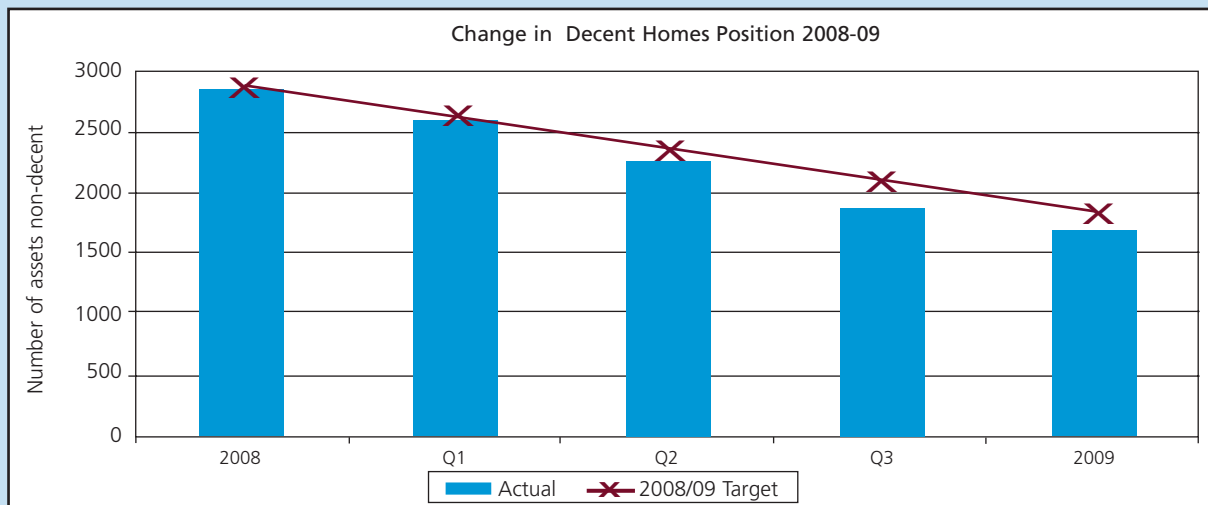
Across the Group the average SAP rating, using the revised 2005 SAP calculation (1 – 100 scale) went up to 66.6% in March 2009 – an improvement from 65.9% in March 2008. We expect our ongoing planned maintenance and Decent Homes programmes to further improve the energy efficiency of our stock.

Southern Housing Group Ltd – All Companies Decent Homes Progress 2008/09

Quarter 4 – 31 March 2009				
Total number of properties	Number of non-decent homes	% of decent homes Q4 – 2008-09	% of non-decent homes Q4 – 2008-09	SAP 2005 Q4 – 2008-09
20434	1332	93.48%	6.52%	66.6%

RSR Position at 31 March 2008				
Total number of properties	Number of non-decent homes	% of decent homes	% of non-decent homes	SAP 2005
19663	1923	90.22%	9.78%	65.9%

	Target		Actual		Variance
	decent at	Progress	decent at	Progress	
1 April 2008	2849		2849		+0
		260		268	
Q1 to June 2008	2589		2581		+8
		260		314	
Q2 to Sept 08	2329		2267		+62
		260		389	
Q3 to Dec 08	2069		1878		+191
		261		172	
Q4 April 2009	1808		1706		+102



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The baseline for new developments has moved to the 'Code for Sustainable Homes level 3 standard' on new grant funded projects from April 2008, with some schemes exceeding this level.

Development performance

In 2008-09, we completed 969 homes. Of these, 603 were part of the HCA partnering programme which was 22% ahead of target. HCA spend at £26.4m was 41% ahead of the cash planning target of £18.6m. We started work on 499 new homes during the year.

Handovers and starts by tenure

Tenure	2008-09		2007-08	
	Handovers	Starts	Handovers	Starts
Social Rent	532	219	293	443
Intermediate Rent	271	180	68	62
Shared Ownership	148	100	368	474
Outright Sale	18	0	71	50
Total	969	499	800	1,029

The number of handovers reflects the high level of starts on site in the previous year while the upsurge in the volume of intermediate rent is largely due to the conversion of shared ownership homes. This was a response to the downturn in the housing market and the challenging financial market and was part of a wider strategy to make our large sales programme less risky.

Another part of the strategy was to examine the financial viability of our development opportunities, leading to several projects being put on hold or rejected. The result was fewer unit starts on site. Starts are expected to rise again in 2009-10 as several key sites get underway.

New Initiatives

Framework Agreement

In June 2008 we launched the Development Consultants' Framework, through which we selected a panel of consultants, who will be held to agreed cost benchmarks, within the context of OJEU (competitive procurement) compliance. The results to date are encouraging with an end-of-year review showing a saving of £840k.

Tenure Conversion

Due to projecting 332 unsold shared ownership new builds by March 2009 and a further 267 in 2009-10, we approached the HCA for additional funding to convert these homes to intermediate market rent, which allowed us to continue to meet affordable housing need in our areas of operation. Our package proposals were approved in March 2009 with £18.5m extra public subsidy being awarded effectively to de-risk the sales programme. As part of the same package, a £43m grant was allocated to new business exclusively in the social rent and intermediate market rent.

Assisted Land Purchase

We became the first housing association in London to be awarded funding under the HCA's new Assisted Land Purchase initiative, which pays grant at land acquisition stage in contrast to paying at start on site stage. Our bid to Islington Council for the former Moorfields School at Old Street was successful and following intensive negotiations with the HCA, we were given £4.9m grant in March 2009 to help cash flow the purchase. The benefit is that our site holding costs are about 60% covered whilst we procure design, planning and construction, which is likely to take around two years.

New Projects

We are continuing our working partnerships on two of the largest regeneration projects in the country at Kidbrooke and Barking Riverside, as well as at Holloway Road and the former Greenwich Hospital. All of these, along with the majority of our affordable housing programme, involve a close working relationship with the HCA.

We are also currently in a competition with our partners, Wates, to be selected by Woking Borough Council to be their contractor to deliver 190 units of new affordable rent housing, funded through the Government's Private Finance Initiative.

Finally, we have acquired a one-third interest in Triathlon Homes, which is the joint venture which will take transfer of the affordable homes being built as part of the London Olympic Village. Triathlon Homes has been established, with two other partners, to own and manage nearly half of the 2,800 homes on the Athletes Village after the 2012 Olympics. Funding is via the HCA, long-term private finance and equity investment. The dwellings meet high design standards and will be part of a new mixed tenure community which will help regenerate the area following the Games.

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Resources

Board

The Board is responsible for the business of the Group which includes overseeing and directing our activities, formulating future strategies and plans, maintaining an overview and monitoring the work of the committees. The Board meets four times per year for regular business and once for a seminar to discuss strategic issues. Board members serve a maximum of three continuous terms of three years. The Board members who served during the year are listed on page 2.

There are various subsidiary boards and committees. Each has detailed terms of reference which are established and monitored by the Group Board. The terms of reference include the frequency of meetings which range from two to four meetings per year.

Independent members of the Group Board are paid for their services to increase our ability to attract and retain high calibre Board members, and to improve mechanisms for performance appraisal and improvement for Board members.

The current annual rates of payment are:

Chair	£15,000
Member and Chair of Committee or subsidiary Board	£ 7,000
Member	£ 5,000

The level of Board member remuneration was reviewed by the Remuneration and Nominations Committee during 2008-09, who determined that payment should be retained at existing levels for at least the next two years.

Committees

The Audit Committee

Considers the appointment of internal and external auditors, the scope of their work and the reports produced. It also reports to the Board on the operation of our risk management and internal control arrangements and reviews in detail the annual financial statements.

The Customer Services Committee

Considers the provision of services to our residents. This ranges from consideration of strategic policies to oversight of operational performance in relation to all aspects of services provided to residents. It also considers the way in which we involve residents in service delivery and other aspects of the Group's work.

The Development Committee

Considers matters relating to the Group's Development Strategy, including development of new properties and stock reinvestment. It also has oversight of the work of the Market Estate Committee and monitors performance in relation to property sales and first let of intermediate rent properties.

The Remuneration and Nominations Committee

Considers matters relating to Board remuneration, recruitment of new members, succession planning, skills training, Group salary structure, senior staff remuneration and the assessment of the performance of Board members. Skills training enables the Committee to review what skills are required from time to time to continually improve business performance. Succession planning helps to balance the composition of the Boards and Committees to reflect the profile of our residents. The Committee will also consider the policy for admitting new shareholders to the subsidiary Boards, current policy is not to admit new shareholders.

The Treasury Committee

Considers in detail all aspects of treasury management, including long-term funding requirements and ensuring loan covenants are maintained.

Board members' attendance at Board meetings and Committees on which they serve are given below for the period from 1 April 2008 to 31 March 2009. Figures in brackets are the number of meetings a member was eligible to attend.

Operating and Financial Review

31 March 2009

	Board	Audit	Customer Services	Development	Remuneration & Nominations	Treasury	Group Pension Plan	SHHO	SWHA	JBHA	SSL
Andrew McIntyre Chairman	6(6)				3(4)	2(3)					
John Argent Deputy Chairman	4(6)			4(4)				1(1)	4(4)	4(4)	4(4)
Tony Bourne	4(6)				2(4)	3(3)					
John Castelberg	6(6)							1(1)			3(4)
Tom Dacey	6(6)	4(4)			4(4)	2(3)					4(4)
Peter Goodacre	5(6)				1(4)					2(4)	
Malcolm Groves	5(5)								3(4)		
Chris Hampson	4(6)		4(4)								
Jim Hitch (Appointed – July 2008)	6(6)		3(4)		4(4)						
Jane Hives	5(6)	4(4)		4(4)		3(3)	2(2)	1(1)			4(4)
Neville Hudson	6(6)	4(4)		4(4)	4(4)			3(3)			1(1)
David Kelly	6(6)		4(4)								
Robert Sturgess	1(1)								1(1)		

Robert Sturgess retired from the Board on 7 July 2008.

Senior Employees

Day-to-day management is delegated to the Chief Executive and the other senior executives who meet regularly and attend Board meetings. This group is known as the Group Strategy Team and members are listed on page 2. Phillippa Caine is the Company Secretary for Southern Housing Group Limited and all its subsidiaries.

Employees

Our staff play a critical role in the success of the business and we have put in place a number of initiatives during 2008-09 to support them. These are:

- Working with staff and residents, we developed our new Corporate Plan 2009-12, which includes a new mission statement and values. There is also a new planning framework, which enables staff to see how their performance contributes to the overall success of the Group.
- A new pay structure, which rewards staff on their performance and achievements over the previous year.
- Investor in People accreditation – initially awarded in 1996 and successfully re-accredited in August 2008.
- A new Learning and Development Strategy and new Recruitment Strategy.
- A graduate training programme that is recognised as one of the best in the sector and is resulting in the appointment of a number of successful managers.
- A comprehensive Equality and Diversity Policy and Action Plan supported by a related training programme for all our staff
- The roll out of mobile working devices to housing management staff so they can access the Group's IT systems outside the office. This is designed to speed up service response time and improve residents' satisfaction.
- The introduction of a lone working policy and personal safety device for relevant staff.
- WorklifePlus, a work-life balance plan with options that staff can apply for to suit their individual needs. Options were again increased this year.

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- The Group Staff Forum – our staff consultative body, works closely with senior managers to achieve results beneficial to the Group and its staff.

The following activities are underway for 2009-10:

- A complete review of our approach to recruitment and selection.
- A new programme for trainees more generally within the Group.
- Work on an organisational Development Strategy, a key objective of the new Corporate Plan 2009-12.

One of the key objectives of the Corporate Plan is to put residents at the heart of our work and we are already working on specific projects to ensure services continue to improve. For example, mobile working and personal safety devices have enabled staff members to spend more time with residents in their homes and communities. These projects are also designed to give staff the skills and tools they need to deliver quality services to residents, now and in the future.

Residents

All staff have a role to play in achieving resident involvement, but we also have a team dedicated to this aspect of our work. They provide an internal training resource to ensure that our staff have the skills to engage with residents, as we believe that active feedback from our customers underpins service improvement.

Our Resident Involvement Strategy has three main goals:

1. To shape the continuous improvement of our services.
2. To improve customer satisfaction with our services
3. To ensure we continue to be an accountable housing business.

The Resident Involvement Menu

Our Resident Involvement Menu makes sure we deliver the three key goals and our wider Corporate Plan objectives.

Key features of the Menu include:

- Resident involvement in our governance structure – residents are active in our Group Main Board and the Customer Services Committee.
- Regional Customer Forums monitor and influence regional services in each of our regions.
- Customer Involvement Panels – involve residents in the strategic development of key service areas.
- Regional Resident Conferences – six conferences for residents were held in 2008-09.
- Residents' Panel and Readers' Panel – help us deliver consultation and involvement projects tailored to our service review and continuous improvement work.
- Contract Reviewers – the reviewers work with our staff and our contractors' representatives to monitor the service delivered in our contract areas.
- Customer Service Monitors – a team of 15 to 20 resident Customer Service Monitors help us assess the quality of our services from the customers' perspective.
- Local Tenants' and Residents' Groups – we work with around 20 local residents' groups.
- Local Customer Estate Inspectors - residents have an opportunity to attend regular estate/scheme inspections and meetings and contribute to local estate newsletters.
- Neighbourhood Project Teams – our Foundation supports a series of project teams focused on specific local neighbourhoods.
- Local Youth Forums – the Foundation also works with young residents across Southern Housing Group to give them a voice in shaping their neighbourhoods.
- 'What Matters to Residents' (WMR) – our comprehensive programme of customer surveys measures satisfaction and generates service improvements across a broad range of our services.

Operating and Financial Review

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Assessing the impact of our involvement work

Each year we assess the impact of our involvement work, examining how it has shaped our services and impacted on wider customer satisfaction. Understanding the impact of our actions allows us to refine our approach and concentrate our resources on what works best.

Community Regeneration

Our communities work is mainly channelled through our Foundation, which focuses on developing projects and resources to improve the quality of life for our residents and neighbourhoods.

The Foundation's main focus is on:

- Supporting the development of young people
- Improving quality of life for older people
- Improving the external environment
- Building the capacity of individuals and communities
- Maximising financial inclusion.

Financial Position

Group Financial Results, Five Year Summary in £m

For the year ended 31 March	2009	2008	2007	2006	2005
Income and Expenditure Account					
Turnover	128.1	160.3	168.9	74.3	67.2
Operating costs	(100.8)	(117.2)	(121.3)	(58.6)	(53.0)
Operating surplus	27.3	43.1	47.6	15.7	14.2
Net interest charge	(22.2)	(19.8)	(19.1)	(10.9)	(12.0)
Surplus on sale of assets	3.7	9.3	8.5	6.0	8.0
Surplus for year	8.8	32.6	37.0	10.8	10.2
Balance Sheet					
Housing properties at cost less depreciation	1,426.9	1,278.1	1,181.0	1,004.9	884.6
Less: Social Housing and other grants	(660.7)	(620.5)	(582.0)	(551.4)	(527.7)
	766.2	657.6	599.0	453.5	356.9
Other tangible fixed assets	38.4	37.1	34.0	23.4	22.3
Investments	3.3	4.5	3.5	4.2	3.7
Net current assets/(liabilities)	27.6	12.8	4.0	(18.7)	(21.7)
	835.5	712.0	640.5	462.4	361.2
Loans due after one year	582.5	467.8	428.7	294.7	216.1
Other long-term liabilities	23.5	21.0	20.3	14.8	8.1
Negative goodwill	15.9	16.1	16.3	13.3	2.6
Reserves	213.6	207.1	175.2	139.6	134.4
	835.5	712.0	640.5	462.4	361.2

Statistics

Operating margin	21%	27%	28%	21%	21%
Interest cover	108%	179%	196%	101%	100%
Gearing	67%	57%	57%	43%	33%
Units of accommodation in management	25,089	24,484	23,825	19,865	18,506

NB: The accounts for 2008-09 reflect the adoption of the Statement of Recommended Practice 2008 (SORP), which resulted in a change in the accounting policy for the first tranche sales of shared ownership properties. The table above has been restated to show the effect on the results and balance as though the policy were in force in previous years.

Operating and Financial Review

31 March 2009

Turnover

Turnover has decreased in the year by £31.9m (20.1%). This is entirely due to reduced property sales as a result of the property market crash and non-availability of mortgages where demand has remained. Income from Social Housing lettings has increased by £5.8m as a result of inflation and additional units from development. Supporting people contract income is £2.4m. Turnover on outright sales was £3.7m (2008: £14.9m) Turnover from first tranche sales on shared ownership homes was £18.0m (2008: £45.1m).

Pension costs

As a result of merger activity in recent years, we operate a number of pension schemes across the Group. In respect of defined benefit schemes, the Financial Statements include the pension liability relating to the Southern Housing Group and Isle of Wight Council (SWHA) pension schemes. As a multi-employer scheme the Social Housing Pension Scheme is unable to identify the underlying assets and liabilities belonging to individual participating employers and therefore the cost in the Income and Expenditure Account represents the employer's contribution payable. These schemes are closed to new entrants.

The Southern Housing Group scheme triennial valuation was completed during the year 2006-07 for the three years to March 2006. As a result of additional contributions from the Group and improved investment performance, the valuation showed a substantial decrease in the actuarial deficit from the last valuation undertaken in March 2003. A new valuation is planned for 2009-10 and recent economic trends together with increased longevity tables are anticipated to increase the deficit again, requiring increased contributions which we are prepared for.

The Group also contributes to a defined contribution scheme and the cost in the Income and Expenditure Account represents the employer's contribution payable.

Impairment

We have reviewed the values of assets included in the Balance Sheet in light of current and future economic conditions to ensure that these values do not exceed the future benefits from the continued or future use of these assets. Where the expected benefits have not reached the original values, we have reduced these values to the level of those expected benefits. The net effect of this work was to reduce the value of assets in the Balance Sheet by £4m (2008: £Nil).

Gift aid

In recent years our policy has been to gift aid surpluses from SHHO at a level to minimise SHHO's corporation tax liability. In 2008-09 SHHO gift aided £6.8m (2007-08 £12.5m) to SHGL. In addition, as a result of a prior year adjustment to comply with SORP 2008, a further one off gift aid payment of £14.1m was made to SHGL. SSL made a loss for the year and no gift aid payment was made (2007-08 £0.8m).

Surplus and operating margin

Southern Housing Group made an overall surplus of £8.8m for the year compared to a surplus of £32.6m for the previous year. Within this we achieved an operating surplus of £27.3m compared to an operating surplus of £43.1m for the previous year. As with turnover, the year on year reduction in surplus is a direct result of reduced property sales.

Interest

Interest payable has increased by £2.5m in the year with borrowings increasing by a net £86.3m to fund investment in homes. The increase of £1.1m in the amount of interest capitalised reflects the growth in interest payable in the year resulting from the additional borrowings required to support the development programme.

In the latter part of 2008 and early 2009 the Bank of England's Monetary Policy Committee (MPC) began to reduce the Bank of England's base rate, as part of its efforts to stimulate both liquidity and lending by banks and economic activity. LIBOR rates began to decline from the high levels (in excess of 6%) experienced in the immediate aftermath of the credit crunch.

Operating and Financial Review

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Within this general interest rate environment, there has been a further continuing decline in the cost of borrowing for SHGL. The effect of existing interest rate hedges combined with the drawing of new debt on a long-term interest rate basis (to ensure both liquidity and reduce exposure to maturity re-pricing) has lessened the immediate benefits on variable rate debt of the reduction in LIBOR rates, experienced particularly during Q1 2009. As SHHO's debt has been maintained on a variable basis its average interest cost generally reflects the downward trend of market interest rates. With the hedged element of SWHA's debt remaining constant it still achieved a reduction in its overall cost of borrowing. JBHA's average rate showed a small decline as a result of retaining maturing fixed rate debt on a variable basis. Overall its debt portfolio continues with a high level of its fixed interest loans.

Treasury policies and objectives

We have a formal Treasury Management Policy for the Group which is regularly reviewed and approved by the Group's Treasury Committee (GTC). The Policy's role is to establish the framework within which we seek to protect and control risk and exposure in respect of our borrowings and cash holdings.

In order to achieve this, the Policy provides a strategy for:

- (i) Group borrowings and subsequent debt management.
- (ii) Investment of surplus funds – both short and long-term.
- (iii) Relationship with bankers, lenders and advisers.

All Group RSLs have adopted the new 'wider' rules for treasury management which increases the options available to manage interest rate risk. Three stand alone derivatives have been transacted by SHGL with a notional principal of £75m hedged; £45m of this hedging has impacted on the 2008-09 results. Derivatives will not be used for speculative purposes

or in such a way that an additional exposure to market forces is created. Credit risk is kept under review and where counterparty's credit rating falls below the agreed criteria specific approval to use and/or retain that counterparty will be sought from the GTC. Within the current challenging credit environment, the Group will endeavour to maintain its funding liquidity wherever practical.

Capital Structure

Our current policy continues to be to raise new funds through bilateral arrangements with major lenders to the sector. The aim is to have in place facilities with a number of core lenders, thereby balancing the risk of a lender withdrawing from the sector with the cost of managing a large number of relationships. Within this funding context, additional bilateral facilities which seek to tie in a re-pricing of existing debt as a 'quid pro quo' for provision of new funds will be strongly resisted. During the year, two £50m increases to existing facilities were completed. Negotiations are in progress for new borrowings with existing and new lenders.

SHHO: With most new development for the Group continuing to take place in SHGL, SHHO has limited demand for new facilities and no further facilities were required in the year.

SWHA: There was no change to its loan portfolio during the year.

JBHA: There was no change to its overall debt portfolio, except for scheduled capital repayments.

SSL: Given the decline in the property market and hence the opportunities for viable outright development schemes, £10m of the £15m three-year revolving development loan facility with Allied Irish Bank was cancelled to reduce exposure to non-utilisation fees, whilst retaining funding capacity. This facility can be extended for a further year on each anniversary at the bank's discretion.

Operating and Financial Review

31 March 2009

Borrowings are in summary:

	31 March 2009		31 March 2008	
	Available facility £m	Drawn £m	Available facility £m	Drawn £m
SHGL				
Capital Markets	37.6	37.6	38.0	38.0
Bilateral	514.9	403.9	417.4	316.7
Total in place	552.5	441.5	455.4	354.7
Under finalisation / negotiation	15.0		160.0	
SHHO				
Total in place (all bilateral)	40.0	27.8	40.0	24.8
SWHA				
Capital Markets	1.2	1.2	1.2	1.2
Bilateral	46.0	46.0	46.0	46.0
Total in place	47.2	47.2	47.2	47.2
JBHA				
Capital Markets	9.6	9.6	9.6	9.6
Bilateral	49.3	48.3	50.7	49.7
Total in place	58.9	57.9	60.3	59.3
SSL				
Total in place (all bilateral)	5.0	0.2	15.0	1.3

Our treasury policy is to have a mix of fixed, variable and index linked interest rate loans. Under normal circumstances rates will not be fixed/hedged on more than 70% of total debt.

Committed Facilities

Of SHGL's £111m un-drawn committed facilities, £35.8m are secured and available for drawing. Security in respect of the remaining £75.2m has been identified, valuations finalised and the legal charging of this is now in progress with targeted completion for

this work being the end of June 2009. It is forecast these facilities will support SHGL's existing committed development programme for the next 18-20 months. As at 31 March 2009, SHGL had over 4,500 rented and 750 shared ownership unencumbered units available as potential security to support further facilities. SHHO's un-drawn facilities of £12.2m are secured and available for drawing.

Operating and Financial Review

31 March 2009

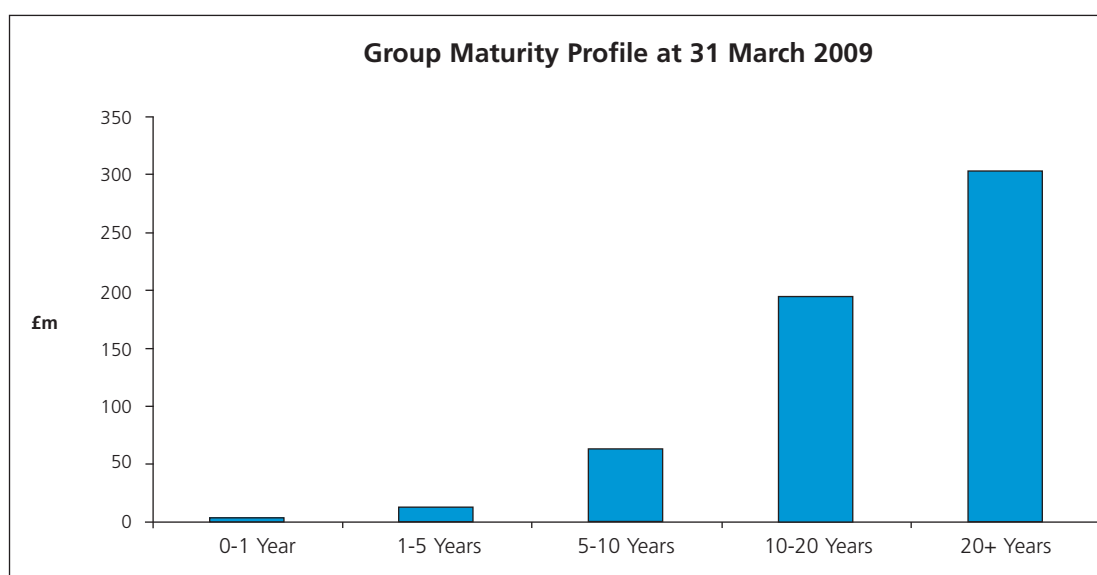
Funding profile

	31 March 2009			31 March 2008		
	Fixed rate £m	Variable rate £m	Index linked £m	Fixed rate £m	Variable rate £m	Index linked £m
SHGL	261.0	157.4	23.1	158.9	172.7	23.1
SHHO	nil	27.8	nil	nil	24.8	Nil
SWHA	31.2	16.0	nil	31.2	16.0	Nil
JBHA	45.5	12.4	nil	48.0	11.3	Nil
SSL	nil	0.2	nil	nil	1.3	Nil

Fixed rate debt includes debt where the applicable interest rate is certain for longer than one year. Variable rate is any debt where the interest rate is fixed for less than 12 months at the balance sheet date, including any where the agreement is for a longer period but where the bank has the option to cancel in this period. £35m of cancellable transactions were in place at 31 March 2009 with bank option dates exercisable within 12 months.

Debt maturity

The profile of debt repayment as at 31 March 2009 for the Group is:



Cash flows

During the year net cash of £25.4m was derived from operating activities and £17.8m was received from the disposal of housing properties. As a developing Group there were significant cash flows from new

development with spend of £167.1m before receipt of grant of £40.2m. Loans of £5.5m were repaid in the year and a total of £91.8m was drawn from loan facilities.

Operating and Financial Review

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Statement of responsibilities of the Board

Liquidity

Our normal policy is not to hold significant cash balances but to have loan facilities in place to fund future requirements. Any short-term balances are invested at competitive rates overnight or for a term period as appropriate. However, during the current limited credit availability environment combined with the potential risk of agreed facilities being removed at short notice, in certain circumstances we will drawdown funds ahead of requirement to protect liquidity. We maintain a list of investment limits for authorised organisations with which it will place deposits based on short-term credit ratings.

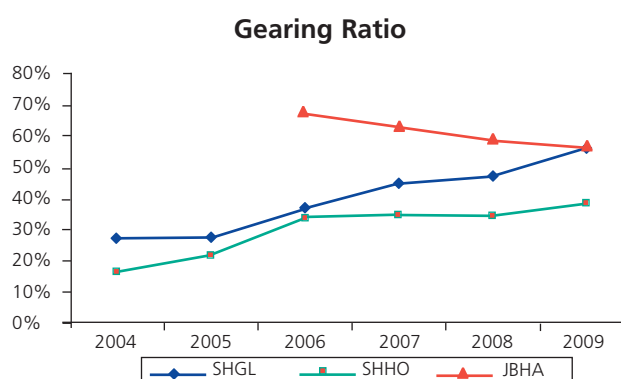
Loan covenants

Each association within the Group sets loan covenants with its lenders based on the circumstances of the association. For SHGL, SHHO and JBHA loan covenants are primarily based on interest cover and gearing. In the case of interest cover the calculation is after adding back housing property depreciation and in most cases includes surpluses from sale.

Net income cover covenants

	2009 range	2008 range
SHGL income covenants	0.80 – 1.15	0.80 – 1.15
SHGL actuals	2.67 – 3.01	2.29 – 2.60
SHHO income covenants	1.00 – 1.15	1.00 – 1.15
SHHO actuals	5.58 – 5.64	5.25 – 5.34
SWHA income covenants	1.04 – 1.15	1.02 – 1.15
SWHA actuals	1.83 (no range)	1.94 (no range)
JBHA income covenants	1.10 – 2.00	1.10 – 2.00
JBHA actuals	1.62 – 4.21	2.50 – 4.55

SHGL gearing ratio covenants are set from 60% to a maximum of 75%. SHHO gearing ratio covenants are set from 60% to a maximum of 65%. The overall level of gearing is primarily influenced by the level of development activity. JBHA gearing ratio covenants are set from 70% to a maximum of 75%. SWHA has a debt per rented unit loan covenant rather than a gearing ratio. The ratios as at 31 March 2009 are shown below and all covenants in all Group entities are met.



Statement of Compliance

In preparing this Operating and Financial Review, the Board has followed the principles set out in the 2008 SORP, Accounting for Registered Social Landlords.

Report of the Board

For the year ended 31 March 2009

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

Industrial and Provident Society law requires the Board to prepare financial statements for each financial year. Under those regulations the Board has elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the Group and of the surplus or deficit for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Board is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that its financial statements comply with the Industrial & Provident Societies Acts 1965 to 2002, the Industrial & Provident Societies (Group Accounts) Regulations 1969, the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2006. It has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the association and to prevent and detect fraud and other irregularities.

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

Corporate governance

The Board confirms that the Group has adopted and complied with the principal recommendations of the National Housing Federation's Code of Governance.

Internal controls

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

The Group operates ongoing processes for identifying, evaluating and managing the significant risks faced by the Group. They have been in place for the year to 31 March 2009 and up to the date of the approval of the Annual Report and the Financial Statements. The processes are reviewed at least annually by the Board and twice annually by the Audit Committee.

Risk assessment

The Group's objectives are contained within its Business Philosophy. There is a process of cascading these objectives throughout the Group to each operational team and to individual staff members' targets. Assessment of resultant risk is mapped for each Group member organisation. The Group's risk management strategy includes requirements for formal risk assessments to be presented to the Board for discussion and approval.

Report of the Board

For the year ended 31 March 2009

Main policies established to provide effective internal control

Control environment

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

- standing orders and delegated authorities;
- policies and procedures manuals in all key areas;
- codes of conduct for members of Boards and sub-committees, and for staff; and
- staff job descriptions and supervisory procedures.

During the year the Group completed development of a fraud policy and response statement, and completed a review of its whistle blowing policy and procedure.

Information

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

Monitoring

The Group has a comprehensive internal audit programme which is undertaken by Grant Thornton UK LLP, Chartered Accountants. The internal audit programme is designed to review key areas of risk for the Group. The internal auditors report to the Group Head of Compliance. Each audit assignment is sponsored by a senior director who approves the scope of work and takes responsibility for ensuring that recommendations are acted upon. Group-wide progress on completing work on recommendations is monitored by the Head of Compliance. Grant Thornton meets quarterly with the Chief Executive and report to each meeting of the Audit Committee on their recent and prospective activity. They also meet informally with the Chair of Audit.

The risk management process incorporates reviews of high level risks across the Group, including the identification of newly emerging risks.

Both the internal audit and risk management activities incorporate follow up reporting on actions identified, thereby improving the Group's control environment.

Review of effectiveness

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

Disclosure of information to auditors

The Board members who held office at the date of approval of this Board members' report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditors are unaware; and each Board member has taken all the steps that he/ she ought to have taken as a Board member to make himself/ herself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Auditors

A resolution is to be proposed at the annual general meeting for the re-appointment of KPMG LLP as auditors of the Association.

Andrew McIntyre

Chairman
On behalf of the Board
6 July 2009

Auditors' Report

For the year ended 31 March 2009

Report of the Independent Auditors to the members of Southern Housing Group Limited

We have audited the Group and Parent financial statements of Southern Housing Group Limited for the year ended 31 March 2009 which comprise the Group and Association Income and Expenditure Account, the Group and Association Balance Sheet, the Consolidated Cash Flow Statement, the Statement of total recognised surplus and deficits and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Association's members, as a body, in accordance with Schedule 1 paragraph 16 to the Housing Act 1996 and section 9 of the Friendly and Industrial and Provident Societies Act 1968. 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 auditors' 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.

Respective responsibilities of the Board and auditors

The responsibility of the Association's Board for the preparation of the Board's report, and the preparation of financial statements in accordance with applicable United Kingdom law and UK accounting standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Board's Responsibilities on page 21.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002 and the Industrial and Provident Societies (Group Accounts) regulations 1969, the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2006. We also report to you if, in our opinion, a satisfactory system of control over transactions has not been maintained,

if the Association has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements within it. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Association's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the Group and Association as at 31 March 2009 and of the Group's surplus for the year then ended; and
- have been properly prepared in accordance with the Industrial & Provident Societies Acts 1965 to 2002 and the Industrial and Provident Societies (Group Accounts) regulations 1969, the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2006.

KPMG LLP

Chartered Accountants
Registered Auditor

Income and Expenditure Accounts

For the year ended 31 March 2009

	Note	Group 2009 £000s	Group 2008 Restated £000s	Association 2009 £000s	Association 2008 Restated £000s
Turnover	2	128,102	160,379	105,398	117,009
Operating costs	2	(100,814)	(117,278)	(70,320)	(74,806)
Operating surplus		27,288	43,101	35,078	42,203
Surplus/(deficit) on sale of fixed assets	5	3,666	9,307	3,423	(369)
Interest receivable and other income	6	1,044	1,618	988	1,010
Interest payable and similar charges	7	(22,746)	(21,293)	(16,037)	(14,811)
Other finance costs	8	(461)	(171)	–	–
Surplus on ordinary activities for the year	9	8,791	32,562	23,452	28,033
Tax on surplus on ordinary activities	10	–	–	–	–
Surplus for the year		8,791	32,562	23,452	28,033

All turnover and operating costs for the current and prior years are attributable to continuing operations. The notes on pages 29 to 61 form part of these financial statements.

Statement of total recognised surpluses and deficits

	Note	Group 2009 £000s	Group 2008 Restated £000s	Association 2009 £000s	Association 2008 Restated £000s
Surplus for the year as originally stated		8,791	18,290	23,452	15,118
Prior year adjustment (note 29)		–	14,272	–	12,915
Surplus for the year as restated		8,791	32,562	23,452	28,033
Unrealised deficit on investments	25	(1,075)	(214)	(1,075)	(214)
Actuarial deficit relating to pension schemes	4	(1,187)	(477)	–	–
Total recognised surplus since last report		6,529	31,871	22,377	27,819

A prior year adjustment relating to shared ownership (Note 29) gave rise to a surplus of £36.5m for the Group, of which £14.2m relates to 2008 and £22.3m relates to 2007 and previous.

A prior year adjustment relating to shared ownership (Note 29) gave rise to a surplus of £22.3m for the parent, of which £12.9m relates to 2008 and £9.4m relates to 2007 and previous.

Balance Sheets

As at 31 March 2009

Tangible fixed assets	Note	Group 2009 £000s	Group 2008 Restated £000s	Association 2009 £000s	Association 2008 Restated £000s
Housing properties at cost less depreciation	11	1,426,879	1,278,102	1,169,116	1,025,205
Less: Social Housing Grant and other grants	11	(660,656)	(620,472)	(591,115)	(551,019)
Net housing properties		766,223	657,630	578,001	474,186
Other tangible fixed assets	12	38,350	37,119	30,834	30,843
Total tangible fixed assets		804,573	694,749	608,835	505,029
Investments					
Investments at market value	13	2,706	3,792	2,731	3,817
Investment in subsidiaries	13	–	–	12,609	4,336
Homebuy and starter home initiatives	13	10,402	10,860	–	–
Less: Social Housing Grant	13	(9,789)	(10,178)	–	–
		807,892	699,223	624,175	513,182
Current assets					
Properties for sale	14	16,596	17,029	2,296	3,840
Debtors	15	24,635	24,086	38,239	20,322
Cash at bank and in hand	16	27,954	24,683	12,903	2,312
		69,185	65,798	53,438	26,474
Creditors: Amounts falling due within one year	17	(41,552)	(52,986)	(35,869)	(36,213)
Net current assets/(liabilities)		27,633	12,812	17,569	(9,739)
Total assets less current liabilities		835,525	712,035	641,744	503,443
Creditors: Amounts falling due after more than one year					
Housing loans	18	582,521	467,808	440,844	326,455
Recycled capital grant fund	19	8,931	7,351	1,129	235
Disposal proceeds fund	20	2,967	2,980	2,878	2,980
Deferred income	21	2,178	2,492	1,517	1,688
Provisions for liabilities and charges	22	368	438	287	338
Net pension liability	4	9,056	7,765	–	–
Capital and Reserves					
Share capital	23	–	–	–	–
Revenue reserves	24	212,395	204,171	194,140	169,727
Revaluation reserves	25	765	1,840	765	1,840
Designated and restricted reserves	26	431	1,048	184	180
Negative goodwill	27	15,913	16,142	–	–
		835,525	712,035	641,744	503,443

The notes on pages 29 to 61 form part of these financial statements. These financial statements were approved by the Board on 6 July 2009.

Signed on behalf of the Board

Andrew McIntyre
Chairman

Jane Hives
Board Member

Phillippa Caine
Secretary

Consolidated Cash Flow Statement

For the year ended 31 March 2009

	Note	2009 £000s	2008 Restated £000s
Net cash inflow from operating activities	(a)	25,400	50,046
Interest received		1,044	1,618
Interest paid		(21,665)	(23,366)
Other finance costs		(461)	(171)
Returns on investments and servicing of finance		(21,082)	(21,919)
Housing properties purchased		(167,105)	(156,406)
Capital grants received		40,184	38,428
Other fixed assets purchased		(2,212)	(4,949)
Housing and other fixed asset sale receipts		17,759	51,913
Capital expenditure		(111,374)	(71,014)
Investment sale/(purchase) receipts		80	(555)
Financial investment		80	(555)
Net cash outflow before management of liquid resources and financing	(b)	(106,976)	(43,442)
Financing and management of liquid resources			
Charged Funds	(c)	25,145	(25,145)
Debt due within one year	(c)	(5,719)	4,891
Debt due after one year	(c)	90,821	64,695
		110,247	44,441
Increase in cash in the year	(c)	3,271	999

Notes to the Consolidated Cash Flow Statement

For the year ended 31 March 2009

	2009	2008
	£000s	Restated £000s
a) Reconciliation of operating surplus to net cash inflow from operating activities		
Operating surplus	27,288	43,101
Depreciation charges	9,438	9,806
Depreciation recovered	(249)	(1,255)
Impairment	2,978	–
(Increase)/Decrease in stock of homes for re-sale	(9,690)	6,027
Increase in debtors	(549)	(12,080)
(Decrease)/Increase in creditors	(3,517)	4,701
Decrease in provisions for liabilities and charges	(70)	(55)
Amortisation of negative goodwill	(229)	(199)
Net cash inflow from operating activities	25,400	50,046

b) Reconciliation of net cash flow to movement in net debt

Increase in cash in the year	3,271	999
(Decrease)/increase in Charged funds in the year	(25,145)	25,145
Cash inflow from decrease / (increase) in:		
New loans	(91,795)	(69,654)
Overdraft	2,500	(3,487)
Loan repayments	5,446	3,971
Disposal proceeds fund	13	(872)
Recycled capital grant fund	(1,580)	276
Deferred income	314	180
Movement in net debt in the year	(106,976)	(43,442)
Net debt at the start of the year	(465,054)	(421,612)
Net debt at the end of the year	(572,030)	(465,054)

c) Analysis of net debt

	At 1 April 2008 £000s	Cash flow £000s	At 31 March 2009 £000s
Cash at bank and in hand	24,683	3,271	27,954
Charged funds	25,145	(25,145)	–
Debt due within one year:			
Bank overdraft	(3,487)	2,500	(987)
Housing loans	(5,619)	3,219	(2,400)
Debt due after more than one year:			
Housing loans	(492,953)	(89,568)	(582,521)
Disposal proceeds fund	(2,980)	13	(2,967)
Recycled capital grant fund	(7,351)	(1,580)	(8,931)
Deferred income	(2,492)	314	(2,178)
	(505,776)	(90,821)	(596,597)
Total	(465,054)	(106,976)	(572,030)

Notes to the Financial Statements

For the year ended 31 March 2009

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards, the Statement of Recommended Practice "Accounting by Registered Social Landlords" issued in 2008, the Accounting Requirements for Registered Social Landlords General Determination 2006, and on the historical cost basis (as modified by the revaluation of certain investments). The accounting policies have been consistently applied. A summary of the more important accounting policies is below.

Basis of consolidation

The consolidated accounts incorporate the financial statements of Southern Housing Group Limited (Parent Body), Southern Housing Home Ownership Limited, South Wight Housing Association Limited, James Butcher Housing Association Limited, Southern Housing Foundation, and Southern Space Limited.

The Parent Body, under certain circumstances, has the power to appoint and remove the Board members of Southern Home Ownership Limited, South Wight Housing Association Limited and James Butcher Housing Association Limited thereby establishing a quasi-subsidiary relationship, which requires that their results should be consolidated with Southern Housing Group Limited. The Southern Housing Foundation is a charitable foundation limited by guarantee and is deemed to be a subsidiary as the Parent Body has ultimate control over Board membership.

Turnover

Turnover represents rental and service charge income receivable from properties owned by the Group and those managed for third parties, fees receivable and revenue grants from the Housing Corporation and other public authorities. It includes proceeds from the sale of properties developed for the open market which are recognised on legal completion. It also includes receipts from the sale of the first tranche of shared ownership properties.

Housing properties

Housing properties are held at cost less the amount of grants received towards their costs and depreciation. Cost includes the cost of acquiring land and buildings, development costs, interest capitalised during the development period, and directly attributable administration costs.

Housing properties are split between the structure and those major components which require periodic replacement. Replacement or restoration of such major components is capitalised and depreciated over the average estimated useful life which has been set taking into account professional advice, the Group's asset management strategy and the requirements of the Decent Homes Standard.

Backlog works relating to stock acquired from Local Authority transfers are also capitalised. All other repair and replacement expenditure is charged to the Income and Expenditure Account.

Housing properties in the course of construction are held at cost and are not depreciated. They are transferred to completed property's when ready for letting or sale. Donated land is treated as both a cost of land and grant received. It is Group policy to ensure resident shared owners meet their obligations of maintaining the property in a continuous state of sound repair and the Group considers that any depreciation calculation based on the property's current value would be insignificant, due to the large residual values and long economic lives.

Depreciation and impairment

Freehold land is not subject to depreciation. Depreciation is charged on a straight-line basis over the useful economic lives of fixed assets to write off the cost less any attributable grant to the estimated residual value at the following annual rates:

Housing properties held for letting:

Structure	100 years
Major components	15 to 60 years

Subject to those properties held on short lease where the maximum period is that of the remaining lease.

Commercial shops	30 years
Freehold offices	between 30 and 60 years
Plant, machinery, fixtures and vehicles	between 3 and 5 years
Computer equipment	5 years

Impairment reviews are carried out for all properties on an annual basis in accordance with FRS 11.

Notes to the Financial Statements

For the year ended 31 March 2009

Social housing grant

Where developments have been financed wholly or partly by Social Housing Grant the cost of those developments have been reduced by the grant receivable. Social Housing Grant released on sale of a property may be repayable but is normally available to be recycled and is credited to a Recycled Capital Grant Fund or Disposal Proceeds Funds and included in the balance sheet in creditors. Social Housing Grant received in advance in respect of housing properties in the course of construction is shown as a current liability.

Other grants

These include grants from local authorities and other organisations. The capital costs of housing properties are stated net of grants receivable on these properties. Grants in respect of revenue expenditure are credited to the Income and Expenditure Account in the same period as the expenditure to which they relate.

Investments

SHHO and SWHA retain a 25% stake in homes purchased through the Homebuy scheme and variable percentage stakes in homes purchased through the Starter Home Initiative. Investments in Homebuy and Starter Home Initiatives are funded through Social Housing Grant and held in the balance sheet at historic cost. Listed and unlisted investments are stated at market value.

Stock and work in progress

Stock and work in progress represents properties held for transfer to other Registered Social Landlords or for outright sale, and is stated at the lower of cost (including attributable overheads and interest) and net realisable value.

Designated reserves

These reserves are designated for specific purposes. The reserves are administered and managed in accordance with the purpose for which the reserve was intended.

Restricted reserves

These reserves relate to grants from third parties to SHF which are only expendable in respect of the projects for which they are received.

Premium on debentures

Premiums on issue are treated as deferred income and written back to the Income and Expenditure Account over the period of the loan.

Leased assets

Rentals payable under operating leases are charged to the Income and Expenditure Account on a straight line basis over the life of the lease.

Taxation

No taxation is payable on the surpluses of the Parent Body, SWHA, JBHA and SHF as they have charitable status. Taxation is chargeable on the surpluses of SHHO and SSL. Surpluses are transferred by Gift Aid to reduce the tax payable by the Group. The Group is registered for Value Added Tax. A large proportion of the VAT incurred by the Group cannot be recovered as the bulk of its turnover arises from exempt activities.

Deferred taxation

Deferred taxation is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Retirement benefits

Defined Benefit Schemes

The Group operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Group. SWHA participates in a defined benefit pension scheme which is administered by the Isle of Wight Council.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

Notes to the Financial Statements

For the year ended 31 March 2009

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

The amendment to FRS 17 Retirement Benefits have been adopted in these financial statements for the first time and the disclosures that are required have been presented for both the current and comparative periods. The amendments to FRS 17 also require that quoted securities are valued at their current bid price rather than their mid market value. The Group considers that this change in valuation method is immaterial and has not made a prior year adjustment in respect of this.

The Social Housing Pensions Scheme (SHPS)

SWHA and JBHA also participate in a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Association. The Association is unable to identify its share of the underlying assets of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 'Retirement Benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the Income and Expenditure Account represents the contributions payable to the scheme in respect of the accounting period.

Money Purchase Scheme

The Group also participates in a defined contribution scheme where the amount charged to the Income and Expenditure Account represents the contributions payable to the scheme in respect of the accounting period.

SORP 2008

During the year, the Association adopted the Statement of Recommended Practice 2008 (SORP). The new SORP resulted in a change in the accounting policy for the first tranche sales of shared ownership properties. Under the SORP for Registered Social Landlords 2005, shared ownership sales of property were treated as follows:

- All shared ownership (SO) properties are classified as fixed assets,
- Proceeds from first tranche disposals are credited against the cost of SO properties,
- Surplus/deficit on second and subsequent tranche sales are accounted for in the Income and Expenditure Account as differences between the net sales proceeds and the carrying value.

Changes to this accounting treatment in the revised SORP 2008 were such that:

- SO properties would be split proportionally between current assets and fixed assets based on the first tranche proportion,
- First tranche proportions must be accounted for as current assets and the related sales proceeds shown in turnover,
- The remaining element of the SO property must be accounted for as a fixed asset so that any subsequent sale is treated as a part disposal.

There are no other material adjustments as a result of the implementation of SORP 2008.

Notes to the Financial Statements

For the year ended 31 March 2009

2 Particulars of turnover, cost of sales, operating costs and operating surpluses/(deficits)

Group	2009			2008		
	Turnover	Operating costs	Operating surplus	Turnover	Operating costs	Operating surplus Restated
	£000s	£000s	£000s	£000s	£000s	£000s
Social housing lettings	102,133	(77,305)	24,828	96,300	(64,208)	32,092
Other social housing activities						
Supporting People	2,392	(2,382)	10	2,296	(2,277)	19
1st Tranche Sales	17,981	(13,833)	4,148	45,115	(29,573)	15,542
Other	99	(1,142)	(1,043)	338	(4,980)	(4,642)
Non-social housing activities						
Commercial income	1,289	(788)	501	1,039	(438)	601
Market renting lettings	38	(23)	15	240	(93)	147
Open Market Sales	3,670	(3,733)	(63)	14,870	(11,946)	2,924
Impairment of housing properties	–	(968)	(968)	–	–	–
Other	500	(640)	(140)	181	(1,269)	(1,088)
Settlement of IWHA pension liability	–	–	–	–	(2,494)	(2,494)
Total 2009	128,102	(100,814)	27,288	160,379	(117,278)	43,101

Particulars of Income and Expenditure from Social Housing Lettings

Group							2009	2008
	General needs	Housing for older people	Supported housing	Registered care homes	Intermediate rent	Shared ownership	Total	Total Restated
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Rent receivable net of identifiable service charges	68,348	8,767	642	–	1,015	8,555	87,327	80,722
Charges for Support Services	–	1,175	224	69	–	–	1,468	1,486
Service charges receivable	5,150	3,547	276	515	106	865	10,459	9,938
Gross rental income	73,498	13,489	1,142	584	1,121	9,420	99,254	92,146
Add: Income from properties managed for third parties	2,714	–	–	–	–	143	2,857	4,106
Revenue grants received for major repairs	3	19	–	–	–	–	22	48
Turnover from social housing lettings	76,215	13,508	1,142	584	1,121	9,563	102,133	96,300
Services	(7,129)	(3,818)	(293)	(569)	(37)	(1,220)	(13,066)	(11,790)
Support	–	(1,227)	(333)	(49)	–	–	(1,609)	(1,532)
Management	(19,745)	(4,002)	(111)	(62)	(170)	(2,280)	(26,370)	(20,659)
Rent losses from bad debts	(838)	(76)	(46)	(10)	(1)	15	(956)	(829)
Routine maintenance	(12,295)	(1,943)	(201)	(13)	(62)	(119)	(14,633)	(13,182)
Planned maintenance	(6,080)	(751)	(91)	(2)	–	(12)	(6,936)	(8,673)
Major repairs expenditure	(10,453)	(3,996)	(102)	(4)	–	(1)	(14,556)	(12,202)
Repairs capitalised	7,605	3,788	6	–	–	–	11,399	12,811
Depreciation of housing properties	(6,379)	(837)	(59)	(3)	(109)	–	(7,387)	(8,000)
Impairment of housing properties	(2,978)	–	–	–	–	–	(2,978)	–
Other costs	86	(149)	10	6	(9)	(157)	(213)	(152)
Operating costs on social housing lettings	(58,206)	(13,011)	(1,220)	(706)	(388)	(3,774)	(77,305)	(64,208)
Operating surplus on social housing lettings	18,909	497	(78)	(122)	733	5,789	24,828	32,092
Void Losses	717	503	5	–	27	5	1,257	1,699

Notes to the Financial Statements

For the year ended 31 March 2009

2 Particulars of turnover, cost of sales, operating costs and operating surpluses/(deficits) (continued)

Association	2009			2008		
	Turnover	Operating costs	Operating surplus	Turnover	Operating costs	Operating surplus Restated
	£000s	£000s	£000s	£000s	£000s	£000s
Social housing lettings	66,961	(54,346)	12,615	62,100	(45,977)	16,123
Other social housing activities						
Supporting People	126	(123)	3	101	(98)	3
1st Tranche Sales	12,646	(10,218)	2,428	37,508	(24,058)	13,450
Other	24,103	(4,050)	20,053	16,298	(4,298)	12,000
Non-social housing activities						
Commercial income	1,230	(749)	481	968	(375)	593
Impairment of housing properties	–	(135)	(135)	–	–	–
Other	332	(699)	(367)	34	–	34
Total 2009	105,398	(70,320)	35,078	117,009	(74,806)	42,203

Particulars of Income and Expenditure from Social Housing Lettings

Association	General needs	Housing for older people	Supported housing	Intermediate rent	Shared ownership	2009	2008
						Total	Total Restated
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Rent receivable net of identifiable service charges	50,368	3,811	116	695	3,235	58,225	52,688
Service charges	3,931	1,293	13	75	236	5,548	4,994
Charges for support services	–	316	13	–	–	329	346
Gross rental income	54,299	5,420	142	770	3,471	64,102	58,028
Add: Income from properties managed for third parties	2,716	–	–	–	143	2,859	4,072
Turnover from social housing lettings	57,015	5,420	142	770	3,614	66,961	62,100
Management	(16,668)	(2,217)	(64)	(138)	(1,345)	(20,432)	(18,304)
Services	(5,605)	(1,384)	(17)	(34)	(328)	(7,368)	(6,692)
Support	–	(292)	(9)	–	–	(301)	(351)
Routine maintenance	(9,009)	(996)	(64)	(24)	(119)	(10,212)	(9,454)
Planned maintenance	(4,451)	(160)	(32)	–	(12)	(4,655)	(5,844)
Major repairs expenditure	(6,277)	(1,457)	–	–	(1)	(7,735)	(7,188)
Major repairs capitalised	3,790	1,457	–	–	–	5,247	8,155
Bad debts	(725)	(32)	(6)	–	–	(763)	(601)
Impairment of housing properties	(2,978)	–	–	–	–	(2,978)	–
Depreciation of housing properties	(4,651)	(427)	(30)	(41)	–	(5,149)	(5,698)
Operating costs on social housing lettings	(46,574)	(5,508)	(222)	(237)	(1,805)	(54,346)	(45,977)
Operating surplus on social housing lettings	10,441	(88)	(80)	533	1,809	12,615	16,123
Void Losses	584	110	5	8	5	712	1,155

Notes to the Financial Statements

For the year ended 31 March 2009

3 Board and senior executive emoluments

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

Group	2009 £s	2008 £s
Non-executive	83,349	79,565
Executive	1,009,333	933,695
	1,092,682	1,013,260

Total emoluments to directors and former directors (including salaries, fees, pension contributions and other benefits).

The emoluments (excluding pension contributions) payable to the Group Chief Executive were £176,698 (2008: £173,918). The Group Chief Executive is an ordinary member of the Group pension scheme, and no enhanced or special terms apply. The emoluments (excluding pension contributions but including £96,131 compensation for loss of office) of the highest paid director in 2008 was £185,624. One Board member waived entitlement to remuneration.

4 Employee information

	Group 2009 No.	Group 2008 No.	Association 2009 No.	Association 2008 No.
Average number of full-time equivalent employees	796	755	514	461

	Group 2009 £000s	Group 2008 £000s	Association 2009 £000s	Association 2008 £000s
Staff costs (for the above employees)				
Wages and salaries	20,986	19,196	15,386	13,419
Social security costs	1,937	1,729	1,494	1,277
Other pension costs	1,572	1,582	1,191	1,095
	24,495	22,507	18,071	15,791

Pension Schemes

Members of the Group participate in a number of pension schemes:

a) Defined benefit schemes

SHGL, SHHO and the Foundation contribute to the Southern Housing Group scheme which closed to new members from 31 March 2003.

SWHA and JBHA contribute to the Social Housing Pension Scheme. The scheme was closed to new members from 1 January 2007.

SWHA contributes to the Isle of Wight Council Pension Fund for employees who transferred from the Isle of Wight Council or other local authorities.

b) Defined contribution schemes

A defined contribution scheme run by AEGON Scottish Equitable based on an incentive matched scale, where the employer contribution increases the more the employee contributes.

Notes to the Financial Statements

For the year ended 31 March 2009

4 Employee information (continued)

Balance Sheet presentation of all pension schemes

	2009 £000s	2008 £000s
Total reserves excluding pension liability	222,647	214,824
Pension liability	(9,056)	(7,765)
Total reserves including pension liability	<u>213,591</u>	<u>207,059</u>

Southern Housing Group Pension Schemes

The defined benefit plan provides benefits based on final pensionable salary. The latest full actuarial valuation was carried out at 31 March 2006 and was updated for FRS 17 purposes to 31 March 2009 by a professional qualified independent actuary, the rates of contribution being determined by the actuary.

It has been agreed that the employer contribution rate to be applied from 1 April 2007 is:

Pre July 1992 members 26.3% (2006/07: 21.7%)

Post July 1992 members 20.3% (2006/07: 15.7%)

plus an additional annual payment of £208,584

The major assumptions used in this valuation were:

Actuarial assumptions

	2009 % pa	2008 % pa	2007 % pa
Rate of increase in salaries	3.80	4.50	4.00
Rate of increase in pensions in payments and deferred pensions	2.80	3.50	3.00
Discount rate	6.00	6.00	5.25
Inflation assumption	2.80	3.50	3.00

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

Scheme assets

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

Scheme values	2009 £000s	2008 £000s	2007 £000s
Equities	6,808	9,837	10,752
Bonds	6,422	5,935	5,861
Property	628	848	869
Cash	414	339	235
Total market value of assets	<u>14,272</u>	<u>16,959</u>	<u>17,717</u>
Present value of scheme liabilities	<u>(21,113)</u>	<u>(23,014)</u>	<u>(23,029)</u>
Deficit in the scheme	<u>(6,841)</u>	<u>(6,055)</u>	<u>(5,312)</u>
Net pension liability	<u>(6,841)</u>	<u>(6,055)</u>	<u>(5,312)</u>

Notes to the Financial Statements

For the year ended 31 March 2009

4 Employee information (continued)

Long-term rate of return	2009	2008	2007
	%	%	%
Equities	6.50	6.50	6.50
Bonds	6.50	5.25	5.25
Property	6.00	6.00	6.00
Cash	4.00	4.00	4.00

Movements in present value of defined benefit obligation	2009	2008
	£000s	£000s
At 1 April 2008	23,014	23,029
Current service cost	623	688
Interest on obligation	1,395	1,217
Contribution by members	143	145
Actuarial gains	(3,778)	(1,540)
Benefits paid	(284)	(525)
At 31 March 2009	21,113	23,014

Movement in fair value of fund assets

At 1 April 2008	16,959	17,717
Expected returns on fund assets	1,042	1,083
Contribution by members	143	145
Actuarial losses	(4,483)	(2,305)
Contributions by employer	895	844
Benefits paid	(284)	(525)
At 31 March 2009	14,272	16,959

Movement in deficit during year	2009	2008	2007	2006	2005
	£000s	£000s	£000s	£000s	£000s
Deficit in scheme at beginning of year	(6,055)	(5,312)	(3,573)	(4,442)	(5,108)
Current service cost	(623)	(688)	(677)	(633)	(923)
Past service cost	–	–	–	–	–
Contributions paid	895	844	979	992	1,060
Other finance expense	(353)	(134)	(20)	(126)	(128)
Actuarial (loss)/gain	(705)	(765)	(2,021)	636	657
Deficit in scheme at end of year	(6,841)	(6,055)	(5,312)	(3,573)	(4,442)

Notes to the Financial Statements

For the year ended 31 March 2009

4 Employee information (continued)

Analysis of other pension costs charged in arriving at operating surplus

	2009 £000s	2008 £000s	2007 £000s	2006 £000s	2005 £000s
Current service cost	(623)	(688)	(677)	(633)	(923)

Analysis of amounts included in other finance income/expense

	2009 £000s	2008 £000s	2007 £000s	2006 £000s	2005 £000s
Expected return on pension scheme assets	1,042	1,083	973	819	796
Interest on plan liabilities	(1,395)	(1,217)	(993)	(945)	(924)
	(353)	(134)	(20)	(126)	(128)

History of scheme

The history of the scheme for the current and prior periods is as follows:

	2009 £000s	2008 £000s	2007 £000s	2006 £000s	2005 £000s
Present value of scheme liabilities	21,113	23,014	23,029	19,552	17,001
Fair value of scheme assets	(14,272)	(16,595)	(17,717)	(15,979)	(12,559)
Deficit	6,841	6,419	5,312	3,573	4,442

History of experience gains and losses

	2009 £000s	2008 £000s	2007 £000s	2006 £000s	2005 £000s
Difference between the expected and actual return on scheme assets:					
Amount	(4,483)	(2,305)	(166)	1,887	202
Percentage of year end scheme assets	(31.4%)	(13.6%)	(0.9%)	11.8%	1.6%
Experience gains arising on scheme liabilities:					
Amount	6	(85)	40	804	207
Percentage of present value of year end scheme liabilities	0.0%	(0.4%)	0.2%	4.1%	1.2%
Actuarial (losses)/gain recognised in Statement of total recognised gains and losses:					
Amount	(705)	(765)	(2,021)	636	657
Percentage of present value of year end scheme liabilities	(3.3%)	(3.3%)	(8.8%)	3.3%	(3.4%)

The Group expects to contribute approximately £693,584 to its defined benefits scheme in the next financial year.

Notes to the Financial Statements

For the year ended 31 March 2009

4 Employee information (continued)

The Social Housing Pensions Scheme

JBHA and SWHA participate in the Social Housing Pension Scheme (SHPS). The scheme is funded and is contracted out of the state scheme.

SHPS is a multi-employer defined benefit scheme. Employer participation in the Scheme is subject to adherence with the employer responsibilities and obligations as set out in the "SHPS House Policies and Rules Employer Guide". The Scheme operated a single benefit structure, final salary with a 1/60th accrual rate, to March 2008, which, as both schemes are now closed to new entrants, continues to apply to current members.

The Trustee commissions an actuarial valuation of the Scheme every 3 years. The main purpose of the valuation is to determine the financial position of the Scheme in order to determine the level of future contributions required, in respect of each benefit structure, so that the Scheme can meet its pension obligations as they fall due. From April 2007 the split of the total contribution rate between member and employer is set at individual employer level, subject to the employer paying no less than 50% of the total contribution rate.

The actuarial valuation assesses whether the Scheme's assets at the valuation date are likely to be sufficient to pay the pension benefits accrued by members as at the valuation date. Asset values are calculated by reference to market levels. Accrued pension benefits are valued by discounting expected future benefit payments using a discount rate calculated by reference to the expected future investment returns.

At the balance sheet date, there were 45 active members in JBHA and 43 in SWHA. The annual pensionable payroll in respect of these members was JBHA £864,566 and SWHA £889,711.

The actuarial valuation assesses whether the Scheme's assets at the valuation date are likely to be sufficient to pay the pension benefits accrued by members as at the valuation date. Asset values are calculated by reference to market levels. Accrued pension benefits are valued by discounting expected future benefit payments using a discount rate calculated by reference to the expected future investment returns.

It is not possible in the normal course of events to identify on a consistent and reasonable basis the share of underlying assets and liabilities belonging to individual participating employers. This is because the scheme is a multi-employer scheme where the scheme assets are co-mingled for investment purposes, and benefits are paid from total scheme assets. Accordingly, due to the nature of the Scheme, the accounting charge for the period under FRS17 represents the employer contribution payable.

The last formal valuation of the Scheme was performed as at 30 September 2008 by a professionally qualified actuary using the Projected Unit Method. The market value of the Scheme's assets at the valuation date was £1,527 million. The valuation revealed a shortfall of assets compared with the value of liabilities of £663 million, equivalent to a past service funding level of 70%.

The financial assumptions underlying the valuation as at 30 September 2008 were as follows:

Valuation Discount Rates	
Pre-retirement	7.8% pa
Non pensioner post-retirement	6.2% pa
Pensioner post-retirement	5.6% pa
Pensionable earnings growth	4.7% pa
Price inflation	3.2% pa
Pension increases	
Pre-88 GMP	0.0% pa
Post-88 GMP	2.8% pa
Excess over GMP	3.0% pa

Expenses for death in service insurance, administration and PPF levy are included in the contribution rate.

The valuation was carried out using the following demographic assumptions:

- Mortality pre-retirement – PA92 Year of Birth, long cohort projection, minimum improvement 1% pa
- Mortality post-retirement – 90% S1PA Year of Birth, long cohort projection, minimum improvement 1% pa

Notes to the Financial Statements

For the year ended 31 March 2009

4 Employee information (continued)

The Social Housing Pensions Scheme (continued)

The long-term joint contribution rates that will apply from April 2010 required from employers and members to meet the cost of future benefit accrual were assessed at:

Benefit structure contribution	Long-term joint rate (% of pensionable salaries)
Final salary with a 1/60th accrual rate	17.8
Final salary with a 1/70th accrual rate	15.4
Career average revalued earnings with a 1/60th accrual rate	14.9

If an actuarial valuation reveals a shortfall of assets compared to liabilities, the Trustee must prepare a recovery plan setting out the steps to be taken to make up the shortfall.

Following consideration of the results of the actuarial valuation it was agreed that the shortfall of £663 million would be dealt with by the payment of deficit contributions of 7.5% of pensionable salaries, increasing each year in line with salary growth assumptions, from 1 April 2010 to 30 September 2020, dropping to 3.1% from 1 October 2020 to 30 September 2023. Pensionable earnings at 30 September 2008 are used as the reference point for calculating these deficit contributions. These deficit contributions are in addition to the long-term joint contribution rates set out in the table above.

Employers that participate in the Scheme on a non-contributory basis pay a joint contribution rate (i.e. a combined employer and employee rate).

Employers that have closed the Scheme to new entrants are required to pay an additional employer contribution loading of 3.0% to reflect the higher costs of a closed arrangement.

A small number of employers are required to contribute at a different rate to reflect the amortisation of a surplus or deficit on the transfer of assets and past service liabilities from another pension scheme into the SHPS Scheme.

Employers joining the Scheme after 1 October 2002 that do not transfer any past service liabilities to the Scheme pay contributions at the ongoing future service contribution rate. This rate is reviewed at each valuation and applies until

the second valuation after the date of joining the Scheme, at which point the standard employer contribution rate is payable. Contribution rates are changed on the 1 April that falls 18 months after the valuation date.

A copy of the recovery plan, setting out the level of deficit contributions payable and the period for which they will be payable, must be sent to the Pensions Regulator. The Regulator has the power under Part 3 of the Pensions Act 2004 to issue scheme funding directions where it believes that the actuarial valuation assumptions and/or recovery plan are inappropriate. For example the Regulator could require that the Trustee strengthens the actuarial assumptions (which would increase the scheme liabilities and hence impact on the recovery plan) or impose a schedule of contributions on the Scheme (which would effectively amend the terms of the recovery plan). The Regulator has reviewed the recovery plan for the SHPS Scheme and confirmed that, in respect of the September 2005 actuarial valuation, it does not propose to issue any scheme funding directions under Part 3 of the Pensions Act 2004. A copy of the recovery plan in respect of the September 2008 valuation will be forwarded to the Regulator in due course.

As a result of pension scheme legislation there is a potential debt on the employer that could be levied by the Trustee of the Scheme. The debt is due in the event of the employer ceasing to participate in the Scheme or the Scheme winding up.

The debt for the Scheme as a whole is calculated by comparing the liabilities for the Scheme (calculated on a buyout basis i.e. the cost of securing benefits by purchasing annuity policies from an insurer, plus an allowance for expenses) with the assets of the Scheme. If the liabilities exceed assets there is a buy-out debt.

The leaving employer's share of the buy-out debt is the proportion of the Scheme's liability attributable to employment with the leaving employer compared to the total amount of the Scheme's liabilities (relating to employment with all the currently participating employers). The leaving employer's debt therefore includes a share of any 'orphan' liabilities in respect of previously participating employers. The amount of the debt therefore depends on many factors including total Scheme liabilities, Scheme investment performance, the liabilities in respect of current and former employees of the employer, financial conditions at the time of the cessation event and the insurance buy-out market. The amounts of debt can therefore be volatile over time.

Notes to the Financial Statements

For the year ended 31 March 2009

4 Employee information (continued)

The Isle of Wight Council Pension Scheme

The Group participates in a pension scheme providing benefits based on final pensionable pay: The Isle of Wight Pension Fund. The scheme is funded by the payment of contributions to a pension fund, which is administered by the Isle of Wight Council. The latest full actuarial valuation was carried out at 31 March 2004 and was updated for FRS 17 purposes to 31 March 2008 by a qualified independent actuary.

It has been agreed that an employer contribution rate of 18.7% of pensionable pay plus an additional annual payment of £102,800 will apply for 2008-09 (2007-08: 15% plus £103,800).

The major assumptions used in this valuation were:

Actuarial assumptions	2009 % pa	2008 % pa	2007 % pa
Rate of increase in salaries	4.60	5.10	4.70
Rate of increase in pensions in payments and deferred pensions	3.10	3.60	3.20
Discount rate	6.90	6.90	5.40
Inflation assumption	3.10	3.60	3.20

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

- Current pensioner aged 65: 19.6 years (male), 22.5 years (female).
- Future retiree upon reaching 65: 20.7 years (male), 23.6 years (female).

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

Notes to the Financial Statements

For the year ended 31 March 2009

4 Employee information (continued)

The Isle of Wight Council Pension Scheme (continued)

Scheme assets

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from the cash flow projections over long periods and thus inherently uncertain, were:

	2009 £000s	2008 £000s	2007 £000s
Equities	1,945	2,427	3,062
Bonds	533	561	467
Property	133	225	309
Other	53	153	111
Total market value of assets	2,664	3,366	3,949
Present value of scheme liabilities	(4,879)	(5,076)	(5,999)
Deficit in the scheme	(2,215)	(1,710)	(2,050)
Net pension liability	(2,215)	(1,710)	(2,050)

Long-term rate of return	2009 % pa	2008 % pa	2007 % pa
Equities	7.00	7.70	7.80
Bonds	5.60	5.70	4.90
Property	4.90	5.70	5.80
Cash	4.00	4.80	4.90

The market value of the scheme's assets (whole Fund) at 31 March 2004 was £166.4 million.

Notes to the Financial Statements

For the year ended 31 March 2009

4 Employee information (continued)

The Isle of Wight Council Pension Scheme (continued)

Recognition of defined benefit obligation	2009 £000s	2008 £000s
Opening defined benefit obligation	5,076	5,999
Current service cost	39	48
Interest cost	345	320
Contribution by Members	15	13
Actuarial gains	(394)	(1,086)
Past service costs	18	–
Losses on curtailments	4	–
Estimated benefits paid	(224)	(218)
Deficit in scheme at end of year	4,879	5,076
Reconciliation of fair value of employer assets	2009 £000s	2008 £000s
Opening fair value of employer assets	3,366	3,949
Expected return on assets	237	283
Contributions by members	15	13
Contributions by employer	146	137
Actuarial losses	(876)	(798)
Benefits paid	(224)	(218)
Total charged to operating cost	2,664	3,366
Expense recognised in Income and Expenditure Account	2009 £000s	2008 £000s
Current service cost	39	48
Interest cost	345	320
Expected return on employer assets	(237)	(283)
Past service costs	18	–
Losses on curtailments and settlements	4	–
Total	169	85

The expense is recognised in the following line items in the Income and Expenditure Account:

	2009 £000s	2008 £000s
Operating costs	169	85
Other finance costs	–	–

The total amount recognised in the Statement of total recognised gains and losses in respect of actuarial gains and losses is £482,000 loss (2008: £288,000 gain).

Notes to the Financial Statements

For the year ended 31 March 2009

4 Employee information (continued)

The Isle of Wight Council Pension Scheme (continued)

Cumulative actuarial gains reported in the Statement of total recognised gains and losses for accounting periods ending on or after 22 June 2002 and subsequently included by prior year adjustment under paragraph 96 of FRS 17, are £580,000 (2008: £1,062,000).

History of scheme

The history of the scheme for the current and prior periods is as follows:

	2009	2008	2007	2006	2005
	£000s	£000s	£000s	£000s	£000s
Present value of scheme liabilities	2,664	3,366	3,949	3,706	2,989
Fair value of scheme assets	(4,879)	(5,076)	(5,999)	(6,174)	(5,356)
Deficit	(2,215)	(1,710)	(2,050)	(2,468)	(2,367)

Experience adjustments

	2009	2008	2007	2006	2005
	%	%	%	%	%
Experience adjustments on scheme liabilities as a percentage of scheme liabilities	0.00%	7.5%	0.00%	(0.00%)	8.05%
Experience adjustments on scheme assets as a percentage of scheme assets	(32.88%)	(23.71%)	0.99%	15.16%	4.38%

The Association expects to contribute approximately £149,000 to its defined benefit scheme in the next financial year.

The AEGON Scottish Equitable Pension Scheme

The Association participates in a defined contribution scheme run by AEGON Scottish Equitable based on an incentive matched scale, where the employer contribution increases the more the employee contributes.

5 Surplus/(deficit) on sale of fixed assets

	Group	Group	Association	Association
	2009	2008	2009	2008
	£000s	Restated £000s	£000s	Restated £000s
Sale proceeds	11,011	25,801	7,608	8,486
Cost of sales	(4,183)	(13,365)	(2,482)	(7,269)
Component write off	(3,075)	(3,014)	(1,616)	(1,529)
Incidental sale expenses	(87)	(115)	(87)	(57)
	3,666	9,307	3,423	(369)

Notes to the Financial Statements

For the year ended 31 March 2009

6 Interest receivable and other income

	Group 2009 £000s	Group 2008 £000s	Association 2009 £000s	Association 2008 £000s
Income from investments	164	125	640	542
Income from bank deposits	880	1,493	348	468
	1,044	1,618	988	1,010

7 Interest payable and similar charges

	Group 2009 £000s	Group 2008 £000s	Association 2009 £000s	Association 2008 £000s
On bank loans, overdraft and other loans:				
Repayable wholly or partly in more than 5 years	28,054	25,577	21,121	18,306
Less: interest payable capitalised	(5,443)	(4,348)	(5,154)	(3,535)
Bank charges payable	65	78	–	–
	22,676	21,307	15,967	14,771
Deferred interest and indexation				
Index-linked loan	153	118	153	118
Stepped interest loans	–	5	–	5
Deferred income written back	(83)	(137)	(83)	(83)
	22,746	21,293	16,037	14,811

Interest is capitalised on properties under construction using the weighted average interest rate for borrowing.

8 Other finance costs

	Group 2009 £000s	Group 2008 £000s	Association 2009 £000s	Association 2008 £000s
Group Pension scheme				
Expected return on pension scheme assets	1,042	1,083	–	–
Interest on pension scheme liabilities	(1,395)	(1,217)	–	–
Isle of Wight Council Pension scheme				
Expected return on pension scheme assets	237	283	–	–
Interest on pension scheme liabilities	(345)	(320)	–	–
	(461)	(171)	–	–

Notes to the Financial Statements

For the year ended 31 March 2009

9 Surplus on ordinary activities for the year before tax

	Group 2009 £000s	Group 2008 £000s	Association 2009 £000s	Association 2008 £000s
Surplus on ordinary activities before tax for the year is stated after charging/(crediting):				
Depreciation:				
Housing land and buildings	7,614	8,058	5,284	5,698
Other tangible fixed assets	1,824	1,748	1,247	1,220
Depreciation recovered on disposal of fixed assets	(249)	(1,255)	(135)	(885)
Amortisation of negative goodwill	(229)	(199)	–	–
Operating leases:				
Housing land and buildings	8	87	–	–
Other equipment	15	7	–	–
Auditors' remuneration (including VAT and expenses):				
Audit services	137	142	60	61
Tax services	12	40	12	35

10 Taxation

	Group 2009 £000s	Group 2008 £000s	Association 2009 £000s	Association 2008 £000s
UK corporation tax				
Current tax at 28% (2008: 30%)	–	1	–	–

The current tax charge for the year is lower (2008: lower) than the standard rate of corporation tax in the UK (28% (2008: 30%)). The differences are explained below.

Current tax reconciliation				
Surplus on ordinary activities before tax	8,791	32,562	23,452	28,033
less surplus from charitable activities	(4,971)	(30,406)	(23,452)	(28,033)
Taxable surplus/(deficit) on ordinary activities	3,820	2,156	–	–
Current tax at 28% (2008: 30%)	1,903	647	–	–
Effects of:				
Expenses not deductible for tax purposes	–	2	–	–
Tax relief on Gift Aid paid by subsidiaries	(1,903)	–	–	–
Indexation allowances in period	–	(561)	–	–
Utilisation of tax losses	–	(88)	–	–
Total current tax charge (see above)	–	–	–	–

Notes to the Financial Statements

For the year ended 31 March 2009

11 Tangible fixed assets: housing properties

Group	Housing properties held for letting £000s	Housing properties for letting under construction £000s	Shared Ownership housing properties £000s	Shared Ownership housing properties under construction £000s	Total £000s
Cost					
At 1 April 2008	935,747	117,957	156,639	70,363	1,280,706
Prior year adjustment (see note 29)	–	–	26,443	–	26,443
At 1 April 2008 restated	935,747	117,957	183,082	70,363	1,307,149
Reclassification	(762)	(385)	762	385	–
Transfer to other fixed assets	–	–	(422)	–	(422)
Schemes completed	39,805	(39,805)	63,874	(63,874)	–
Additions: new properties	–	85,210	–	73,727	158,937
Additions: existing properties	16,132	–	3,764	–	19,896
Impairment	–	(2,978)	–	–	(2,978)
Transfer to stock	–	(1,469)	(3,040)	(690)	(5,199)
Disposals	(3,289)	–	(2,476)	(8,314)	(14,079)
At 31 March 2009	987,633	158,530	245,544	71,597	1,463,304
Social Housing Grant					
At 1 April 2008	443,132	48,080	74,276	18,817	584,305
Schemes completed	20,876	(20,876)	18,897	(18,897)	–
Additions	868	19,411	1,182	19,165	40,626
Transfer from recycled capital grant/disposal proceeds fund	–	–	–	–	–
Disposals	(1,226)	–	(730)	–	(1,956)
At 31 March 2009	463,650	46,615	93,625	19,085	622,975
Other Grants					
At 1 April 2008	32,474	1,731	1,436	526	36,167
Schemes completed	619	(619)	647	(647)	–
Additions	841	629	–	121	1,591
Disposals	–	–	(77)	–	(77)
At 31 March 2009	33,934	1,741	2,006	–	37,681
Depreciation					
At 1 April 2008	29,047	–	–	–	29,047
Charge for year	7,614	–	–	–	7,614
Eliminated in respect of disposals	(236)	–	–	–	(236)
At 31 March 2009	36,425	–	–	–	36,425
Net Book Value					
At 31 March 2009	453,624	110,174	149,913	52,512	766,223
At 31 March 2008 restated	431,094	68,146	107,370	51,020	657,630

During the year, an impairment of £2,978m was recognised on the option to develop Sugar House Lane.

Notes to the Financial Statements

For the year ended 31 March 2009

11 Tangible fixed assets: housing properties (continued)

Association	Housing properties held for letting £000s	Housing properties for letting under construction £000s	Shared Ownership housing properties £000s	Shared Ownership housing properties under construction £000s	Total £000s
Cost					
At 1 April 2008	775,239	115,523	68,953	70,711	1,030,426
Prior year adjustment (see note 29)	–	–	18,470	–	18,470
At 1 April 2008 restated	775,239	115,523	87,423	70,711	1,048,896
Reclassification	–	(385)	–	385	–
Schemes completed	39,539	(39,539)	63,874	(63,874)	–
Additions: new properties	–	83,278	–	71,022	154,300
Additions: existing properties	9,713	–	1,878	–	11,591
Impairment	–	(2,978)	–	–	(2,978)
Transfer to stock	–	–	(2,431)	–	(2,431)
Disposals	(1,521)	–	(1,587)	(8,314)	(11,422)
At 31 March 2009	822,970	155,899	149,157	69,930	1,197,956
Social Housing Grant					
At 1 April 2008	427,246	48,080	22,071	18,817	516,214
Schemes completed	20,876	(20,876)	18,897	(18,897)	–
Additions	635	19,231	1,440	18,415	39,721
Disposals	(1,191)	–	(25)	–	(1,216)
At 31 March 2009	447,566	46,435	42,383	18,335	554,719
Other Grants					
At 1 April 2008	32,474	1,731	74	526	34,805
Schemes completed	619	(619)	647	(647)	–
Additions	841	629	–	121	1,591
Disposals	–	–	–	–	–
At 31 March 2009	33,934	1,741	721	–	36,396
Depreciation					
At 1 April 2008	23,691	–	–	–	23,691
Charge for year	5,284	–	–	–	5,284
Eliminated in respect of disposals	(135)	–	–	–	(135)
At 31 March 2009	28,840	–	–	–	28,840
Net Book Value					
At 31 March 2009	312,630	107,723	106,053	51,595	578,001
At 31 March 2008 restated	291,828	65,712	65,278	51,368	474,186

During the year, an impairment of £2,978m was recognised on the option to develop Sugar House Lane.

Notes to the Financial Statements

For the year ended 31 March 2009

11 Tangible fixed assets: housing properties (continued)

Housing properties comprise:

	Group 2009 £000s	Group 2008 £000s	Association 2009 £000s	Association 2008 £000s
Freehold	1,406,185	1,256,361	1,172,917	1,023,857
Long leasehold	57,119	50,788	25,039	25,039
	1,463,304	1,307,149	1,197,956	1,048,896

Total Social Housing Grant received or receivable to date is as follows:

	Group 2009 £000s	Group 2008 £000s	Association 2009 £000s	Association 2008 £000s
SHG and other capital grants deducted from:				
Housing properties at cost	660,656	620,472	591,115	551,019
Homebuy and starter home initiative	9,789	10,178	–	–
Add: cumulative amount credited to Income and Expenditure Account	21,432	21,432	21,432	21,432
	691,877	652,082	612,547	572,451

Additions to housing properties during the year included net capitalised interest paid of £5,443,000 (2008: £4,348,000).

Accommodation in management comprises:

	Group 2009 Units	Group 2008 Units	Association 2009 Units	Association 2008 Units
Units owned and managed:				
General needs	17,123	16,890	11,903	11,706
Housing for older people	2,636	2,657	990	1,016
Staff accommodation	99	105	71	73
Supported housing	131	200	25	77
Shared ownership	3,213	2,864	1,124	819
Intermediate rent for keyworkers	225	117	103	48
Other	45	44	30	29
	23,472	22,877	14,246	13,768
Units managed on behalf of other landlords:				
General needs	1	104	631	729
Housing for older people	–	–	301	623
Staff accommodation	–	3	6	15
Supported housing	59	48	–	–
Shared ownership	–	–	1,753	1,769
Intermediate rent for keyworkers	–	–	37	49
	60	155	2,728	3,185
Managed freeholds:				
RTB leasehold	829	805	701	675
100% staircased	728	647	705	629
	1,557	1,452	1,406	1,304
Total units managed (including freeholds)	25,089	24,484	18,380	18,257
Total units owned	23,654	22,979	15,276	14,545

Notes to the Financial Statements

For the year ended 31 March 2009

12 Other tangible fixed assets

Group	Freehold and leasehold properties £000s	Estate equipment £000s	Plant machinery fixtures and vehicles £000s	Computer hardware and software £000s	Total £000s
Cost					
At 1 April 2008	33,513	7,483	1,518	2,170	44,684
Reclassification	215	(215)	–	–	–
Transfer from housing fixed assets	422	(71)	–	–	351
Additions	185	1,692	668	160	2,705
Disposals	(1)	–	(13)	–	(14)
At 31 March 2009	34,334	8,889	2,173	2,330	47,726
Depreciation					
At 1 April 2008	2,517	2,987	300	1,761	7,565
Charge for year	603	613	350	258	1,824
Eliminated in respect of disposals	–	–	(13)	–	(13)
At 31 March 2009	3,120	3,600	637	2,019	9,376
Net Book Value					
At 31 March 2009	31,214	5,289	1,536	311	38,350
At 31 March 2008	30,996	4,496	1,218	409	37,119
Association					
	Freehold and leasehold properties £000s	Estate equipment £000s	Plant machinery fixtures and vehicles £000s	Computer hardware and software £000s	Total £000s
Cost					
At 1 April 2008	29,982	3,007	1,501	2,169	36,659
Reclassification	215	(215)	–	–	–
Additions	185	774	123	157	1,239
Disposals	(1)	–	–	–	(1)
At 31 March 2009	30,381	3,566	1,624	2,326	37,897
Depreciation					
At 1 April 2008	2,335	811	909	1,761	5,816
Transfer from housing fixed assets	25	(25)	–	–	–
Charge for year	520	280	189	258	1,247
Eliminated in respect of disposals	–	–	–	–	–
At 31 March 2009	2,880	1,066	1,098	2,019	7,063
Net Book Value					
At 31 March 2009	27,501	2,500	526	307	30,834
At 31 March 2008	27,647	2,196	592	408	30,843
Freehold and leasehold properties comprise:					
	Group		Group	Association	Association
	2009		2008	2009	2008
	£000s		£000s	£000s	£000s
Freehold	34,285		33,464	30,332	29,933
Long leasehold	49		49	49	49
	34,334		33,513	30,381	29,982

Notes to the Financial Statements

For the year ended 31 March 2009

13 Investments

Cost	Group 2009 £000s	Group 2008 £000s	Association 2009 £000s	Association 2008 £000s
Unlisted investments	1,989	1,989	1,989	1,989
Investment loan to wholly owned subsidiary	–	–	12,609	4,336
Total investments at cost	1,989	1,989	14,598	6,325
Market Value				
Unlisted investments	2,706	3,792	2,731	3,817
Investment loan to wholly-owned subsidiary	–	–	12,609	4,336
Total investments at market value	2,706	3,792	15,340	8,153
Homebuy and starter home initiatives				
Homebuy and starter home initiatives	10,402	10,860	–	–
Less: Social Housing Grant	(9,789)	(10,178)	–	–
	613	682	–	–

Southern Housing Group Limited holds shares in the following joint venture:

Affinity (Reading) Holdings Limited
 Country of registration: England
 Equity Holding: Ordinary
 Proportion held: 16.67%

Principal Activity: Holds 100% of the share capital of Affinity (Reading) Limited, which is the operator of a PFI contract to supply refurbishment, management and maintenance services to part of Reading Borough Council's housing stock.

Unlisted investments represent holdings in managed funds which invest in listed investments.

Southern Housing Group Limited holds 100% of the ordinary share capital of Southern Space Limited, registered in England.

14 Properties for sale

	Group 2009 £000s	Group 2008 £000s	Association 2009 £000s	Association 2008 £000s
Properties under construction	13,691	6,906	–	–
Completed properties	2,905	10,123	2,296	3,840
	16,596	17,029	2,296	3,840

Notes to the Financial Statements

For the year ended 31 March 2009

15 Debtors

	Group 2009 £000s	Group 2008 £000s	Association 2009 £000s	Association 2008 £000s
Due within one year:	£000s	£000s	£000s	£000s
Arrears of rent and service charges	6,645	6,648	4,924	4,692
Less: provision for bad and doubtful debts	(4,504)	(4,371)	(3,451)	(3,166)
	2,141	2,277	1,473	1,526
Social Housing Grant receivable	12,416	10,597	12,416	10,597
Amounts due from connected entities	–	–	20,001	1,765
Other debtors	7,023	8,579	1,976	4,601
Prepayments and accrued income	3,055	2,633	2,373	1,833
	24,635	24,086	38,239	20,322

16 Cash at bank and in hand

Cash balances held by Southern Housing Group Limited include amounts totalling £1.5m (2008:£1.5m) which must be used for specific purposes.

17 Creditors: amounts falling due within one year

	Group 2009 £000s	Group 2008 £000s	Association 2009 £000s	Association 2008 £000s
Social Housing Grant received in advance	247	240	–	–
Recycled capital grant fund	422	1,477	117	65
Disposal proceeds fund	1,496	239	1,496	124
Amounts due to connected entities	–	–	7,810	–
Accruals and deferred income	25,116	31,166	19,647	23,486
Corporation tax	–	3	–	–
Other taxation and social security	50	112	–	–
Other creditors	10,834	10,643	5,171	5,961
Bank overdraft	987	3,487	987	3,487
Housing loans	2,400	5,619	641	3,090
	41,552	52,986	35,869	36,213

Notes to the Financial Statements

For the year ended 31 March 2009

18 Housing loans

	2009 £000s	2008 £000s	2009 £000s	2008 £000s
Housing loans falling due after one year	582,521	467,808	440,844	326,455

Housing loans are secured by specific charges on certain of the Group's housing properties and are repayable in instalments due as follows:

	Group 2009 £000s	Group 2008 £000s	Association 2009 £000s	Association 2008 £000s
In one year or less	2,400	5,619	641	3,090
Between one and two years	2,440	2,611	708	616
Between two and five years	10,641	10,209	4,499	3,392
In five years or more	569,440	480,133	435,637	347,592
	584,921	498,572	441,485	354,690
Less: charged funds	–	(25,145)	–	(25,145)
	584,921	473,427	441,485	329,545

Housing loans bear hedged rates of interest ranging from 3.3% to 13.1% or variable rates based on a margin above the London Inter Bank Offer Rate. The final instalments fall to be repaid in the period 2017 to 2045. Southern Housing Group Limited has the following stand-alone derivative transactions as at 31 March 2009:

	Market value (£ million)	
	2009	2008
£20m 3 yearly cancellable swap at a fixed rate of 4.77%, first option date July 2010	(4,520)	(1,460)
£25m 30 year cancellable swap at a fixed rate of 4.57%, option date November 2003	(3,910)	–

19 Recycled capital grant fund

	Group 2009 £000s	Group 2008 £000s	Association 2009 £000s	Association 2008 £000s
Balance at 1 April	8,828	9,072	300	308
Grant released on sales	1,636	3,619	996	104
Interest added to fund	226	385	15	15
Inter-group transfer	–	–	611	4,121
Grant recycled into new schemes	(1,337)	(4,248)	(676)	(4,248)
Balance as at 31 March	9,353	8,828	1,246	300
Due within one year	(422)	(1,477)	(117)	(65)
Due in more than one year	8,931	7,351	1,129	235

The balance on this fund represents grant from the Government that has been released on sales of property. Since 1 April 1997 such grants are available for recycling into new housing provision, over a three-year period.

Notes to the Financial Statements

For the year ended 31 March 2009

20 Disposal proceeds fund

	Group 2009 £000s	Group 2008 £000s	Association 2009 £000s	Association 2008 £000s
Balance at 1 April	3,219	2,254	3,104	2,072
Grant released on sales	1,128	1,453	1,128	1,453
Interest added to fund	147	168	142	155
Inter-group transfer	207	–	119	80
Grant recycled into new schemes	(238)	(656)	(119)	(656)
Balance as at 31 March	4,463	3,219	4,374	3,104
Due within one year	(1,496)	(239)	(1,496)	(124)
Due in more than one year	2,967	2,980	2,878	2,980

The balance on this fund represents grant from the Government, which has been released on sales of property. The fund is available for recycling into new housing provision.

21 Deferred income

	Group 2009 £000s	Group 2008 £000s	Association 2009 £000s	Association 2008 £000s
Balance at 1 April	2,492	2,672	1,688	1,992
Deferred income arising in the year	(54)	180	–	–
Transferred to Income and Expenditure Account	(260)	(360)	(171)	(304)
Balance as at 31 March	2,178	2,492	1,517	1,688
Deferred income comprises:				
Premium on debentures	1,478	1,667	1,005	1,088
Retention on property disposal	180	180	–	–
Property leasing income	520	645	512	600
	2,178	2,492	1,517	1,688

Notes to the Financial Statements

For the year ended 31 March 2009

22 Provisions for liabilities and charges

	2009	2008	2009	2008
	£000s	£000s	£000s	£000s
Balance at 1 April	438	493	338	389
Transferred to income and expenditure account	(70)	(55)	(51)	(51)
Balance as at 31 March	368	438	287	338
Provisions for liabilities and charges comprises:				
Group pension fund	–	51	–	51
Housing property repairs	368	387	287	287
	368	438	287	338

The Group pension provision relates to a period when the Group was not required to make contributions to the pension fund and is being released over the average remaining contributory period of employees. The provision for housing property repairs relates to a contractual requirement on SWHA to undertake repairs to short leasehold properties upon lease termination, and a provision for Selby Street Consortium relating to a requirement to improve sound proofing in Selby Street properties. The housing property repairs provisions are released when the required repairs are made.

23 Called-up share capital

	Association	Association
	2009	2008
	£	£
Shares of £1 each issued and fully paid		
Balance at 1 April	11	11
Shares issued during year	1	1
Shares surrendered during year	(1)	(1)
As at 31 March	11	11

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

Notes to the Financial Statements

For the year ended 31 March 2009

24 Revenue reserve

	Group 2009 £000s	Association 2009 £000s
Balance at 1 April 2008	167,605	147,417
Prior year adjustment (see note 29)	36,566	22,310
Balance at 1 April 2008 as restated	<u>204,171</u>	<u>169,727</u>
Transfer from Southern Housing Foundation	600	941
Surplus for year	8,791	23,452
Actuarial loss relating to pension scheme	(1,187)	20
Transfers to:		
Restricted reserves	20	–
As at 31 March 2009	<u><u>212,395</u></u>	<u><u>194,140</u></u>

	Group 2009 £000s	Association 2009 £000s
Revenue reserve excluding pension liability	221,451	194,140
Pension liability	(9,056)	–
Revenue reserve including pension liability	<u><u>212,395</u></u>	<u><u>194,140</u></u>

25 Revaluation reserve

	Group 2009 £000s	Group 2008 £000s	Association 2009 £000s	Association 2008 £000s
Balance at 1 April	1,840	2,054	1,840	2,054
Surplus on revaluation of investments	(1,075)	(214)	(1,075)	(214)
As at 31 March	<u><u>765</u></u>	1,840	<u><u>765</u></u>	1,840

The reserve relates to the SHGL investment portfolio shown at market value. The difference between cost and market value has been credited to the reserve.

Notes to the Financial Statements

For the year ended 31 March 2009

26 Designated and restricted reserves

	Designated reserve £000s	Restricted reserve £000s	Total 2009 £000s	Total 2008 £000s
Balance at 1 April	1,027	21	1,048	1,035
Transfer to revenue reserves from Southern Housing Foundation	(600)	–	(600)	–
Transfers from Income and Expenditure Account	–	(20)	(20)	97
Transfers to Income and Expenditure Account	–	–	–	(93)
Additions in year	–	–	–	9
Expenditure in year	3	–	3	–
As at 31 March	430	1	431	1,048

Restricted reserves are all held in Southern Housing Foundation. They represent unspent funds received for specific purposes from external organisations. Restricted reserves are only expendable in respect of the projects for which they are received.

Association	Designated reserve £000s	Restricted reserve £000s	Total 2009 £000s	Total 2008 £000s
Balance at 1 April	180	–	180	174
Transfers from Southern Housing Foundation	–	21	21	–
Transfers to Income and Expenditure account	–	(20)	(20)	–
Additions in year	3	–	3	–
Expenditure in year	–	–	–	–
Transfer to revenue reserves	–	–	–	6
As at 31 March	183	1	184	180

Designated reserves comprise:

	Group 2009 £000s	Group 2008 £000s	Association 2009 £000s	Association 2008 £000s
Legacy grants	133	130	133	130
Tenant amenities	50	50	50	50
IOW health authority housing improvements	38	38	–	–
Sheltered housing improvements	209	209	–	–
Committed projects in SHF	–	600	–	–
	430	1,027	183	180

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For the year ended 31 March 2009

27 Negative goodwill

The Group acquired SWHA Limited on 1 July 2002 and JBHA Limited on 1 April 2006. SWHA accepted a transfer of engagements from Isle of Wight Housing Association Ltd (IoWHA) on 3 October 2005. The details of the negative goodwill arising and the amount to be amortised are set out below. For Registered Social Landlords, the negative goodwill arising is amortised over the remaining useful life of the underlying housing properties.

	Amortisation period years	Book value £000s	Fair values adjustment £000s	Fair values £000
South Wight Housing Association Ltd 1 July 2002	60	7,241	(4,490)	2,751
Isle of Wight Housing Association Ltd 3 October 2005	90	2,073	9,345	11,418
James Butcher Housing Association Ltd 1 April 2006	100	10,203	(7,606)	2,597
			Group 2009 £000s	Group 2008 £000s
Negative goodwill before amortisation			16,766	16,766
Amortisation as at 1 April			(624)	(425)
Amortised in year			(229)	(199)
Amortisation as at 31 March			(853)	(624)
Net negative goodwill as at 31 March			15,913	16,142

28 Capital commitments

	Group 2009 £000s	Group 2008 £000s	Association 2009 £000s	Association 2008 £000s
Capital expenditure contracted but not provided for in the financial statements	74,599	165,986	69,045	157,939
Capital expenditure authorised but not contracted	73,538	5,320	73,538	5,320

Notes to the Financial Statements

For the year ended 31 March 2009

29 Prior year adjustment

The prior year adjustment reflects a change in the accounting for shared ownership first tranche sales.

The new Statement of Recommended Practice for Registered Social Landlords 2008 (SORP) resulted in a change in the accounting policy for the first tranche sales of shared ownership properties.

Under the SORP for Registered Social Landlords 2005, shared ownership sales of property are treated as follows:

- All shared ownership (SO) properties are classified as fixed assets,
- Proceeds from first tranche disposals are credited against the cost of SO properties,
- Surplus/deficit on second and subsequent tranche sales are accounted for in the Income and Expenditure Account as differences between the net sales proceeds and the carrying value.

Changes to this accounting treatment in the revised SORP 2008 were such that

- SO properties would be split proportionally between current assets and fixed assets based on the first tranche proportion,
- First tranche proportions must be accounted for as current assets and the related sales proceeds shown in turnover,
- The remaining element of the SO property must be accounted for as a fixed asset so that any subsequent sale is treated as a part disposal.

The effect of this policy is stated below:

Group	Cumulative adjustment to 31 March 2007 £000s	Prior year adjustment 2007-08 £000s	Cumulative adjustment to 31 March 2008 £000s
Balance sheet			
Tangible fixed assets: housing properties			
Cost: completed shared ownership housing properties			
Completed fixed asset shared ownership properties as at 31 March as previously stated	151,751		156,639
Add: accumulated first tranche surpluses from prior years	22,295	14,271	36,566
Less: first tranche amounts held in stock	–	(10,123)	(10,123)
	22,295	4,148	26,443
Completed fixed asset shared ownership properties as at 31 March as restated (Note 11)	174,046		183,082

Notes to the Financial Statements

For the year ended 31 March 2009

29 Prior year adjustment (continued)

	Cumulative adjustment to 31 March 2007 £000s	Prior year adjustment 2007-08 £000s	Cumulative adjustment to 31 March 2008 £000s
Balance Sheet			
Current assets: properties for sale			
Completed stock of housing properties as at 31 March as previously stated (Note 14)	–		–
Add: transfer from fixed asset housing properties	–	10,123	10,123
Completed stock of housing properties as at 31 March as restated (Note 14)	–		10,123
Revenue reserve (Note 24)			
Revenue reserve as at 31 March	149,765		167,605
Add: surplus on first tranche shared ownership sales (Note 2) (see below)	22,295	15,542	37,837
Less: increased cost on shared ownership staircasing (Note 5) (see below)	–	(1,271)	(1,271)
	22,295	14,271	36,566
	172,060		204,171
Shared Ownership first tranche sales (Note 2)			
Turnover - proceeds of first tranche sales	68,709	45,115	113,824
Cost of sales	(45,876)	(29,573)	(75,449)
Surplus (Note 2)	22,833	15,542	38,375
Surplus/(Deficit) on sale of fixed assets (Note 5)			
Less: additional cost of staircasing on shared ownership sales	(538)	(1,271)	(1,809)
Association			
Balance sheet			
Tangible fixed assets: housing properties			
Cost: completed shared ownership housing properties			
Completed fixed asset shared ownership properties as at 31 March as previously stated	74,209		68,953
Add: accumulated first tranche surpluses from prior years	9,395	12,915	22,310
Less: first tranche amounts held in stock	–	(3,840)	(3,840)
	9,395	9,075	18,470
Completed fixed asset shared ownership properties as at 31 March as restated (Note 11)	83,604		87,423

Notes to the Financial Statements

For the year ended 31 March 2009

29 Prior year adjustment (continued)

	Cumulative adjustment to 31 March 2007 £000s	Prior year adjustment 2007-08 £000s	Cumulative adjustment to 31 March 2008 £000s
Balance sheet			
Current assets: properties for sale			
Completed stock of housing properties as at 31 March as previously stated (Note 14)	–		–
Add: transfer from fixed asset housing properties	–	3,840	3,840
Completed stock of housing properties as at 31 March as restated (Note 14)	–		3,840
Revenue reserve (Note 24)			
Revenue reserve as at 31 March	132,299		147,417
Add: surplus on first tranche shared ownership sales (Note 2) (see below)	9,395	13,450	22,845
Less: increased cost on shared ownership staircasing (Note 5) (see below)	–	(535)	(535)
	9,395	12,915	22,310
	141,694		169,727
Shared Ownership first tranche sales (Note 2)			
Turnover - proceeds of first tranche sales	28,281	37,508	65,789
Cost of sales	(18,886)	(24,058)	(42,944)
Surplus (Note 2)	9,395	13,450	22,845
Surplus/(Deficit) on sale of fixed assets (Note 5)			
Less: additional cost of staircasing on shared ownership sales	–	(535)	(535)

30 Legislative provisions

Southern Housing Group Limited is incorporated under the Industrial and Provident Societies Act 1965 (Registered Number 27412R) and registered by the Housing Corporation (Registered Number LH3947).

31 Group organisations

The Southern Housing Group organisations included in these financial statements are:

Southern Housing Group Limited	–	Parent body
Southern Housing Home Ownership Limited		
South Wight Housing Association Limited		
James Butcher Housing Association Limited		
Southern Housing Foundation		
Southern Space Limited		
Affinity Housing Services (Reading)	–	Joint venture partnership with Windsor & District HA

Notes to the Financial Statements

For the year ended 31 March 2009

32 Related parties

Two Board members appointed in 2008-09 on completion of their probationary periods, who are also residents, are classified as a related party. Such tenancies/leases are granted on normal commercial terms and the members cannot use their position on the Board to their personal advantage.

33 Samuel Lewis Foundation

The Samuel Lewis Foundation is a separate charity with SHGL as its trustee. Permanent Endowment Funds comprise the following resources which have been made available and which the trustees are legally required to retain or invest for specific charitable purposes. As these are permanent funds the trustees have no power to convert them into income and apply them as such. The results include funds transferred from The Women's Housing Trust.

	Date of acquisition	Original cost £000s	Number of units
Liverpool Road	1910	324	247
Jubilee Cottages	1935	707	28
Palliser Road	1927	973	57
Dalmeny Avenue	1935	493	82
Beech House	1936	701	16

Fund balances are represented by

	2009 £000s	2008 £000s
Tangible fixed assets at cost	6,085	6,235
Less Social Housing and other grants	(5,497)	(5,497)
	588	738
Investments at valuation	493	659
	1,081	1,397

Net income from permanent endowed assets

	2009 £000s	2008 £000s
Income from lettings	1,846	1,796
Less expenditure on letting activities	(980)	(1,485)
Surplus on letting activities	866	311
Income from investments	8	8
	874	319

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

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