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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 advisors

Members of the Board of Southern Housing Group Limited as at 31 July 2007

Andrew McIntyre	Chairman
John Argent	Deputy Chairman, Development Committee Chairman
Tony Bourne	Treasury Committee Chairman
John Castelberg	Southern Space Chairman
Tom Dacey	Group Chief Executive
Peter Goodacre	James Butcher Housing Association Chairman
Chris Hampson	Customer Services Committee Chairman
Jane Hives	Audit Committee Chairman
Neville Hudson	Southern Housing Home Ownership Chairman
Robert Sturgess	South Wight Housing Association Chairman
Letitia Stenning	

Group Strategy team as at 31 July 2007

Tom Dacey	Group Chief Executive
Alene Wilton	Corporate Services Director
George McMorran	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

Phillippa Caine
Fleet House
59-61 Clerkenwell Road
London
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Auditor

KPMG LLP
1 Forest Gate
Brighton Road
Crawley
West Sussex
RH11 9PT

Bankers

The Royal Bank of Scotland
Corporate Banking
Second Floor, County Gate 2
Staceys Street
Maidstone
Kent ME14 1ST

Principal solicitors

Trowers & Hamlins	Winckworth Sherwood
Sceptre Court	35 Great Peter Street
40 Tower Hill	Westminster
London	London
EC3N 4DX	SW1P 3LR

Operating and financial review



For the year ended 31 March 2007

Group financial results: five-year summary in £m

For the year ended 31 March	2007	2006	2005	2004	2003
Income and expenditure account					
Turnover	100.0	74.3	67.2	64.1	57.7
Operating costs	(74.7)	(58.6)	(53.0)	(52.7)	(45.8)
Operating surplus	25.3	15.7	14.2	11.4	11.9
Net interest charge	(19.0)	(10.9)	(12.0)	(10.8)	(8.0)
Surplus on sale of assets	8.5	6.0	8.0	7.1	8.6
Surplus for year	14.7	10.8	10.2	7.7	12.5
Balance sheet					
Housing properties at cost less depreciation	1,158.7	1,004.9	884.6	801.4	731.2
Less: Social Housing and other grants	(582.0)	(551.4)	(527.7)	(483.1)	(448.0)
	576.7	453.5	356.9	318.3	283.2
Other tangible fixed assets	34.0	23.4	22.3	21.6	21.1
Investments	3.4	4.2	3.7	3.4	2.2
Net current assets/(liabilities)	4.0	(18.7)	(21.7)	(9.3)	(20.6)
	618.2	462.4	361.2	334.0	285.9
Loans due after one year	428.7	294.7	216.1	197.2	157.1
Other long term liabilities	20.3	14.8	8.1	11.5	11.7
Negative goodwill	16.3	13.3	2.6	2.7	2.7
Reserves	152.9	139.6	134.4	122.6	114.4
	618.2	462.4	361.2	334.0	285.9

Statistics

Operating margin	25%	21%	21%	18%	21%
Interest cover	104%	101%	100%	97%	128%
Gearing	58%	43%	33%	33%	28%
Units of accommodation in management	23,921	19,865	18,506	18,845	18,819

Operating and financial review

For the year ended 31 March 2007

Overview of the business

Southern Housing Group (the Group) is one of the largest affordable housing providers in Southern England, housing 48,000 residents, owning and managing nearly 24,000 homes, employing 900 people and working with over 70 local authorities. The Group's 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.

The Group is a major developer of new affordable housing and is a 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. JBHA became a subsidiary of SHGL on 1 April 2006. These consolidated accounts will be published on the Group's website at www.shgroup.org.uk

The Housing Corporation has given the Group 'green lights' for all four areas of compliance: viable, properly governed, properly managed and development.

Southern Housing Foundation (SHF) is a charitable organisation that, in partnership with other agencies, funds a range of community initiatives to help create sustainable neighbourhoods where people want to live.

Southern Space Limited (SSL) develops properties for outright sale.

External influences

Having initiated a review of the institutional structure for delivery of housing and regeneration programmes during 2006, the Government announced its plan to merge the activities of the Housing Corporation, English Partnerships, and a range of activities carried out by Communities and Local Government, into a new homes agency.

Given the requirement for enabling legislation, it is unlikely that the new homes agency will be fully operational before April 2009 and, whilst fully recognising the potential benefits of combining the assemblers of publicly owned land with those responsible for affordable housing delivery, concerns have been expressed in the sector at the potential risks of such a lengthy interregnum.

Running in parallel with this review, the 'Cave Review of the Regulation of Social Housing' was announced as 2006 drew to a close. The review body was asked how the current regulatory system could be reformed

to support residents better, drive up standards of provision, reduce burdens on providers, and meanwhile reflect current and future Government policies in this area. At the time of writing, this review is out to consultation with the sector and other stakeholders.

The other major independent review in the period to date was 'The Hills Report into Social Housing', led by Professor John Hills of the London School of Economics, with a brief to "stand back and ask what role social housing can play in 21st century housing policy". This report was published in February 2007 with a number of key recommendations, including reviewing lifetime tenancies for new tenants, offering tenants greater support to find work, addressing rising levels of tenant dissatisfaction and investigating improving access to owner occupation for existing tenants.

Against this backdrop of multi-layered and fundamental review, the sector faces its three-yearly challenge in the shape of a Comprehensive Spending Review in 2007. With pressure on public expenditure, a dialogue has been opened between the sector and the Housing Corporation regarding the financial capacity of housing associations, particularly the investment partners. Whilst many would concede that there is some unutilised capacity in the sector, a balance has to be struck between more homes and endangering the long-term viability of the sector.

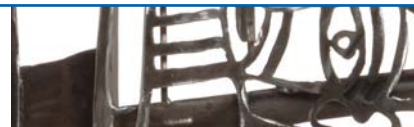
Objectives

During the year, the Group reviewed its Business Philosophy, deciding to retain the four fundamental objectives.

- **Growth:** To grow in order to enhance the status of social housing, ensure that people wish to occupy the Group's homes and to increase the Group's housing stock.
- **Influence:** To influence by providing an excellent service on a daily basis and by actively seeking opportunities to enhance and improve the Group's image.
- **Expertise:** The Group aims to seek and implement innovative solutions and to work together throughout the organisation.
- **Assets:** The Group's objective is to work in partnership with residents to ensure that housing stock is continuously of the highest standard. It is imperative that the Group continues to operate in surplus in order to invest in new developments.

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

Operating and financial review



For the year ended 31 March 2007

Strategies

The Group intends to increase the number of homes it owns and manages through the following initiatives.

- **Social housing development:** The Group has just completed the first year of its second partnering programme with the Housing Corporation and has achieved 137% of its completions and 132% of its cash spend targets for 2006/07. The Group aims to continue to be a Housing Corporation preferred partner and to run a substantial forward development programme.
- **Stock transfer from local authorities:** Redevelopment of the Market Estate, which transferred to the Group in February 2005 from the London Borough of Islington after the successful tenants' ballot, is now underway. The first completed homes were handed over in May 2007 and existing residents will move in over the next nine months to a year to free up the development of phase 2.

In partnership with Berkeley Homes and ASRA, the Group has been selected by the London Borough of Greenwich to undertake the redevelopment of the Ferrier estate in Kidbrooke. Phased over some 11 years, the scheme will provide 4,400 homes of which 1,500 will be for affordable rent and shared ownership.

In February 2007, the Group was selected by the London Development Agency, with Crest Nicholson and BioRegional Quintain, to deliver one of London's first major Zero Carbon developments, at Gallions Park in Docklands. In addition, the Group is currently working either as sole bidder or in partnership with a developer for a number of other stock transfers in London and the south east, and will continue to make bids for further transfers.

- **Development for sale:** The Group's market sale subsidiary, Southern Space Limited, made its first sales in April 2007. The company has six schemes under construction at 31 March 2007 and will have 88 properties available for sale between April 2007 and March 2009. Nine further schemes, comprising 259 properties, are expected to be purchased in 2007/08, which will be added to the development programme. The management team has been augmented by the successful recruitment of a sales manager and a land manager. Negotiations are continuing with a number of vendors for further sites which would be capable of supporting a substantially increased construction programme by 2010. Discussions have taken place to secure the requisite external funding to meet these development targets.

- **Merger:** The Group has adopted a more proactive approach to seeking out merger opportunities and to consider opportunities in a wider geographical area, as well as consolidating in existing areas of operation.

Main Group strategies to improve service delivery

The Group's Service Centre has been a significant driver for the improvement of services to residents and has allowed the Group more readily to capture views about, and monitor the nature and quality of, the services provided. The Service Centre provides residents with access to a wide range of housing management services from 8am to 8pm every weekday, working alongside the Group's regional and neighbourhood offices, where locally based housing management teams are located. Specialist teams within the Service Centre deliver front line services for the handling of rent arrears recovery, repairs reporting and tenancy management enquiries.

During the year there has been further expansion of the Service Centre's work, initially to provide services to the residents of James Butcher and South Wight Housing Associations. The Service Centre began providing services to residents of Southern Housing Home Ownership in September 2007.

The recent move of the Horsham office base to the newly refurbished Spire Court will allow the envisaged longer-term expansion of the Horsham base, whilst at the same time allowing the facility of the Service Centre to be extended to others joining the Group in the future.

The inevitable mix of tenures evident on many of the Group's estates and the resultant complexities involved in delivering services of a high standard under arrangements that existed previously have led to the decision to integrate the future management of the Group's properties. Proposals for a unified service have been developed by a dedicated project team, responsible for the development and successful implementation of the new arrangements.

The Group's Continuous Systems Improvement team plays a fundamental role by conducting reviews of service processes using 'lean system thinking' to minimise the amount of 'waste' in the Group's processes and to ensure both effective and efficient processes are deployed. The recent establishment of a systems thinking user group is aimed at deepening the understanding of this philosophy within the Group and in so doing expanding the use of associated techniques more widely within the business.

Operating and financial review

For the year ended 31 March 2007

In looking to develop and improve services and to ensure the relevance of any change to the customer, importance is placed upon the involvement of residents to help develop and better understand the expectations that they have from the Group's services. Results from resident surveys on various aspects of the service are used to identify potential areas of improvement. Focus groups are also used to consider particular aspects of the service, both in the context of wider service reviews as well as in relation to changes of a more practical nature in terms of the services provided. At a more local level, residents are able to play a role in reviewing and ensuring the standard and quality of services provided, by their involvement in routine estate and scheme inspections.

The Group has been able to realise efficiency gains by running its day-to-day maintenance contracts as partnerships. By rationalising down to four contract areas and reducing the number of contractors with which it works, the Group has been able to strengthen arrangements for the development and quality of its service, whilst ensuring significant cost savings. The continuous systems improvement team has been, and continues to be, involved in working with contractors to establish efficient handling processes and to provide for timely completion of repairs on a 'fix first time' basis, seen as key to delivering high levels of service satisfaction.

In light of this success, a similar approach has been adopted in relation to contracts for the servicing and inspection of gas installations, lifts, door entry and security systems, fire alarm systems and arrangements for water treatment, again rationalising the number of contracts and contractors involved as a means of seeking to deliver efficiency gains whilst at the same time seeking to improve and develop the overall level of service.

Operational performance

Performance details in key operational areas for 2006/07 are set out below, for each of the RSLs in the Group. All indicators are derived from internal company data and no changes have been made to the source of data or calculation method, with the exception of James Butcher Housing Association, where these are now consistent with the rest of the Group. Targets are set for key performance indicators and they are used in the managing of performance and in setting strategies for continuous improvement.

Tenant survey results

The recent STATUS surveys of tenants have shown that the majority of tenants are satisfied with the Group's services – with 71% of Southern Housing Group Limited and James Butcher HA tenants and 82% of South Wight HA tenants being satisfied with the overall service.

The majority of tenants (four out of five) are satisfied with their homes and three in four rate the condition of their homes as being good. There are differing levels of satisfaction within areas and neighbourhoods, with tenants on the Isle of Wight having highest satisfaction levels across virtually every indicator.

The majority of tenants recognise their rents represent good value for money (from 74% for Southern Housing Group Limited and James Butcher HA to 82% for South Wight HA) and see their service charges as less so. This is an area where the Group will work in the next year to show transparency of cost and value, and to improve communication on these issues.

Lower levels of satisfaction with the outcome of customer contact and ease of contacting the right staff are areas of challenge for us. Improved arrangements being put in place with the integrated management project will provide a clearer focus for neighbourhood areas. We shall also be working with our partner maintenance and repairs contractors to raise satisfaction, particularly with the appointments aspects of our repairs services.

Operating and financial review



For the year ended 31 March 2007

Southern Housing Group Limited

Operational performance				
	2007	Current target	2006	2005
Current arrears as percentage of rent roll	5.73%	5.60%	5.96%	6.64%
Average void turnaround time in days	38	28	40	47
Percentage of units void	2.2%	2.9%	1.9%	1.6%
Available to let	0.8%		0.8%	0.7%
Unavailable to let	1.5%		1.1%	0.9%
Percentage of routine repairs completed on target	88%	90%	90%	92%
Gas servicing overdue	1.6%	0%	1.0%	2.4%
Percentage of homes failing the Decent Homes Standard	10.7%	nil by 2010	12.6%	12.4%

Improvements in rent arrears performance were sustained throughout the period, resulting in a year on year reduction at the period end.

The percentage of void properties available for letting has remained at a constant low level, with the increase in those properties unavailable for re-letting reflecting the Group's re-investment and asset management activities.

Partnering contracts provide the full range of the Group's day-to-day reactive repairs services. During the year, alternative arrangements had to be put in place following the termination of one of these contracts, which has impacted upon reported performance. After an initial period of mobilisation, the position is showing signs of stabilising. The Group continues to work with its partnered contractors using system thinking methodology to identify and deliver service improvements.

Gas servicing remains an important focus of attention, which is reflected in its sustained and continuing levels of performance.

The Decent Homes position has improved, with the number of non-compliant properties at April 2007 being 1,370 (2006: 1,616). This includes the 271 properties transferred at Market Estate in Islington, which is in the process of being rebuilt.

Southern Housing Home Ownership Limited

Operational performance				
Shared ownership statistics	2007	Current target	2006	2005
Current arrears as percentage of rent roll	5.3%	3.75%	4.5%	4.1%
Percentage of repairs completed on target	98.4%	90.0%	99.8%	94.6%

Arrears have been at a sustained level, above target, throughout the period, reflecting an increasing trend within the sector related to higher values and lower percentage shares.

Although repairs performance has slightly fallen it still remains well above target.

South Wight Housing Association Limited

Operational performance				
	2007	Current target	2006	2005
Current arrears as percentage of rent roll	5.8%	2.5%	3.5%	2.8%
Average void turnaround time in days	33	21	22	27
Percentage of units void	1.0%	1.9%	1.1%	1.3%
Available to let	0.9%		0.4%	0.4%
Unavailable to let	0.1%		0.7%	0.9%
Percentage of routine repairs completed on target	96%	90%	99%	97%
Gas servicing overdue	2.4%	0%	1.6%	0.8%
Percentage of homes failing the Decent Homes Standard	29%	nil by 2010	24%	36%

On rent restructuring South Wight HA has a waiver from the Housing Corporation, giving it an additional five years to reach target.

Increased arrears levels were experienced during the period leading up to the transfer of this activity to the Group's Customer Service Centre. It is expected that this step will deliver improvements in performance as have been realised elsewhere within the Group.

The period has seen sustained levels of overall void performance.

SWHA has benefited from established partnering arrangements for its repairs service, with its routine repairs performance remaining above target throughout the period.

Operating and financial review

For the year ended 31 March 2007

Performance in relation to gas servicing, whilst remaining at a low level, has suffered from difficulties faced by the Service Contractor. The re-tendering of this contract, due shortly, provides an opportunity to address this.

Based upon the latest sample surveys which include more former Isle of Wight Housing Association properties, 29% of SWHA properties fail the Decent Homes standard. The planned financial investment, asset management strategy and Decent Homes Plus strategy will enable the Group to continue to invest in its stock and meet the standard in 2010.

James Butcher Housing Association Limited

Operational performance			
	2007	Current Target	2006
Current arrears as percentage of rent roll	3.4%	3.0%	2.75%
Average void turnaround time in days	81	21	39
Percentage of units void	5.0%	No target	1.3%
Available to let	3.4%		1.2%
Unavailable to let	1.5%		0.1%
Percentage of routine repairs completed on target	74%	90%	91.5%
Gas servicing overdue	2.6%	0%	4.95%
Percentage of homes failing the Decent Homes Standard	32.6%	nil by 2010	12.5%

Only the current and prior year are shown, as JBHA joined the Group on 1 April 2006.

Performance in relation to arrears has shown a gradually improving trend throughout the period. Following the transfer of this activity to the Group's Customer Service Centre, it is expected to realise improvements in performance achieved elsewhere within the Group now that processes have bedded down.

Sustained improvements have been realised during the period in relation to the turnaround of properties becoming available for letting, with a number of properties empty for some time having now been let. The position in relation to the number of voids reflects James Butcher HA's reinvestment and asset management activity.

During the year, measures to rationalise the number of contractors involved in the delivery of day-to-day maintenance were implemented, resulting in the setting up of a maintenance partnering arrangement involving just one contractor. Whilst this transition has impacted adversely upon reported levels of performance, with the new arrangements now operational, improved levels of performance are now evident.

Gas servicing performance is showing improved levels of performance since combining with the Group's arrangements.

Based upon the latest sample surveys, 1,161 JBHA properties fail the Decent Homes standard. During the year, further sampling took place and the data was transferred to the Group's asset management software. This showed that a significant number of properties failed the Decent Homes standard for thermal comfort. While a significant number of properties are involved, the cost of remediation per property is low. JBHA has amended its plans in order to complete these works by 2010.

Complaints

As the Group recognises the importance and value of feedback received from service users, and its potential as a means of improving and developing the nature and quality of its services, the Group's Continuous Systems Improvement team undertook a review of the complaints handling arrangements. As a result, during the year, the Group has adopted a new complaints system, which includes specialised complaints management software, and appointed a complaints service manager. The new arrangements will extend beyond the remit of handling traditional housing service orientated complaints and will look to capture complaints received regarding all aspects of the Group's work, whilst ensuring a consistent and responsive approach to the handling of complaints from service users.

Environmental

A sustainability strategy was published during 2004/05 setting targets for new and refurbished buildings as well as a range of wider objectives. SHGL plans to improve the average SAP rating of its housing stock by 10% by 2010 and this has now been met ahead of schedule. In March 2004, the average SAP rating (2001 basis) was 63.3 and by March 2007 this rating had increased to 71.2 (target 69.6).

At March 2007 the energy rating of SWHA stock is 71.7 (2006: 71.6).

At March 2007 the energy rating of JBHA stock, measured on a consistent basis with the rest of the Group, is 67.9.

Energy efficiency will continue to be improved as part of ongoing planned maintenance and Decent Homes programmes. The target for new developments is an Ecohomes 'Very Good' rating moving to the 'Code for Sustainable Homes level 3 standard' on new grant-funded projects from April 2008.

Operating and financial review



For the year ended 31 March 2007

Development

In 2006/07, 1,017 homes were completed. Of these, 731 were part of the Housing Corporation partnering programme, which was 37% ahead of target. Housing Corporation spend at £32.1 million and was 32% ahead of cash planning targets of £24.2 million. Work started on 676 new homes during the year.

Handovers and starts by tenure				
	2006/07		2005/06	
Tenure	Handovers	Starts	Handovers	Starts
Social rent	407	289	270	507
Intermediate rent	20	50	30	20
Shared ownership	570	276	408	422
Outright sale	20	61	24	46
Total	1,017	676	732	995

Resources

Board

The Board is responsible for the business of the Group, which includes overseeing and directing the Group's activities, formulating future strategies and plans, maintaining an overview and monitoring the work of the committees. The Board meets four times a year for regular business and once for a seminar to discuss policy 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 3.

There are various subsidiary boards and committees. Each normally meets four times a year and the Chair of each is a member of the Group Board. Each has detailed terms of reference which are established and monitored by the Group Board.

Independent members of the Group Board are paid for their services so as to increase the Group's 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

Committees

The Standards and Ethics Committee As a result of the Board appraisal work, in November 2006 the Standards and Ethics Committee was charged with reviewing the role, function and purpose of each committee. Their recommendations were discussed by the Board in January and it was agreed as follows.

- The Standards and Ethics Committee would be disestablished.
- A Remuneration and Nomination Committee would be created.
- The Finance Committee would be disestablished and replaced with a Treasury Committee that would be better placed to convene on a more ad-hoc basis to meet the demands of the business.

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 the Group's risk management and internal control arrangements and reviews in detail the annual financial statements.

The Customer Services Committee considers the provision of services to SHGL residents.

The Development Committee considers matters relating to the development of new properties and stock reinvestment.

The Remuneration and Nomination 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 the Chairman.

The Treasury Committee considers, in detail, treasury management and the setting of and performance against the budget and long-term financial plans.

Board members' attendance at Board meetings and Committees on which they serve are given on the next page for the period from 1 April 2006 to 31 March 2007. Figures in brackets are the number of meetings a member was eligible to attend.

Operating and financial review

For the year ended 31 March 2007

Board member meeting attendance														
	Board	Standards and Ethics	Remuneration and Nomination	Audit	Customer Services	Development	Finance	Treasury	Group Pension Plan	Southern Housing Home Ownership	South Wight HA	James Butcher HA	Southern Housing Foundation	Southern Space
Andrew McIntyre Chairman	4 (4)	6 (6)	1 (1)					1 (1)						
John Argent Deputy Chair	3 (4)	5 (6)				4 (4)					4 (4)	5 (6)		5 (5)
Sean Baine (1 Jan 2007 to 10 Apr 2007)	2 (2)												2 (2)	
Tony Bourne	4 (4)	5 (6)					2 (3)	1 (1)					3 (4)	
John Castelberg	3 (4)													5 (5)
Tom Dacey	4 (4)													5 (5)
Peter Goodacre	3 (4)		0 (1)									6 (6)		
Chris Hampson	4 (4)	5 (6)			3 (4)									
Jane Hives	4 (4)	4 (5)		4 (4)		4 (4)		1 (1)			1 (2)			5 (5)
Neville Hudson	4 (4)	5 (6)	1 (1)	3 (4)		3 (4)				4 (4)				
Letitia Stenning	4 (4)		1 (1)						2 (3)			5 (6)		
Bob Sturgess	4 (4)								2 (3)		4 (4)			
Julia Unwin (1 Apr 2006 to 31 Dec 2006)	2 (2)	2 (6)											2 (2)	
Elisa Vaughan	1 (4)												2 (4)	

Operating and financial review



For the year ended 31 March 2007

Senior employees

Day-to-day management is delegated to the Group 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 3.

Phillippa Caine joined the Group as Company Secretary on 1 April 2007. Company Secretaries during 2006/07 were Sinead McQuillan (resigned 29 September 2006) and George McMorran (30 September 2006 to 31 March 2007).

Employees

The Group recognises that the people it employs have a direct impact on business results. Key initiatives are:

- The Group was initially awarded Investors in People accreditation in 1996 and was successfully re-accredited in May 2005.
- Introduction of a personal development plan process based on eight competency sets leading to individual development and training programmes.
- The graduate training programme is recognised as one of the best in the sector and is resulting in the appointment of a number of successful managers for the Group.
- The Group has implemented a comprehensive diversity policy and action plan.
- WorklifePlus, a sector-leading work-life balance initiative that offers a range of options that staff can apply for to suit their individual needs. Options were increased during the year to include HSA Medical Plan, HSA Employee Assistance Programme and Childcare Vouchers.

Annual staff resignation turnover continues to decline from 15% in 2005, to 14.8% in 2006 and is currently 12% against a target of 15%.

Residents

The Group has a team which focuses solely on resident involvement. The team not only leads on strategic resident involvement initiatives but also provides an internal training resource to ensure all staff have the skills to engage with residents, supporting the Group's view that active feedback from residents underpins service improvement.

The Group primarily channels its communities' work through Southern Housing Foundation. The Foundation aims to develop projects and access resources that contribute to improving the quality of life for the Group's residents and their surrounding neighbourhoods.

Its 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.

During the year, the Foundation received funding of £0.934 million, of which £0.93 million was from the Group, and it spent £1.147 million. The decrease in the external funding was a result of the completion of the financial inclusion project funded by the Department of Work and Pensions.

Risks and uncertainties

The Group has a robust risk management framework which is overseen by the Audit Committee and driven by the Group Risk Management Advisor. Key features of the Group's processes for managing risks and uncertainties are as follows.

Risk identification and assessment

As the Group's corporate planning processes establish and update the organisation's objectives, the risks that may prevent their achievement are identified. They are assessed to establish the most significant items by reference to both their impact on the organisation and their likelihood of occurrence. This activity is carried out at appropriate levels throughout the Group.

Operating and financial review

For the year ended 31 March 2007

Managing major risks

The Group identifies the major risks it faces under its four objectives.

Major risks to Group objectives	
Objective	Key risks identified
Growth	Growth will not be achieved, primarily as a result of a change in Government policy or a reduced demand for its housing.
Influence	Performance failures in our services to residents either in terms of level of service or cost. These would also impact on the Group's reputation.
Expertise	Failure of the Board and staff to manage the Group.
Assets	Control of costs including interest payments, fraud, change in Government policy on rents and grant recovery, stock condition and a general downturn in the property market.

The Group periodically reviews the major risks that have the capacity to prevent it achieving its corporate objectives. The last such exercise took place in January 2007. Through this process (and regular ongoing reviews), those risks which present the greatest threats to the Group are identified and reported to the Board (or Audit Committee) at least twice a year. The Board receives information on actions being taken to manage those key risks and the results of those actions.

Ensuring the effectiveness of control mechanisms

For those risks which are identified as being the most significant for any part of the Group, the existing control environment is assessed to establish ways in which it can be improved. Areas identified for improvement are followed up until action points are fully addressed. Where a view is formed that the Group cannot exercise full control over a significant risk (for example due to external influences), then Board and the Group Strategy team will make a decision about Group's appetite for accepting the risk concerned and act accordingly.

Financial position

Turnover

Turnover has increased in the year by £25.8 million (34.76%). Income from social housing lettings has increased by £21 million as a result of inflation and additional properties from both development and the acquisition of James Butcher Housing Association. Supporting People contract income is £2.6 million. Turnover on outright sales was £5.7 million (2006: £2.1 million).

Works to housing properties

The Group has adopted component accounting from April 2006. Housing properties are now split between the structure and those major components which require periodic replacement. New software has been purchased which records the individual components for each property and these are being depreciated over the average estimated useful life of the component. The life has been set taking into account professional advice, the Group's asset management strategy and the requirements of the Decent Homes standard.

The Southern Housing Group Limited major repairs budget for 2006/07 was £6.9 million spend with an out-turn of £7.7 million (111%) including adjustments for leaseholder contributions. This additional spend included £0.34 million carried over from 2005/06, additional works identified after one scheme had started and faster progress on two schemes started in the year. The works included expenditure on roofs, kitchens, heating and bathrooms in London and Thames Gateway regions and kitchens, heating, bathrooms, wiring, windows and sound proofing to properties in the South region. By the end of the year, contracts for major repairs had commenced on site with a value of approximately £5 million, covering around 400 properties.

The South Wight HA major repairs budget was £2.080 million spend with an outturn of £2.272 million (109%).

At James Butcher HA, major repairs expenditure of £0.876 million was below the budget as a result of slippage in the works programme, however contracts with a total scheme cost of £2.2 million had been let by April 2007. Work was underway at the year end on window replacement at five schemes and electrical upgrades at four schemes.

Operating and financial review



For the year ended 31 March 2007

Pension costs

As a result of merger activity in recent years, the Group operates a number of pension schemes. 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.

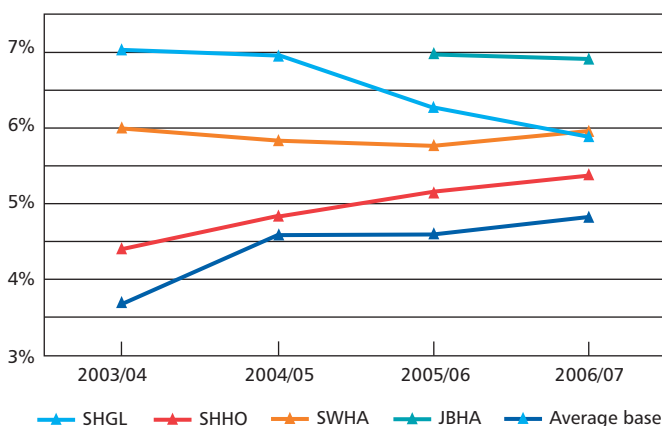
The Southern Housing Group scheme triennial valuation was completed during the year for the three years to March 2006. As a result of additional contributions from the Group, and improved investment performance, the valuation showed a substantial decrease in the actuarial deficit from the last valuation undertaken in March 2003.

The Group also contributes to a defined contribution scheme and the cost in the income and expenditure account represents the employer's contribution payable.

Interest

Group interest payable has increased by £8.6 million in the year, primarily as a result of JBHA joining the Group and borrowings increasing to fund investment in homes. The increased expenditure on development has increased the amount capitalised by £0.6 million.

The overall cost of Southern Housing Group Limited borrowing has been reduced in the year, as a result of putting in place a number of derivatives and the commencement of derivatives previously transacted. SWHA's overall average rose slightly through the higher proportion of variable debt increasing with general market rates. JBHA's average rate remained relatively consistent as a result of the high level of its fixed interest loans. Average interest rates are shown below:



Surplus on sale of assets

The breakdown of surplus on sale of property assets is set out below. The Group has no control over the number of sales from shared ownership, HomeBuy, right to buy or right to acquire as the residents have the statutory right to purchase. Voluntary disposals arise from the Group's asset management strategy. During the year, the major voluntary disposal was JBHA's retirement lease portfolio which was sold to Housing 21. This was in line with the Group's policy of withdrawing from this activity and the sale of the SHHO portfolio in 2004/05. 'Other' is primarily the disposal of small parcels of land to utilities etc and includes write-off of assets as a result of component accounting.

Disposal sales surpluses		
Type of disposal	Number of sales	Surplus £000
Shared ownership staircasing and HomeBuy*	139	7,108
Right to buy and acquire	16	551
Voluntary disposals	581	4,102
Open market sales	27	949
Other	-	(2,045)
Total	763	10,665

*In the case of staircasing the number of sales includes only those staircasing to 100%.

Gift aid

In recent years the Group's policy has been to gift aid surpluses from SHHO at a level to minimise SHHO's corporation tax liability. In 2006/07, SHHO gift aided £9.330 million (2005/06 £7.025 million) to SHGL and £0.925 million (2005/06 £1.07 million) to Southern Housing Foundation. This saved £3.05 million in tax (2005/06 £2.4 million) which is being invested in housing stock.

Surplus and operating margin

The Group made a surplus of £14.68 million for the year compared to a surplus of £10.802 million for the previous year. This increase is largely due to JBHA joining the Group at the beginning of the year and the subsequent sale of their retirement leasehold portfolio to Housing 21.

Operating and financial review

For the year ended 31 March 2007

Forecasts

In 2007/08, the Group is budgeting a lower surplus primarily resulting from higher costs of reinvesting in the condition of our stock, low levels of property disposals and the one-off costs involved in rationalising the number and location of our offices, and improvements to our operational structures. The move to component accounting for all existing assets, as well as new additions, will result in higher depreciation charges than were budgeted for 2006/07.

Treasury policies and objectives

The Group has a formal treasury management policy which is regularly reviewed and agreed by the Group's Treasury Committee. The purpose and role of the policy is to establish the framework within which the Group seeks to protect and control risk and exposure in respect of its borrowings and cash holdings.

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

- Group borrowings and subsequent debt management
- investment of surplus funds – both short and long term
- the Group's relationship with bankers, lenders and advisors.

The Group (excluding JBHA) has approval from the Housing Corporation to use stand-alone financial derivatives and this is incorporated in the rules of each association, which increases the options available to manage interest rate risk. The intention is for all Group associations to adopt the new 'wider' rules for treasury management. To date, stand-alone derivatives have not been used, but loan agreements are being amended and credit arrangements have been put in place to allow future use. Derivatives will not be used for speculative purposes or in such a way that an additional exposure to market forces is created.

Capital structure

Southern Housing Group Limited: Current policy is 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, balancing the risk of a lender withdrawing from the sector with the cost of managing a large number of relationships. During the year, a further facility was signed with THFC for EIB funding of £24 million. Negotiations are in progress for new borrowings with an existing lender.

Southern Housing Home Ownership: As a result of most new development for the Group taking place in SHGL, SHHO continues to have limited demand for new facilities and no further facilities were required in the year.

South Wight Housing Association: To rationalise its loan portfolio, a fixed rate loan of £3.7 million from Dexia was repaid, utilising cash balances and additional borrowing from Nationwide BS. This incurred break penalties of £350,000.

James Butcher Housing Association: The availability of £8 million of undrawn loan was not extended by a lender and as a result of the cancellation of this element of the facility, £104,000 of cancellation fees were incurred.

Southern Space Limited: A three-year revolving development facility of £15 million was completed with Allied Irish Bank during the year. This facility is extendable for a further year on each anniversary, at the bank's discretion, and the amount can be increased up to £30 million.

Summary of borrowings				
	31 March 2007		31 March 2006	
	Available facility £m	Drawn £m	Available facility £m	Drawn £m
SHGL				
Capital markets	38.4	38.4	38.8	38.8
Bilateral	364.7	248.7	302.5	182.0
Total in place	403.1	287.1	341.3	220.8
Under finalisation or negotiation	55.0	–	40.0	–
SHHO				
Total in place (all bilateral)	40.0	24.8	40.0	24.8
SWHA				
Capital markets	1.3	1.3	1.3	1.3
Bilateral	46.0	46.0	49.8	46.6
Total in place	47.3	47.3	51.1	47.9
JBHA				
Capital markets	9.6	9.6	9.6	9.6
Bilateral	52.0	51.0	60.5	51.5
Total in place	61.6	60.6	70.1	61.1
Southern Space				
Bilateral	15.0	nil	n/a	n/a
Total in place	15.0	nil	n/a	n/a

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

Operating and financial review



For the year ended 31 March 2007

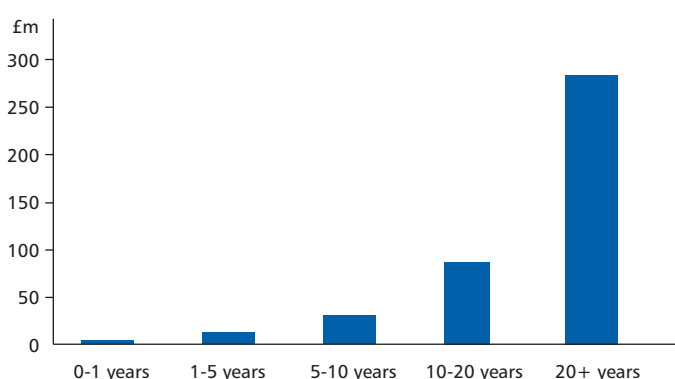
Funding profile at 31 March 2007			
	Fixed rate £m	Variable rate £m	Index linked £m
SHGL	124.6	139.4	23.1
SHHO	nil	24.8	nil
SWHA	24.3	23.0	nil
JBHA	51.7	8.9	nil

Funding profile at 31 March 2006			
	Fixed rate £m	Variable rate £m	Index linked £m
SHGL	88.6	119.0	13.2
SHHO	nil	24.8	nil
SWHA	28.1	19.8	nil
JBHA	56.6	4.5	nil

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. £40 million of cancellable transactions were in place at 31 March 2007, with bank option dates exercisable within 12 months.

Debt maturity

The profile of debt repayment as at 31 March 2007 for the Group is:



Cashflows

During the year, net cash of £30.9 million was derived from operating activities and £49.9 million was received from the disposal of housing properties. As a developing group, there were significant cashflows from new development with spend of £134.1 million before receipt of grant of £30.6 million. Loans of £11.6 million were repaid in the year and a total of £76 million was drawn from loan facilities.

Liquidity

Group 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. The Group maintains a list of investment limits for authorised organisations with which it will place deposits based on short-term credit ratings.

Loan covenants

Each association in the Group sets loan covenants with its lenders based on the circumstances of the association. For SHGL and SHHO, 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. The Group is working towards including surpluses from sale in all interest cover covenants.

Net income cover covenants		
	2007 range	2006 range
SHGL		
Income covenants	0.90-1.15	1.00-1.15
Actuals	1.90-2.33	2.40-2.51
SHHO		
Income covenants	1.00-1.15	1.00-1.50
Actuals	5.68-5.72	6.88-9.26
SWHA		
Income covenants	1.00-1.15	0.95-1.00
Actuals	1.52 (no range)	1.30-1.47
JBHA		
Income covenants	1.10-2.00	0.90-2.00
Actuals	1.88-4.31	1.09-4.31

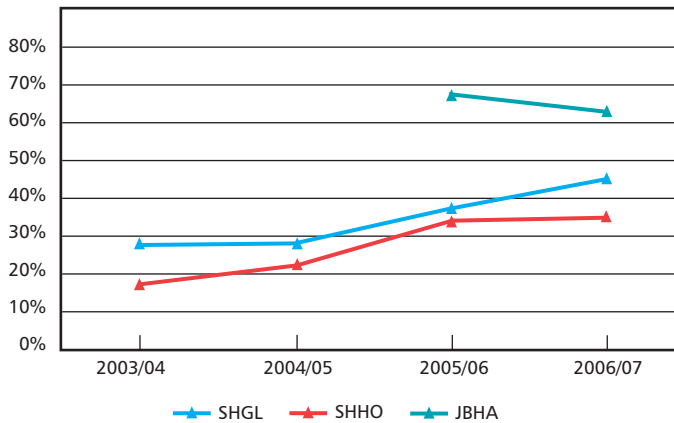
Operating and financial review

For the year ended 31 March 2007

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 level of gearing is being influenced by the increased development of low-cost home ownership properties and the lower average percentage of first tranche sales. JBHA gearing ratio covenants are set from 70% to a maximum of 75%. Actuals at 31 March are shown below:

Statement of compliance

In preparing this operating and financial review, the Board has followed the principles set out in the 2005 updated SORP, 'Accounting for Registered Social Landlords'.



Report of the Board



For the year ended 31 March 2007

Statement of responsibilities of the Board

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 to enable it 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 Group 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, 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. These have been in place for the year to 31 March 2007 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 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 member's 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 major decisions.

Report of the Board

For the year ended 31 March 2007

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 procedure 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.

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 (formerly RSM Robson Rhodes LLP), Chartered Accountants. The Internal Auditors report direct to the Group Chief Executive on each assignment and to each meeting of the Audit Committee on their recent and prospective activity.

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 to improve 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 Group.

Andrew McIntyre

Chairman

On behalf of the Board

9 July 2007

Report of the independent auditors



For the year ended 31 March 2007

We have audited the Group and parent financial statements of Southern Housing Group Limited for the year ended 31 March 2007, which comprise the Group and Association income and expenditure account, the Group and Association balance sheet, the cashflow 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 & 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 auditor's report and for no other purpose.

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the association and the association's members, as a body, for our audit work, for this report, or for the opinions we have formed.

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 pages 18-19.

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 & Provident Societies Acts 1965 to 2002 and the Industrial & 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.

Report of the independent auditors

For the year ended 31 March 2007

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 2007 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 & 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
1 Forest Gate
Brighton Road
Crawley
West Sussex
RH11 9PT

Income and expenditure account



For the year ended 31 March 2007

	Note	Group 2007 £000	Group 2006 £000	Association 2007 £000	Association 2006 £000
Turnover	2	100,057	74,258	69,911	61,739
Operating costs	2	(74,751)	(58,570)	(47,291)	(45,094)
Operating surplus		25,306	15,688	22,620	16,645
Surplus/(deficit) on sale of fixed assets	5	8,483	6,036	(540)	605
Interest receivable and other income	6	581	355	463	215
Interest payable and similar charges	7	(19,593)	(11,074)	(11,430)	(7,964)
Other finance costs	8	(71)	(203)	–	–
Surplus on ordinary activities for the year	9	14,706	10,802	11,113	9,501
Tax on surplus on ordinary activities	10	(26)	–	–	–
Surplus for the year		14,680	10,802	11,113	9,501

All turnover and operating costs for the current and prior years are attributable to continuing operations.

The notes on pages 25 to 58 form part of these financial statements.

Statement of total recognised surpluses and deficits

	Note	Group 2007 £000	Group 2006 £000	Association 2007 £000	Association 2006 £000
Surplus for the year		14,680	10,802	11,113	9,501
Unrealised surplus on investments	25	243	616	243	616
Actuarial (deficit)/surplus relating to pension schemes	4	(1,631)	539	–	–
Total recognised surplus for the year		13,292	11,957	11,356	10,117
Prior year adjustment		–	(5,388)	–	–
Total recognised surplus since last report		13,292	6,569	11,356	10,117

Balance sheet

For the year ended 31 March 2007

	Note	Group 2007 £000	Group 2006 £000	Association 2007 £000	Association 2006 £000
Tangible fixed assets					
Housing properties at cost less depreciation	11	1,158,683	1,004,927	903,185	820,565
Less: Social Housing Grant and other grants	11	(582,044)	(551,449)	(512,387)	(480,009)
Net housing properties		576,639	453,478	390,798	340,556
Other tangible fixed assets	12	33,953	23,378	28,141	20,926
Total tangible fixed assets		610,592	476,856	418,939	361,482
Investments					
Investments at market value	13	3,451	3,208	3,476	3,233
Investment in subsidiaries	13	–	–	7,678	2,874
HomeBuy and other starter home initiatives	13	11,860	13,035	–	–
Less: Social Housing Grant	13	(11,680)	(12,040)	–	–
		614,223	481,059	430,093	367,589
Current assets					
Properties for sale	14	12,652	9,071	–	–
Debtors	15	12,006	9,358	11,797	10,497
Cash in hand and in bank	16	23,684	5,146	11,262	782
		48,342	23,575	23,059	11,279
Creditors: Amounts falling due within one year	17	(44,403)	(42,252)	(29,698)	(34,480)
Net current assets/(liabilities)		3,939	(18,677)	(6,639)	(23,201)
Total assets less current liabilities		618,162	462,382	423,454	344,388
Creditors: Amounts falling due after more than one year					
Housing loans	18	428,674	294,683	284,312	218,488
Recycled capital grant fund	19	7,627	5,844	308	191
Disposal proceeds fund	20	2,108	951	1,926	846
Deferred income	21	2,672	1,312	1,992	1,254
Provisions for liabilities and charges	22	493	665	389	441
Net pension liability	4	7,362	6,041	–	–
Capital and reserves					
Share capital	23	–	–	–	–
Revenue reserves	24	149,796	136,399	132,299	121,186
Revaluation reserves	25	2,054	1,811	2,054	1,811
Designated and restricted reserves	26	1,035	1,352	174	171
Negative goodwill	27	16,341	13,324	–	–
		618,162	462,382	423,454	344,388

The notes on pages 26 to 58 form part of these financial statements. These financial statements were approved by the Board on 9 July 2007.

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 2007

	Note	2007 £000	2006 £000
Net cash inflow from operating activities	(a)	30,943	10,272
Interest received		581	355
Interest paid		(21,666)	(10,541)
Other finance costs		(71)	(203)
Returns on investments and servicing of finance		(21,156)	(10,389)
Housing properties purchased		(134,107)	(125,542)
Capital grants received		30,595	23,741
Other fixed assets purchased		(8,128)	(1,293)
Housing and other fixed asset sale receipts		49,866	27,794
Capital expenditure		(61,774)	(75,300)
Investment sale receipts		181	106
Financial investment		181	106
Net cash outflow before management of liquid resources and financing	(b)	(51,806)	(75,311)
Financing and management of liquid resources			
Debt due within one year	(c)	911	577
Debt due after one year	(c)	66,830	72,166
		67,741	72,743
Increase/(decrease) in cash in the year	(c)	15,935	(2,568)

Notes to the consolidated cash flow statement

For the year ended 31 March 2007

	2007 £000	2006 £000		
a) Reconciliation of operating surplus to net cash inflow from operating activities				
Operating surplus	25,306	15,688		
Depreciation charges	8,063	3,672		
Depreciation recovered	(536)	(520)		
Increase in stock of homes for re-sale	(3,337)	(6,664)		
(Increase)/decrease in debtors	(2,287)	292		
Increase/(decrease) in creditors	4,099	(2,169)		
(Decrease)/increase in provisions for liabilities and charges	(172)	79		
Amortisation of negative goodwill	(193)	(106)		
Net cash inflow from operating activities	30,943	10,272		
b) Reconciliation of net cash flow to movement in net debt				
Increase/(decrease) in cash in the year	15,935	(2,568)		
Cash inflow from decrease/(increase) in:				
New loans	(75,950)	(76,727)		
Loan repayments	11,648	4,618		
Disposal proceeds fund	(1,083)	(325)		
Recycled capital grant fund	(1,682)	(403)		
Deferred income	(674)	94		
Movement in net debt in the year	(51,806)	(75,311)		
Net debt arising on merger/transfer	(69,493)	(4,989)		
Net debt at the start of the year	(300,313)	(220,013)		
Net debt at the end of the year	(421,612)	(300,313)		
c) Analysis of net debt				
	At 1 April 2006	JBHA merger	Cash flow £000	At 31 March 2007 £000
Cash at bank and in hand	5,146	2,603	15,935	23,684
Debt due within one year:				
Housing loans	(2,669)	(635)	(911)	(4,215)
Debt due after more than one year:				
Housing loans	(294,683)	(70,600)	(63,391)	(428,674)
Disposal proceeds fund	(951)	(74)	(1,083)	(2,108)
Recycled capital grant fund	(5,844)	(101)	(1,682)	(7,627)
Deferred income	(1,312)	(686)	(674)	(2,672)
	<u>(302,790)</u>	<u>(71,461)</u>	<u>(66,830)</u>	<u>(441,081)</u>
Total	<u>(300,313)</u>	<u>(69,493)</u>	<u>(51,806)</u>	<u>(421,612)</u>

