OCTAVIA

ANNUAL REPORT AND FINANCIAL STATEMENTS

2015/2016

Contents

Cover picture, The Coot family

CHAIRMAN'S STATEMENT
WELCOME TO THE REPORT AND ACCOUNTS

The attached highlights summary and the more formal annual Report of the Board and the Consolidated Financial Statements set out details of what Octavia has been doing over the last twelve months. Taken together, the picture is one of an organisation that is thriving; actively growing and responding to changing circumstances in pursuit of our ambition of providing good homes that can lead to better lives.

In the last year we have completed new homes, invested substantially in improving the existing stock and we have continued with our programme of developing services to residents. We have also added to our portfolio of care facilities and provided further support to the Octavia Foundation.

The work of Octavia, operating as we do in some of the highest cost areas in the country, is always going to be a challenge. But the current environment is particularly interesting. With our rents reducing for the next few years, the property market cooling, the planning system undergoing reform and little sign of any increase in grant funding it all means that our ability to develop more low cost housing is increasingly stretched. The Board recognise the need to be creative and cost effective in how we plan our work and respond and so we were pleased that in March 2016 the Board of Ducane resolved to join the Octavia Group to further strengthen our capacity to do more.

This is the last year in which I shall write the introduction to the accounts as Chair of Octavia. In line with our rules the Board is in the process of selecting a successor who will take over in May 2017. I want to conclude by thanking my Board colleagues, all of those that serve on committees or as volunteers, as well as the staff team and the Executive Directors. I have thoroughly enjoyed my period as Chair and wish the organisation and all those involved with it the best for the future.

Andrew Herbert

Highlights

Labelled as the most significant development in Fitzrovia in 50 years and part of the first new square in London W1 for over 100 years, Fitzroy Place comprises over 230 private residences, two new office addresses as well as new retail and restaurant venues. Octavia was chosen by our long-standing partners Exemplar to manage the 54 affordable homes provided in this exceptional scheme.

The site was previously home to Middlesex Hospital. This photo was taken during construction and shows how the stunning Grade II listed chapel was preserved.

Highlights

We are grateful to all those who supported us in 2015/16; including some very familiar faces such as Ian Hislop (seen here with Octavia resident Eileen), Grayson Perry, Deborah Meaden and many more; to create a book, 'A Life More Noble' which explored the contemporary relevance of Octavia Hill's ambition 'to make individual life noble, homes happy and family life good'.

We received huge support for the publication and the issues it raises around the importance of the work we and many other community benefit organisations continue to do.

Highlights

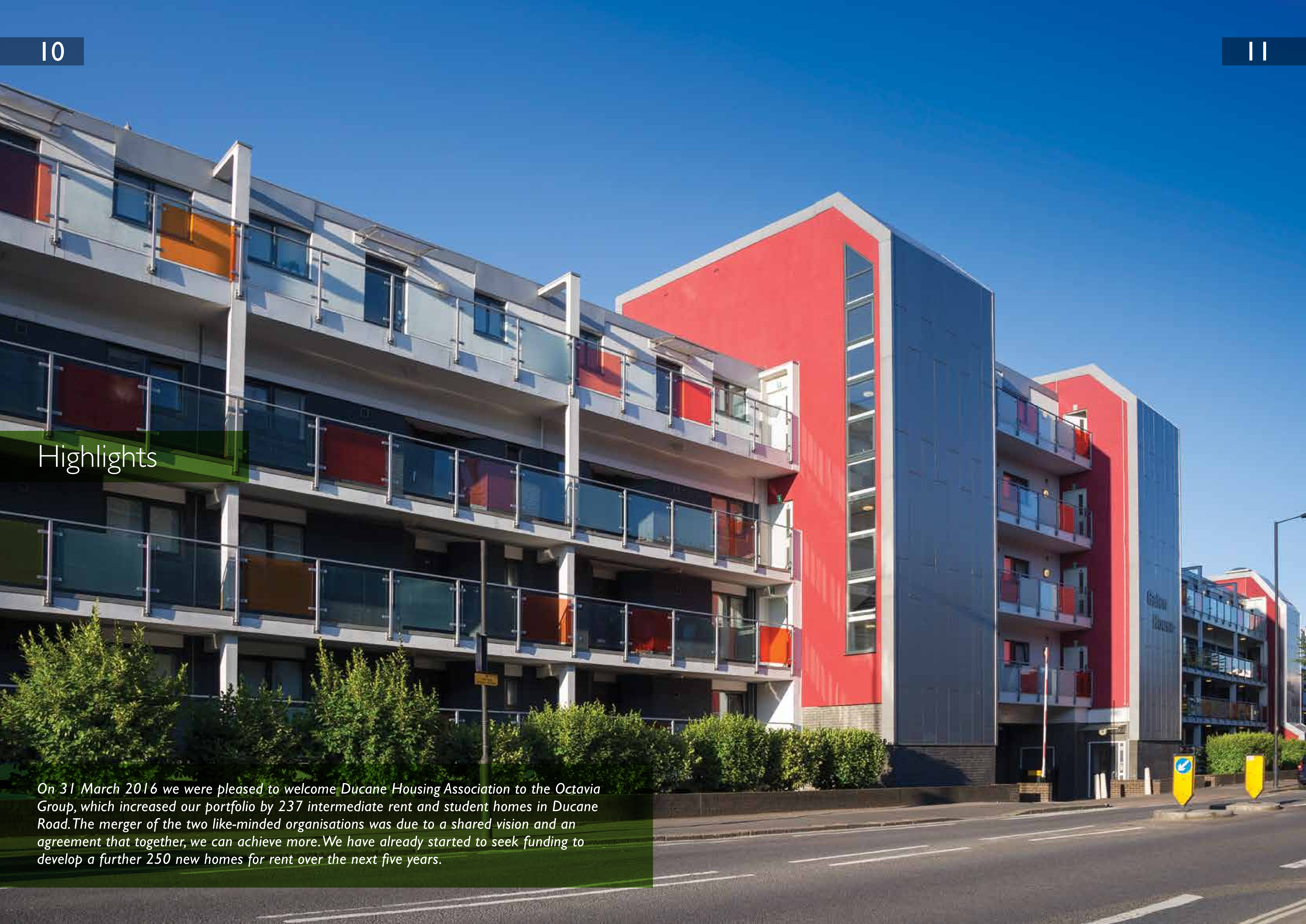
Thanks to The Reed Family Foundation for generously funding the development of a new community Hub, situated off Portobello Road. The new Reed Centre will be a modern and lively place that offers both old and young local residents opportunities to learn new skills, build friendships and improve wellbeing.

The Centre replaces the Kensington Day Centre (KDC), which for over 50 years has been a vital source of social activity and support for many of the older residents of the Royal Borough of Kensington and Chelsea. The project has built on the work of the Friends of the Kensington Day Centre, a pioneering group of community minded women who have been involved with the old KDC since it began, and we are delighted to have their continued involvement and support in the exciting next stage of the centre's life.

The Octavia Foundation celebrated their 10th birthday in May 2016 and what better way to do so than by inviting celebrity photographer Rankin to speak about how art can empower young people?

A project run by the Octavia Foundation and Tate Collective with a group of 7-25 year old Londoners culminated in a unique photography display at Tate Britain where leading photographer Rankin alongside Zakiya Amlak and Max Robson, two of the young artists involved took to the stage to be interviewed by Guardian journalist Stephen Armstrong in front of a specially invited live audience.

"I am really pleased to support The Octavia Foundation and Tate Collective in this project. As a working class kid from Scotland, I know all about the barriers that these kids face today. We need projects like this one that inspire young people of all backgrounds to want to work in these industries. It's an honour to be involved." Rankin



Highlights

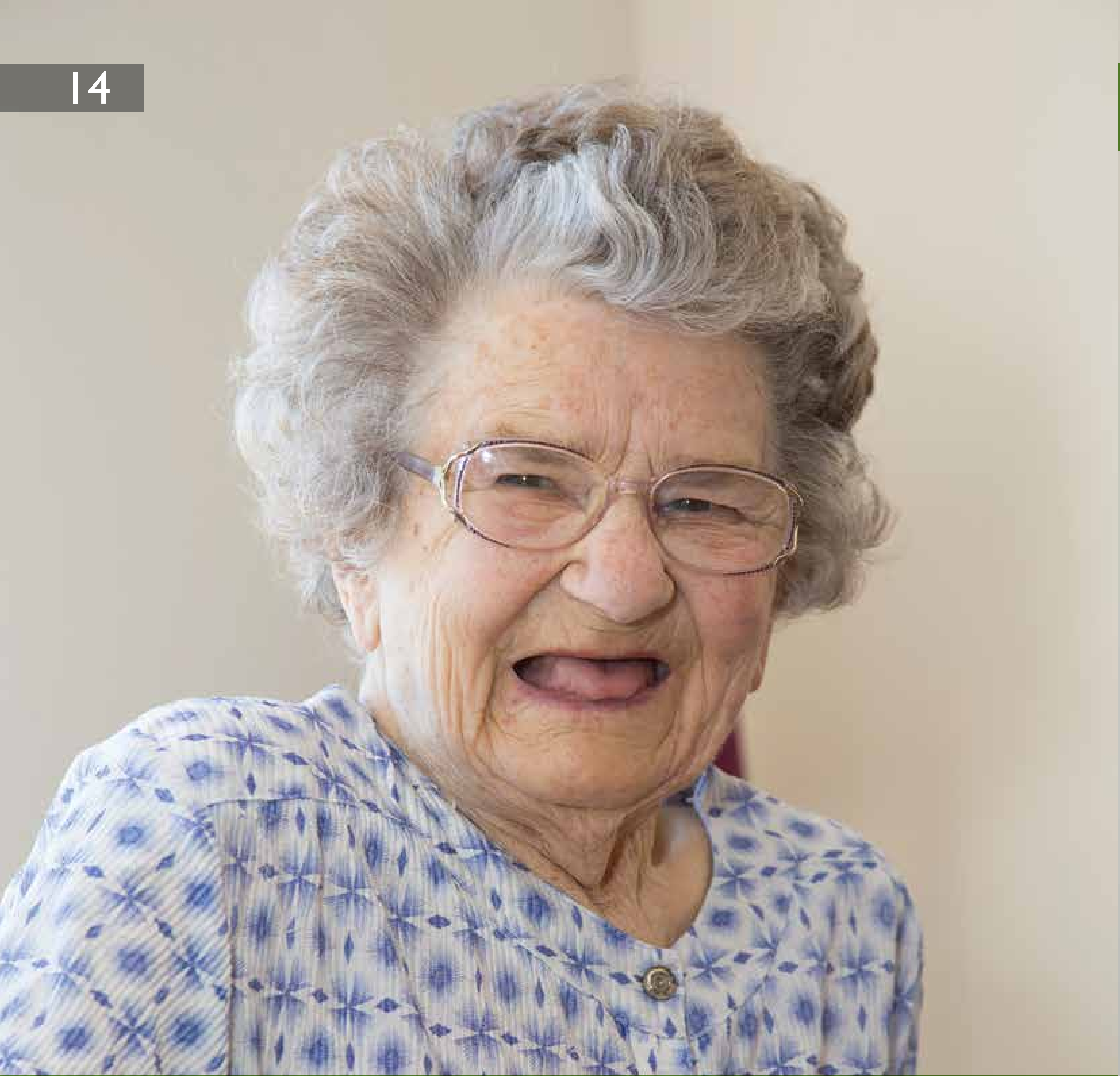
On 31 March 2016 we were pleased to welcome Ducane Housing Association to the Octavia Group, which increased our portfolio by 237 intermediate rent and student homes in Ducane Road. The merger of the two like-minded organisations was due to a shared vision and an agreement that together, we can achieve more. We have already started to seek funding to develop a further 250 new homes for rent over the next five years.

Most people know John Bird as the founder of The Big Issue but he is also an avid Octavia Hill advocate. We are grateful to John who has been involved with Octavia a number of times over the years. Most recently he contributed to our book and took part in a live panel discussion about our founder, alongside notable other supporters, which was chaired by journalist Isabel Hardman.

Highlights

While only a very small development, this previously tired piece of allotment land was regenerated in January 2015 when instead we built two four-bedroomed properties with triple glazing, enabling two overcrowded local families to remain in the borough, close to their support networks and existing schools. We also landscaped new open space to replace what was lost.

"Octavia has thought of everything in regards to the house. It is beautiful, …The change feels like a dream come true." Jennifer Reynolds, new Kenley Walk resident and full time foster carer.



In late 2015, we added another care scheme to our portfolio, making a total of six, all of which provide vital support for older adults. Park Lodge House is a state of the art facility developed in partnership with the London Borough of Hounslow, which provides 36 homes and 24-hour care for local older people. The scheme was officially opened with the help of Councillor Kamaljit Kaur, Cabinet Member for Adult Social Care and Health Services, and Maisie, Park Lodge's oldest resident at the time.

The scheme's interiors and fixtures are designed specifically to make life easier for residents with sensory impairments or dementia.

In the last few years we have expanded our care and support services and the variety of support we provide has been shown to greatly reduce the need for NHS institutional and overnight hospital care.

Highlights

Highlights

Olivier award winning actress Tamsin Greig was another contributor to our book and has supported the Octavia Foundation on several occasions including presenting our Celebration of Achievement Awards dinner for our 200 volunteers.

"The gifts of time and attention are often under-valued and overlooked in our frenetic society. Volunteering binds communities together through a web of contacts, care and commitment. These contributions allow communities to flourish, and they are richer for them." Tamsin Greig

Highlights

This rather unassuming building was once the office of the Virgin Group. Through a Section 106 agreement, we were able to purchase the property, which was completely refurbished and now provides 11 affordable homes for rent in a very central location just seconds from Portobello Road.

Former Director of Brand, Marketing and Culture for the London Olympics and Paralympics, Greg Nugent spoke at our annual staff conference last year, giving new insights into customer service through his tales of why the Games Makers were so popular during the 2012 Olympics.

The conference was also a launch platform for a new 'Learn a New Skill' initiative, which provided all our staff with access to resources and support to develop a new skill or pursue an interest of their choice.

Highlights

Just a few moments' walk to Portobello Road and Westbourne Park tube station, we took on this interesting small development from a private developer. Previously a disused Victorian public house, it was restored to create eight one and two-bedroom apartments, which are now home to first time buyers on a shared ownership basis.

EXECUTIVES AND **ADVISORS**

Board of management

Andrew Herbert – Chairman

Gwendoline Godfrey

Grahame Hindes

Annie Lathaen

Simon Porter

Stephen Smith (appointed 19/10/2015)

Debbie Sorkin

Rosalind Stevens

Angus Taylor

Alexandra Theaker* (appointed 31/3/2016)

Rajan Upadhyaya*

Aldo Williams

*Also Board member of Ducane HA

Executive management

Grahame Hindes (Chief Executive)

Noel Brosnan (Asset Management Director)

Mark Gayfer (Finance Director)

Maeve MacAvock (Housing and Care Services Director)

David Woods (Development Director)

Mike Wilkins (Managing Director of Ducane HA & Octavia Living)

Secretary and registered office
Colin Hughes (Secretary)
Emily House
202-208 Kensal Road
London
W10 5BN
020 8354 5500

Bankers
HSBC
St John's Wood Branch
1 Finchley Road
London
NW8 9TS

Internal Auditors
Mazars
Tower Bridge House
St Katherine's Way
London
E1W 1DD

Auditors
BDO LLP
2 City Place
Beehive Ring Road
Gatwick
West Sussex
RH6 0PA

Principal Legal Advisors
Devonshires
30 Finsbury Circus
London
EC2M 7DT

REPORT OF THE BOARD OF MANAGEMENT (INCLUDING STRATEGIC REPORT)

Principal activities and review of business

Octavia believes that good homes make for better lives.

Inspired by our founder, the social reformer Octavia Hill, who let her first social rented home over 150 years ago, we are a not-for-profit organisation providing thousands of people with good-quality affordable homes in Central and West London. Like her we believe in the power of well-planned, well-managed housing to make a difference.

- A difference to the people who live in our homes, many of whom would otherwise be priced out of London;
- A difference to the vitality of local areas and their ability to give extra care and support to people who need it, and
- A difference to London as a whole, playing our part in sustaining the capital's rich diversity and social mix – something that benefits our entire society.

We aim to build happier lives and resilient communities by focusing on people as individuals, providing them with a range of services and the opportunity to support themselves. We spend any surplus income – whether from our houses or our social enterprises – on investing in our social rented homes and building for the future.

As the city continues to change, so will we, always being open to new ideas, whilst remaining true to our fundamental purpose and values.

Over the last year we have continued to pursue our mission - the highlights include welcoming Ducane Housing Association to the Octavia Group, completing the development or acquisition of 168 homes and celebrating our 150th anniversary.

This report sets out the activities of Octavia Housing ("Octavia") and its subsidiaries (together "the Group") and includes the audited financial statements of Octavia and the consolidated accounts of the Group for the year ended 31 March 2016, Ducane HA only joined the Group on 31March 2016, so, while its assets and liabilities at that date have been consolidated, none of its operating results prior to that date have been included in the consolidated operating surplus for the year.

What we do

We give people on low incomes the opportunity to live in Central and West London, in mixed communities in some of the highest value areas of the country. Given the shortage of this kind of housing we aim to develop more new homes each year and the principal driver for Ducane joining the Group is simply to enable us together to deliver 250 more homes over the next five years than could have been achieved by both entities working alone. Following the entry of Ducane, the Group now manages over 4,700 properties, an increase of some 10% over the year.

We aim to provide a personal service to residents, responding to their individual needs and providing support to help people sustain their tenancies. We involve residents in the running of our organisation, from Board meetings to checking and reporting on our quality standards simply because it helps ensure the quality of what we are doing.

Octavia is registered as a Co-operative and Community Benefit Society with the Financial Conduct Authority and as a private Registered Provider of social housing with the Homes and Communities Agency (HCA). We reinvest all the surpluses we generate into our social housing portfolio and related activities and, as an exempt charity, Octavia enjoys the benefits of full charitable status.

Octavia now has six subsidiaries:

a) Ducane Housing Association Limited develops and manages intermediate housing for post graduates and students.

b) Octavia Living Limited develops the homes for outright sale on housing developments led by Octavia, markets and manages property sales for Octavia and provides related commercial advice.

c) Octavia Development Services Limited develops social housing for Octavia on a design and build basis.

d) Kensal Enterprises Limited deals with the traded goods that are sold through Octavia's charity shops, and works closely with the Octavia Foundation.

e) Octavia Hill Limited is a charitable subsidiary which was established to provide social housing and related services in the future. Following the entry of Ducane into the Octavia Group, in 2016 there will be a review of the best ways to achieve its objectives

f) Ducane Commercial Services Limited manages property for third parties

We work closely with and provide substantial grant funding to the Octavia Foundation, a registered charity which provides community support in Central and West London, often to Octavia residents.

External environment

The acute shortage of housing in London has continued to get worse over the last year with market rents in London increasing by around 8% and further increases in the unmet demand for affordable housing. In 2015 the number of households on the waiting lists held by London boroughs for affordable housing increased by more than 7,000 to 263,000, with many more seeking a transfer, even though social housing completions in London in the year to 31 March 2016 fell by about 70% to only 4,881 new homes. Additionally, only 16,580 open market homes were completed in London in the same period. This lack of supply, coupled with low interest rates has pushed London property prices up by some 13% in the year to March 2016, so that the average price for a home in London (according to Halifax Plc) is now £530,000, around 18 times the median income for London. These figures are for London as a whole – prices are higher in our main areas of operation such as Kensington and Chelsea (where we are based and have a substantial proportion of our homes), with average sale prices of £1.4m and houses typically costing more than £3m each.

Public expenditure has been under sustained pressure following the election of the Conservative government in May 2015 with a manifesto commitment to eliminate the UK public finance deficit by 2020. In the July 2015 budget the Government announced some major changes for providers of social housing which have subsequently been brought into law albeit with some amendments. Firstly, social housing rents have, with a few exceptions, been reduced by 1% per annum for each of the four years from 1 April 2016 with a view to reducing the cost of Housing Benefit. We have implemented the first of these rent reductions with effect from 28 March 2016. Secondly, the maximum amount of benefit that any household in London can receive will be further reduced to £442 per week for couples and families and £296 per week for single people from autumn 2016. We anticipate that this change will affect less than 50 of our tenants so the impact on Octavia will be relatively limited, as it also remains in respect of the 127 of our tenants affected by the Bedroom Tax – however the impact on the tenants themselves are severe and we are taking steps to try to assist them adapt to the changes.

The proposal to limit the element of universal credit related to housing benefit to Local Housing Allowance levels could be potentially much more difficult for two significant groups of tenants; those living in supported housing and those under 35 years of age. We are awaiting the outcome of the Government's review of supported housing before deciding on a course of action but are already looking closely at applicants under 35 and their ability to pay rent under the proposed new regime.

The relatively small numbers affected so far by the benefit caps and deductions contrasts with the potential impact of Universal Credit, the new system for paying benefits in a single combined payment, which is now being introduced in a more substantial manner, having been trialled and introduced gradually since 2013. Part of this new system involves the end of the routine practice of direct payments of housing benefit to social landlords by local authorities for all relevant tenants – while certain mitigations have been agreed recently, this is a move which is expected to significantly increase rent arrears and we have taken action to strengthen our team collecting arrears and updated our financial projections accordingly.

At the same time as there have been constraints on benefit spending, government investment in capital grants for new affordable housing have been significantly reduced. Under the Affordable Housing Programme 2015 -18, the capital grant round managed by the Greater London Authority (GLA), the levels of grant available remain very low by comparison with the period until 2010 and in London are expected to fund only some 10% to 15% of the cost of a new social rented home in the areas in which we operate. This contrasts with grant rates of 65% or more under the previous regime. This reduction in grant pushes social housing providers to seek alternative funding sources to supplement grants for their new developments, including profits from developing new housing for sale, the re-letting of vacant homes at higher rent levels and an expectation that organisations manage their cost bases and improve the Value For Money (VFM) they obtain in all aspects of their operations.

Finally on the public expenditure side, there were reductions in central government funding for local authorities in recent years and these seem likely to continue for the next few years. This has led to continuing pressure on care and support funding with many services being put out to tender in an effort to reduce the levels of grant that are provided by local authorities to enable the services to be provided.

Implementing another manifesto commitment, the new Government has also introduced the Right to Buy (RTB) for Housing Association tenants with associations participating on a voluntary basis. The voluntary arrangements for RTB are still being trialled in a series of pilot projects and some of the details of the offer from Government are still to be announced – given the number of our homes which have been in ownership since before 1974 or have been acquired with restrictions on use, we are waiting for the outcomes of these issues to become clear before deciding what action to take in this regard.

Following the reclassification of Housing Associations as Public sector entities by the Office for National Statistics in August 2015, the Government has made changes to legislation through the Housing and Planning Act 2016 to the regulatory framework within which the Homes and Communities Agency (HCA) works to enable them to be reclassified as Private sector entities again. The principal changes are the removal of the requirements to seek approval from the HCA for the disposal or change of use of properties they own, and in respect of mergers between Housing Associations. We welcome these changes although we have no plans to increase the number of existing properties sold each year. The Board debated the draft Merger code prepared by the National Housing Federation (NHF) during the year but decided not to adopt the code and instead agreed to implement a clear approach for any future consideration of mergers or restructurings.

The Government significantly increased the national minimum wage for over 25's to £7.20 per hour from April 2016 and renamed it National Living Wage. This increase has had no impact on Octavia's staffing costs as all staff were already paid in excess of the National Living Wage.

Although the constraints on public spending have had a negative effect on our residents and on the development work that Octavia can undertake we have been assisted in recent years by the easier availability of credit from banks and building societies for both corporate borrowers like Octavia and also for individuals seeking mortgages to buy property from us. Restrictions on the terms of loan facilities available from banks continue to ease and medium term loan funding from banks is again readily available to Octavia. Longer term funds also continue to remain available from the bond markets and increasingly from bilateral facilities from pension funds and insurance companies. Interest rates have remained at the historically very low levels that have been in place since early 2009 with Base Rate remaining at 0.5%. The section below on Treasury describes the Board's approach to managing interest rate risk.

The referendum vote on 23 June 2016 to leave the European Union may have an impact on a number of issues of significance to the Octavia group, including property prices in Central London, interest rates and the market for care workers as well as providing a source of uncertainty and instability in the UK economy. However, it is too soon to be able to accurately assess the quantum of these impacts on Octavia, although we have considered them in our stress testing.

Welcoming Ducane HA to the Octavia Housing group

On 31 March 2016 we were pleased to welcome the residents, board and staff of Ducane HA to the Octavia Housing group in a transaction that had been contemplated for several years. During that time we identified that the aims and cultures of the two associations were compatible and that working together we could achieve more than working separately. Ducane provides 237 intermediate rent and student homes in Ducane Road, Hammersmith and Fulham, and has 11 staff.

It is planned that Ducane will develop a further 250 new homes for rent over the next five years and we have started to seek new funding to achieve this.

Ducane's housing stock has been valued on an EUV-SH basis at £36m, while its borrowings amount to some £9m. As no payment was made in consideration of Ducane joining the group, a gain has been recognised in the group's consolidated accounts of £28.5m in recognition of the net assets that have accrued to the Group on Ducane's entry.

Delivering quality services

In partnership with the Octavia Foundation, we provide a wide range of services intended to assist tenants to sustain their tenancies or to help in particular times of need. We believe in involving residents at every opportunity to provide services that make a positive difference and result in better lives.

We commission a large scale randomised tenant satisfaction survey every three years. We are planning to carry out a survey later in 2016 as the last survey was conducted by BMG Research in 2013 – details are shown below. Resident satisfaction at that time was in the top quartile compared to our benchmarking group (the L8 group of medium sized London based housing associations) as measured by independent assessors, Housemark.

Question	2013	2010	+ / -
Taking everything into account, how satisfied or dissatisfied are you with the service provided by Octavia	82%	68%	+14%
How satisfied are you with the overall quality of your home?	78%	74%	+4%
How satisfied are you with your neighbourhood as a place to live?	86%	80%	+6%
How satisfied are you that your rent provides value for money?	80%	70%	+10%
How satisfied are you that your service charges provides value for money?	66%	-	n/a
Generally, how satisfied or dissatisfied are you with the way Octavia deals with repairs and maintenance?	72%	65%	+7%
How satisfied or dissatisfied are you that Octavia listens to your views and acts upon them?	65%	50%	+15%

Working with our tenant body, we have identified certain areas for improvement including Service Charges reporting and other services to Shared Owners and Leaseholders. Our resident based Services Scrutiny Panel has worked on these areas and based on their recommendations we are finalising a new approach that will clarify for residents how we set service charges, will make our processes more efficient and robust, and ensure service charge information to residents is clear and transparent.

The number of complaints received during the year decreased to 108 in 2015/16 from 114 the previous year (-6). Responses within our internal timescale remained at 96%, a little short of the target of 99%. The vast majority of complaints (89%) were resolved locally by managers with 12 escalated to the complaints panel. Only two of the panel cases were upheld: in one case due to delays in completing repairs, in the other case delays in resolving defects. Two of the panel cases were escalated to the Housing Ombudsman by the resident but in both cases the Housing Ombudsman found that Octavia had acted reasonably. Our operational teams hold regular complaints case reviews internally and with contractors in order to learn from complaints and make service improvements.

As noted above, at the end of March 2016 we had 127 households affected by the under occupation restrictions on housing benefit (up from 95 in 2015) and 13 by the overall benefit cap (up from 4 the year before). We have managed the impact in a number of ways including increasing personal contact and working at times more convenient to residents such as weekends; targeting visits by our Financial Inclusion Officer to households assessed as 'high risk' in respect of coping with welfare reform; maximising the use of the debt advice service through a preferential arrangement with the local Citizens Advice Bureau, and working with households to apply for Discretionary Housing Payments. Our work is having a positive effect, rent arrears overall were 4.3% at year end and within our internal target. Arrears for households affected by benefit deductions for under occupation decreased by 1.5% compared with the previous year.

Key performance indicators

Octavia's Board receive monthly Performance Reports setting out Key Performance Indicators. A selection of the more important ones amongst these are set out below, together with comparatives and, where possible, details of how these compare against performance by a group of other London based housing associations as reported by Housemark.

KPI	15/16	14/15	Peer group Quartile 15/16
Current tenant rent arrears as % of rent roll	4.3%	4.2%	Third quartile
Rent collection as % of rent due	99.2%	100.2%	Third quartile
Standard voids – average relet time	26 days	20 days	Top quartile
Current gas certificates in place	100%	100%	Top quartile
Tenant satisfaction with repairs	93%	94%	Top quartile
Average call answering time	10 seconds	14 seconds	Top quartile
Staff turnover	16% per annum	16% per annum	Top quartile
Housing management costs per unit p.a.	£586	£535	Second quartile
Responsive repairs cost per unit p.a.	£619	£673	Top quartile
Cyclical works spend per unit p.a.	£746	£802	Fourth quartile
Major works spend per unit p.a.	£1,499	£794	Fourth quartile
Average SAP rating	68	67	Fourth quartile

The figures in the table indicate top or second quartile performance in many areas although Octavia's planned repair spending is higher than average in our London based peer group. This is in part a reflection of the composition and location of our property stock, much of which is from the Victorian era or earlier, located in conservation areas and with some listed buildings. It also reflects the fact that we have adopted a deliberate policy of investing in additional works as part of our cyclical works programme which aims to improve the energy efficiency of the stock, as noted below. As part of the additional programme we are installing external wall insulation (where this is approved by the planning authority) and replacing older windows with a high repair profile – this has resulted in a higher level of initial spend but should lead to reductions in spend in future years as well as improved thermal comfort and lower heating bills for tenants.

During the year we increased the level of investment in component renewals (such as kitchen and bathroom replacements) and major repairs and improvements, spending £3.7m in total on this activity. Nearly all of our properties continue to meet the Decent Homes standard, and when we become aware of issues these are addressed. The relatively low energy rating of our properties (as shown by their SAP rating) is currently being tackled through a programme of energy works which will bring all of Octavia's properties up to an energy rating of "good". This was the third year of our proposed ten year programme of energy improvement works and practical issues around planning and gaining access to buildings meant that we did not complete as much of this work as we had hoped. Nevertheless, during the year some 300 residents benefitted in some way from energy efficiency measures.

As part of our wider repairs service, we continue to work with our partners Mears (who are responsible for day to day and cyclical repairs) and Village Heating (gas and electrical work) to improve services to residents. The changes we made to our long term partnership with both contractors in 2013 has met the objective of both improving service and reducing costs, with unit costs for day to day repairs falling in real terms again this year and with the prospect of further reductions in 2016/17.

Given the difficulties of replacing social housing in the areas in which we operate, our objective is to ensure all of our homes are maintained to a good standard over the long term. We are planning to continue our stock condition survey programme in 2016/17 to further enhance our knowledge of the current state of the portfolio. This will be linked to work that is already underway to develop our internal systems to make best use of the data which we do have.

During the year we completed major adaptations to 24 properties, at a cost of £0.4m to allow residents requiring various adaptations to remain in their homes.

Care and support

Aside from housing, we offer a wide range of care and support services to older and vulnerable adults living in West and Central London in buildings that we own. Over the last ten years we have developed six extra care facilities, alongside a range of care and support services for older people to help them retain their independence.

During the year we opened a new extra-care facility for older people at Park Lodge, Hounslow with 36 new flats in an attractive setting, where Octavia is contracted to provide the care services. We are in the process of developing a further scheme for older residents in Isleworth, Hounslow, which will provide another 36 homes when complete.

We were pleased to receive a very significant donation towards the redevelopment of our community facilities, "The Reed", just off Portobello Road. The construction work there continues to make good progress and as well as community facilities this new building will also include the provision of 13 level access flats for older people in the heart of Kensington.

During the year we received consistently positive ratings from the independent regulator the Care Quality Commission for all of our care schemes.

Rent levels and social dividend

We think that it is important to continue to provide homes in high value areas in Central London at rents that are affordable to ordinary working people and have set our rents at levels that should enable this to be achieved. As a result, there is a significant difference between the market rents that theoretically could be charged for our property portfolio and the rents actually charged. Jones Lang LaSalle estimate the market rental on our portfolio to be £89m per annum as against the rents actually charged in the financial year of £24m. The difference (of £65m) represents the social dividend which the local community and government receives from the historic investment in Octavia's properties.

During the year average rents across all properties increased from £122.67 per week to £124.78 per week. The change reflects the increase as a result of the application of the government rent setting formula and some additional increases as a result of properties moving to or being developed under the new Affordable Rents regime. To comply with recent legislation, Octavia Housing reduced rents on its social rented housing portfolio by 1% in nominal terms with effect from Monday 28 March 2016 and will do so again in each of the next three years.

The Government has also enabled social landlords, such as Octavia, to charge market rents to any tenants with a household income in excess of £40,000 per annum –at present Octavia has no plans to introduce such a policy.

Overall our average rents continue to be well below the government formula rents for equivalent social housing properties, which averaged £153.88 per week. Another 72 new homes were completed during the year for Affordable Rent to make a total of 184 homes where rents are set under this new system. The Affordable Rents under the new system could have been charged at up to 80% of market rents, but given the Board's concern to ensure that rented property remains affordable to those in low paid employment, rent caps from £162 per week for 2 bedroom apartments and up to a maximum of £237 per week for 6 bedroom accommodation were approved. On average we estimate that our Affordable Rents represent less than 30% of market rent levels, as we recognise that the market in Central London does not work well for people on average wages.

For existing social tenants, the Board aims to keep the rentals at a level consistent with maintaining and developing our housing stock for general needs properties. Accordingly, our current rent policy is based on the Government's formula rent regime.

The Board continues to believe that all the rents charged by Octavia represent extremely good Value for Money for tenants, a result which the last STAR survey and regular contact indicates is shared by residents.

Providing more homes

With increasingly high levels of demand for social rented and low cost home ownership properties in our core areas of operation, the development of new homes for our portfolio and for other social landlords continues to be a high priority. The Board has set a target to deliver new social housing averaging a 3% increase in our existing stock each year which provides a significant contribution to the stock of affordable homes in Central London. While the achievement of this target has been made more difficult by the rent reductions recently required by law and the cost implications of our ambition to provide additional homes in our core areas of inner London where property values are highest, we continue to pursue this target. The desire to produce more homes was one of the key driving forces behind the decision of the Boards of Octavia and Ducane to work together.

During the year we exceeded our development target of a 3% growth in below market cost homes, although our aim is to meet this target over a three to five year cycle. Working with the Greater London Authority through its Affordable Housing 2015 – 2018 capital grant programme, we are planning to deliver 178 new homes over that period as part of our work with our partners in the Connected Partnership, Shepherds Bush HA and Origin HA (who in total were awarded £22m grant in this round).

In 2015/2016 we completed 168 new homes. Of these, 112 were for social rent and 56 for shared ownership. Working with other social landlords in the Connected Partnership, which Octavia leads, a further 172 homes for social or affordable rent were completed in the year together with 12 for Shared Ownership.

During the year contracts were signed for the acquisition and development of 130 social housing units as follows;

	Borough	No. of homes	Total expected cost
Gladstone Village	Brent	37	£18.2m
Chadwick St	Westminster	12	£2.6m
Bosworth Rd	Kensington & Chelsea	8	£1.6m
Fulham Wharf Rd	Hammersmith & Fulham	14	£2.7m
Sarena House, NW9	Brent	36	£8.1m
Auriol Road	Hammersmith & Fulham	23	£8.3m

The contracted development programme at 31 March 2016 encompassed 157 new homes to be completed between June 2016 and June 2018, representing a 3.64% increase in the portfolio of social housing. The remaining development costs to be incurred were estimated at some £17.7m and Social Housing Grant of £2.3m is expected to be received following practical completions. This net investment of some £15.4m in new social housing development is more than covered by existing secured and available borrowing facilities of £26.8m and the existing free cash and deposit balances of £7.6m. Shared ownership sales from these developments estimated at £3.7m are expected to be subsequently realised and used to repay revolving loan facilities. Nevertheless, as a result Octavia will increase its borrowing and gearing levels over this period, albeit within the prudent parameters set by the Board.

In most cases, the provision of additional affordable housing in inner London is only possible by working with developers to meet their planning obligations. We have developed good relationships with a number of major developers over the last few years and in the process we have been able to provide homes in locations that would otherwise be unaffordable. We strongly support the use of the planning system to ensure that an element of all major developments is available to those on low and average incomes. The Board is concerned that the new legal requirements to prioritise the provision of "Starter Homes" for sale as the main element of the affordable housing in new developments will significantly reduce the amount of new social rented and shared ownership accommodation that can be provided in future in these high value areas.

The economics of providing new social rented housing are such that cross subsidy from property sales is required. The Board is reluctant to sell substantial numbers of our existing portfolio as it has become increasingly difficult to replace it in the same areas. Accordingly, most of this cross subsidy is expected to come from sales of new properties - some from our shared ownership activities but also from development for outright sale. Our development subsidiary, Octavia Living Limited, is working with Hill Partnership Limited on the development of our Gladstone Village site in Cricklewood that we acquired in 2011. This will provide 14 affordable homes along with 24 properties for outright sale. Subject to property prices at the time of sale (expected in early 2017), the scheme is anticipated to generate significant additional surpluses which will be re-invested in social housing.

Providing more than housing

Providing good homes and creating better lives goes beyond just providing quality housing.

For this purpose, we set up the Octavia Foundation, an independent charity that provides support and opportunities for local people. The Octavia Foundation's work focuses on four areas:

- care and support for older people
- work with young people
- help with training and employment for people of all ages
- Assistance with money and debt planning for people of all ages.

Income generated through Octavia's 19 charity shops and from the commercial property portfolio is used to support the Foundation, along with external funding from a range of charitable sources.

Over the last year the Foundation has directly assisted some 2,000 people through the wide range of projects including the provision of advice on welfare benefits and debt, befriending support for vulnerable and isolated residents, employment and training projects and activities for young people including film-making and sports together with lunch clubs and support with gardening and small repairs for elderly residents. Further details of the work of the Octavia Foundation are given in its annual report available at www.octaviafoundation.org.uk.

110 Octavia tenants have also benefitted from welfare and educational grants awarded by the Friends of Octavia who continue to support our work, and the Board would like to express its thanks to them for this.

During the year the Charity shops generated a small overall trading surplus before an allocation of central overheads. The shops serve a number of functions, including allowing us to provide some employment opportunities. During the last year we made investments in a number of improvements to the shops and a programme is currently underway to improve long term profitability.

Information technology

We have a comprehensive set of IT systems in place for the administration of the Group's various activities. We have been working on a series of projects designed to further improve efficiency, extend mobile working through the use of IT, improve resilience in the face of a business continuity event and strengthen information security. The implementation of a Microsoft Dynamics Customer Relationship Management (CRM) system which can be used with mobile devices to record all relevant contacts with residents has continued to progress and is in widespread use throughout Octavia. The next phase of the Procurement to Payments system, called Compleat, involving the implementation of Purchase Order Processing has recently gone live and a new Service Charge and Rents system, Opus Ensemble, also went live recently. Work has also commenced on an Enterprise Automation system to improve the ability of the various systems used by Octavia to communicate with each other.

Over the next year or so the integration of Octavia and Ducane's IT systems will occur and the next phases of the existing projects mentioned above will continue.

Financial review

The Octavia Group's financial performance over the last five years is illustrated in the tables below, with the impact of Ducane joining on 31 March 2016 clearly visible in the current year's results:

	Restated				
	2015/16 £m	2014/15 £m	2013/14 £m	2012/13 £m	2011/12 £m
Turnover	50.0	39.4	58.5	32.5	32.9
Cost of sales	(6.2)	(4.9)	(23.9)	(1.7)	(3.8)
Operating Costs	(32.7)	(26.8)	(26.5)	(24.1)	(22.8)
Operating surplus	**11.1**	**7.7**	**8.1**	**6.7**	**6.3**
Net interest payable	(5.0)	(4.5)	(3.6)	(3.2)	(4.3)
Interest breakage costs	(2.3)	(1.3)	-	-	(2.5)
Gain on business combination	28.5	-	-	-	-
Surplus on asset disposals	4.2	3.1	1.1	2.0	3.0
Surplus for the year	**36.5**	**5.0**	**5.6**	**5.5**	**2.5**
Borrowings - gross	164	138	139	140	119
Borrowings - net	146	121	103	126	109
Housing owned/managed (units)	4,785	4,368	4,292	4,125	4,081

The current year (and restated 2014/15) results have been prepared in accordance with FRS 102, whereas the previous three years' results have been prepared in line with the UK accounting standards at that time. Note 35 to the accounts sets out the impact of the first time adaptation of FRS 102.

The Group's underlying financial strength arises from the quality of its portfolio of social housing, which has been built up over the last 150 years in areas which have come to be among the most highly valued in the country. This is reflected in an independent desktop valuation of the completed housing property portfolio at 31 March 2016 by Jones Lang LaSalle, which indicated the following:

	2016 £m	2015 £m	2014 £m
Open Market Value with Vacant Possession	2,288	1,973	1,785
Market Value subject to existing Tenancies	999	949	859
Existing Use Value for Social Housing	461	416	382
Estimated annual market rent of General Needs social rented portfolio	89	87	81
Actual annual rent roll of General Needs social rented portfolio	24	22	21

This independent valuation indicates an average Vacant Possession value for each of our General Needs properties of approximately £540,000 (up from £500,000 in 2015). The figures for 2016 include the 237 homes owned by Ducane HA with an Existing Use Value for Social Housing of £35.7m and Open Market Value with Vacant Possession of £88.9m.

As a result of the rent reductions required by law in 2016/17 and the subsequent three years, Jones Lang LaSalle have indicated that the Existing Use Values for Social Housing shown above are likely to fall. However, given the substantial amount of uncharged housing stock that Octavia Housing currently has, it is anticipated that there will be few practical consequences for Octavia from this expected reduction in values.

The property portfolio requires significant levels of reinvestment each year for both maintenance purposes and to respond to the requirements of health and safety legislation. The current financial plan adopted by the Board in June 2016 envisages spending just under £26m on such issues over the next five years. This includes the programme that will bring all homes up to a good energy efficiency standard over the next seven years.

In addition to the housing property portfolio, Octavia has commercial properties shown in the balance sheet for the first time at a Directors Valuation of £9.6m (2015: £9.2m) based on an Open Market Value in March 2014 by FPDSavills at £8.1m. These properties are mainly an integral part of Octavia's social housing schemes and have been funded through Octavia's reserves.

Capital structure and treasury

As a Co-operative and Community Benefit Society and an exempt charity, Octavia does not have access to equity capital and so all its activities and investments are financed either by accumulated surpluses from operations, grants or through borrowings. Given the long term nature of Octavia's investments in social housing, such borrowings tend to be long term in nature.

At 31 March 2016, gross borrowings had increased from £138m to £164m (including Ducane) as new loans were taken out to finance capital investment, although the timing of the new loans meant that significant cash deposits or sums due from lending organisations totalling almost £18m were in place again at 31 March 2016. A further £26.8m of borrowing facilities were in place at that date, all of which were fully secured and available to draw immediately. These funds, together with the Social Housing Grant on schemes under development, are sufficient to complete our current development programmes.

As mentioned earlier, one of the main drivers for Ducane HA's entry to the Octavia group was to undertake the development of new social housing that it would otherwise not have been able to. At 31 March 2016, the date on which Ducane joined the Octavia group, it had gross borrowings of £9m. It is planned that these borrowings will be refinanced within the next year and new borrowing facilities arranged to finance the planned new development of 250 homes over the next five years.

Our Treasury Strategy is set annually by the Board.

The policy in relation to Duration (an indicator of the average fixed interest life of the overall loan book) was changed to set a target range of 9 to 13 years so that further long term interest rate fixing can take place to take advantage of current historically low long term interest rates. The average during the year accordingly increased beyond 11 years as a result of further fixing rates on some existing borrowings and entering into an £18m 30 year fixed rate loan with Affordable Housing Finance (arranged through THFC) at a rate of 2.89% in August 2015. During the year a £3.5m fixed rate THFC – SHF bond was purchased and cancelled against a similar liability at a cost of £1.1m. Additionally, some relatively high short term embedded fixed rates on £5m of borrowings were terminated at a cost of £1.3m and new ten year embedded interest rate fixes were agreed on £5m of other loan tranches.

Details of interest rate fixing by maturity are given in the table below:

Rate fixing period	Target	At 31 March 2016	At 31 March 2015
Fixed for more than 10 years	At least 50%	65%	53%
Fixed for more than 1 year but less than 10 years	Between 0% and 50%	14%	20%
Variable/ Less than one year	Less than 25%	21%	27%

Further interest rate fixings are under consideration to reduce the level of variable rate debt during 2016/17.

At the year-end only 42% of our rented housing stock was used to secure our current facilities and the Board considers that we have the capacity and security to increase borrowings to fund future development and enable the 3% targeted level of expansion to take place.

The Board monitors compliance with loan covenants regularly. At 31 March 2016 the position in respect of the two main sets of covenants was as follows:

- Interest cover -163.6% (lowest permitted level 110%)
- Gearing - 53% (highest permitted level 65%)

Net indebtedness for the Group at 31 March 2016 stood at £146.3m of which £16.9m was funding the construction of properties under the development programme with a further £2.4m funding shared ownership properties unsold at that date. The balance of borrowing, £127m funds completed social housing properties and represents an average debt of around £30,000 per home.

Looking forward

The next few years offer Octavia a number of opportunities but will also present some challenges.

The opportunities include:

- building on the existing momentum for improving and developing services to residents, tenants and other customers, whether in terms of mainstream housing services, related support services (such as financial and employment advice) or through additional care and support;
- working with our new colleagues in Ducane HA to identify and win new development opportunities in Central and West London arising from S106 planning gain arrangements or through land purchases to develop more cost effective and sustainable homes;
- integrate Ducane HA into the Group more fully and realise opportunities for improving Value for Money across the Group;
- continuing the success that we have had in the past in generating surpluses from developments of housing for sale by our subsidiary, Octavia Living Ltd; and
- the potential to improve our operating efficiency through the "Smarter Working Project" which is currently under way through better use of Information Technology.

The challenges include:

- responding to the recent changes in legislation that have led to reductions in rental income over the next four years and further caps on tenant benefits;
- adapting the organisation to support residents as welfare reform takes effect. Part of the challenge here is to maintain a rent policy which remains affordable to our prospective tenants in the high value but popular areas in which we operate;
- dealing with the new higher levels of borrowing that will arise from the lower capital grant rates that will apply for future development and the pressures on gearing levels if development of social rented housing is to continue beyond 2020;
- the increasing interest charges that are expected over the next few years if interest rates rise from the historically low levels we are experiencing at present, coupled with pressures from providers of loan finance to increase their margins;
- ensuring that we maintain, and over time, further improve, our existing property portfolio at a reasonable cost to ensure that this resource is available for the long term; and
- meeting the increasing expectations and requirements of our residents and our regulators, principally the HCA and the Care Quality Commission.

The Board are optimistic about Octavia's ability to take advantage of these opportunities and deal with the challenges.

Effects of material estimates and judgements upon performance

Impairment

Despite the impact of the Government's requirement for1% reductions in social rents for four years, no provisions for impairment against our housing property carrying amounts were found to be necessary this year following the annual impairment review, as set out in more detail in the attached financial statements.

Provisions for bad debts

The implementation of the new accounting rules included in FRS 102 has required a change in the methods for calculating bad debt provisions, so that they are based on objective evidence of actual losses being incurred rather than prudent assessments of potential losses.

Valuation of freestanding financial derivatives

The implementation of FRS 102 has also required valuations of freestanding financial derivatives to be included on the balance sheet. We have used the valuations provided by J C Rathbone Associates, an independent organisation. As our one freestanding financial derivative is treated as a 99% effective hedge against interest rate exposures in loan agreements, almost all changes in value are recognised through reserves rather than through income and expenditure.

Cost of sales for first tranche disposals of high value shared ownership properties

In high value areas of London the affordability of shared ownership to people on average London wages has become a significant concern and we have been seeking solutions through working with our local authority partners. The main way to achieve this over the last few years has been to restrict rent levels charged on the retained equity in shared ownership properties, given the level of borrowing needed to acquire the minimum first tranche of 25%. As a result, rent levels can be below 1% of the value of retained equity and this raises questions about the level of surplus that can realistically be recognised on first tranche sales in these circumstances. A number of shared ownership sales during the year were like this and, in recognition of these restrictions, the cost of sales for first tranches disposals in these cases were increased to reflect the impact of the restricted rents on the carrying value of the retained equity of these properties. As a result, the reported Surplus on First Tranche Shared Ownership Sales was £1.1m lower than it would otherwise have been.

Principal Risks and Uncertainties

Octavia's overall approach to internal controls is described in more detail later in this report. We have identified, and put in place strategies against each of the risks that have been identified. At the year end the major risks can be considered under the headings of financial risk and those that threaten our reputation.

Financial risks

- Government restrictions on income: Recent legislation has reduced the level of income to be generated from our portfolio of social rented homes over the next four years. We have reworked our plans for the future and remain positive about Octavia's ability to continue to develop new social housing in Central and West London, given our significant underlying financial strength. If the Government were to require further reductions, we would need to review our plans again.

- Inflation: Our income (primarily rents) and operating costs tend to move in a linked fashion with inflation, however sometimes they become delinked. We have just been through a period where revenues have increased by more than costs but now employee and maintenance related costs are increasing more rapidly and we are taking steps to manage this issue. Additionally there are inflation linked risks to Care income, where rates are agreed and fixed for several years ahead.
- Liquidity risk: Our Treasury management policy sets out minimum levels of liquidity both in terms of cash and short term money market deposits that should be maintained but also levels of secured and available bank facilities. Short term money market deposits are only made with institutions that meet certain credit rating hurdles.
- Interest rate risk: This is monitored and controlled through the treasury strategy described elsewhere in this report.
- Welfare reforms: The changes to date have had a minimal impact on our overall finances but we are monitoring the position carefully as it may well be a long term issue for the organisation.
- Sales risks: With only very limited levels of government grant available for developing new social housing, housing associations are making up part of this funding shortfall through shared ownership and outright sales on new housing developments. The levels of exposure to sales income is regularly monitored and actions taken to mitigate the risks where appropriate.
- Project or cost overrun: Individual developments are controlled through individual assigned managers and with pre-set budgets and monitored monthly. Any significant cost overruns are reported to the Board.
- Financial risks are modelled in the business plan and 30 year Long Term Financial Plan and are subject to sensitivity analysis and stress testing.
- Income shortfalls: The risk that rental income will become more difficult to collect in future. Given the proposed changes in Welfare benefits this risk seems almost certain to materialise. We are monitoring closely the impact of benefit changes and investing in staff and systems to ensure that we are in the best position to deal with the issues as they develop.

Reputational risks

- Health and safety issues: We continue to place a high priority on resident, staff and contractor safety. A separate section of this report sets out our approach to this risk.
- Business continuity: We have developed plans to deal with all aspects of potential threats to business continuity. During the year we completed upgrading our IT systems to further improve their resilience to potential risks and tested our plans shortly after the year end.
- Staff issues: Our human resources policies and practices are well defined. Staff turnover is monitored and is currently below the sector average.
- Regulatory issues: The Homes and Communities Agency (HCA) has introduced new regulatory requirements recently and has indicated that it will be more active in taking action to deal with areas where it considers this is required. Octavia aims to ensure that we comply with all legal and regulatory requirements and has put in place procedures and controls to ensure full compliance.
- IT issues: We are increasingly reliant on technology for the effective delivery of services. We have in place controls and systems to ensure information is available in a variety of circumstances. The Board plan to further review the Information Technology strategy during 2016/17.

Value for Money (VFM)

VFM is a subject that has been much discussed within the Housing sector. It is a topic that has received a great deal of attention from the HCA and will receive much more following the rent restrictions announced in the recent Budget. For the last three years we have published on our website a statement of how Octavia complies with the stated regulatory requirements and we will produce a further comprehensive statement before September 2016 in line with the Board's VFM strategy issued in June 2015.

Our overall approach to the subject is to see VFM as fundamental to our approach to achieving the organisation's objectives. The Board's role is to maximise the impact that it can make against our stated objectives with the resources available. The Board considers VFM on a regular basis, both as a stand-alone item and as part of the consideration of wider aspects of our work. These considerations are informed by a long standing commitment to extensive resident engagement, which includes involvement at Board level and a strong resident voice on our Services Scrutiny panel, which helps determine an appropriate balance between service improvement, growth and cost efficiencies.

Our resource allocations process centres on deliberations over the corporate plan and our long term financial forecasts. Both are designed to support the organisation in meeting its overall objectives. These major plans are supported by an overall budget, development strategy, care strategy, asset management strategy and service improvement plans, all determined with VFM in mind.

In considering VFM the regulator requires organisations to optimise the return on assets. With nearly all of our homes in areas that now have high property values and as explained earlier in this report, the rental income that we charge is substantially below the market rates. Accordingly, the social dividend on what we do is significant and, with market rents continuing to rise during the year, our advisers, Jones Lang Lasalle, have estimated that the gap between what Octavia charges and the market rents for similar properties has now risen again this year to some £65m per annum – this dividend is shared between our tenants and the public purse. The corollary of this is that Octavia receives overall a low return on its assets – the gross rental yield of £24m represents a 1.1% per annum return on the replacement value of its social housing assets of £2.3 billion and a rather higher 11% on net historical cost.

Our aim is to exploit the location of our existing stock as a base from which to provide good quality management services and to demonstrate our value as a locally based partner for private developers under planning gain (S106) rules. These allow us to acquire property in our areas of operation at significantly below their market Vacant Possession values and make them available to local people at low and affordable rents.

The Board periodically receives information on the costs of service provision and how well they are benchmarked against indicators produced by Housemark. Benchmarking information is used as a tool for identifying areas for further review. Overall efficiency gains totalling some £0.2m were achieved during the course of the year through more effective procurement and more efficient ways of working. Re-procurement of a number of services, including office supplies and utilities, have led to gains of some £0.1m while upgrading our telephony systems to use internet protocols has led to improved services as well as reduced costs. During the next year we are aiming to further reduce unit costs for day to day repairs, improve our ways of working in carrying out cyclical works and re-procure a number of overhead costs (such as printing) with a view to continuing to keep the increase in management costs below the rate of inflation.

Beyond these financial returns the core of our work has a social value. We established, support and work closely with the Octavia Foundation. During 2015/16 2,000 local people and Octavia residents were supported through the Foundation. Our care and support services also provide essential support and help to elderly and other vulnerable residents. Each of these areas of activity helps to sustain tenancies, support independent living and improve opportunities for local people.

In planning ahead the key areas that we are working on include: investing in improving the energy efficiency of our buildings, reviewing further how we can exploit our asset base to develop further homes within our geographic areas and at genuinely affordable rents, reviewing our work on tackling tenancy fraud to safeguard scarce social housing assets and retaining a focus on supporting residents through the changes that are coming about as a result of welfare reform so that those affected can retain their tenancies.

A separate and more comprehensive report on Value for Money is available on our website (octavia.org.uk).

Compliance with the HCA's Governance and Financial Viability Standards

The Board has considered whether the activities of the Group in the year to 31 March 2016 complied in all material respects with the HCAs Governance and Viability Standard and has concluded that they did.

Corporate Governance overview

Octavia is governed by a Board which comprises 11 non executives (of whom up to three are residents) plus the Chief Executive. These Board members are listed on page 1 in this report. Each non-executive Board member holds one fully paid share. Octavia has adopted the most recent National Housing Federation Code of Governance in so far as its recommendations are relevant and appropriate to the organisation.

The day to day operational responsibility for Octavia is delegated to a leadership team that includes the Chief Executive and Directors of Housing and Care Services, Asset Management, Development and Finance, together with the Managing Director of Ducane HA (the Directors Group).

The Board is supported by various panels and committees all of which include Board members as well as other independent members. These are a Development Panel, Services Scrutiny Panel, Complaints Panel (which is independently chaired), Shops Group, Audit Committee, Finance Committee (re-established during the year) and the Nominations and Remuneration Committee.

During the year a third resident Board member (Stephen Smith) was appointed and, following Ducane HA's accession to the Group on 31 March 2016, Alexandra Theaker joined the Octavia Board on that date and Rajan Upadhyaya joined the Board of Ducane HA.

During the year the board of Octavia Living Ltd was strengthened by the appointment of Rajan Upadhyaya and, following Ducane's entry to the Octavia group, by Simon Devitt, the chairman of Ducane HA.

An Octavia main board member is on the board of each of its subsidiaries, in all but one case as Chair. Octavia was rated by the HCA under its regulatory review system in January 2016 as being grade one for

both governance and viability. The Board is not aware of any reason why these ratings should have changed subsequently.

Compliance with relevant law and regulations

As required by regulations issued by the HCA, the Board has conducted a review of the level of compliance by Octavia since 1 April 2015 with relevant law and regulations.

The Board has concluded that it has no information to conclude other than that in all material respects Octavia has complied with relevant law and regulations throughout the year and to date. There have, however, been a small number of minor infractions which have occurred. In each case these have been reported to the Board and action has been taken to minimise the likelihood of similar events occurring in future.

Remuneration

Octavia seeks to have both clarity and consistency in our remuneration policy which will:

a) assist in recruiting and retaining staff;

b) reward responsibility and performance at an appropriate rate in relation to the sector and the market; and

c) provide terms and conditions that meet statutory obligations and better these where appropriate.

During the year, as part of an exercise to harmonise remuneration policies across the organisation, the care staff joined the office based staff on market assessed salaries with a small discretionary performance award available. We intend to extend this system to other staff, who are currently paid on a graded scale system, in 2017. Almost all Octavia staff are paid in excess of the London Living Wage level of £9.40 per hour and we have an ambition to make this a minimum threshold for wages paid by the group.

The salaries of the Directors are set by the Remuneration Committee and by the Board for the Chief Executive.

Octavia's policy is to offer fees to Board members. These are set in line with the guidance on fees previously given by the Regulator. The level of fees was reviewed during the year and found to be in line with similar associations and so there were no changes.

Octavia has a staff forum where there is representation at all levels to ensure that staff are widely consulted on staffing policies and procedures. We also invest significantly in learning and development and a structured management and development training programme for all managers was run during the year. During the year our overall staff turnover rate stayed steady at 16%, which is lower than most comparable organisations as the labour market in London tightened with improvements in the economy. The latest staff survey results show that 85% of staff would recommend Octavia to friends as a good place to work.

Details of the remuneration paid to and the activities of individual board members are given in these financial statements.

Health and safety

The Board takes seriously its legal and moral responsibilities relating to health and safety to ensure, so far as is reasonably practicable, the health, safety and welfare of all Octavia's employees, residents and others affected by our activities.

Health and safety risks are regularly reviewed by the Directors Group, the Audit Committee and the Board. Our Health and Safety Committee meets quarterly and has delegated authority from the Directors Group to oversee our strategic response to Health and Safety and reviews progress across all areas of activity.

Our in-house health and safety team includes an experienced and qualified Health and Safety Advisor and a Fire Safety Officer. Particular emphasis has been placed on the management of health and safety risks within our residential property stock, including an extensive programme of fire safety works. At the end of the year all of our domestic gas boilers had a current CP12 safety certificate and we had also completed 100% of scheduled fire risk assessments.

In previous years we had to take action on a number of health and safety issues arising from latent defects in several residential buildings completed over the last seven years. Working with our insurers all of these health and safety issues were successfully resolved and action continues to recover costs from the developers involved.

Going concern

As set out in the financial statements, an assessment has been carried out by the Board of how far Octavia can be considered to remain a Going Concern. The Board have noted that the projected cash flow from operations and sales taken together with undrawn and secured loan facilities significantly exceed the projected cash requirements for operating expenditure and capital investment for at least the next eighteen months, although, as noted above, Ducane HA will need to raise additional new finance if it is to achieve its development ambitions. The Board have also noted that business planning projections indicate that Octavia should be operating comfortably within its loan covenant restrictions for that period. Accordingly, they continue to consider that it is appropriate to adopt the going concern basis in preparing this annual report and accounts.

Assessment of the effectiveness of Internal controls

As one aspect of its work the Board has overall responsibility for establishing and maintaining Octavia's system of internal controls and for reviewing its adequacy and effectiveness. The system for internal control covers all aspects of Octavia's activities, not just internal financial control.

The Board recognises that no system of internal control can give absolute assurance against financial misstatement or loss. The system is designed to manage rather than eliminate risk, and provide reasonable assurance that key business objectives will be achieved. It also exists to give reasonable assurance about the preparation and reliability of financial and operational information, and the safeguarding of Octavia's assets and interests.

Each year the Board requires the Chief Executive to prepare a detailed report on Risk Management and Internal Control Systems. This report of the Board has been based on this statement.

Some of the key elements of the internal control framework that have been established by the Board are as follows:

- the adoption of a business plan and 30-year Long Term Financial Plan model which is regularly updated, reviewed by the Board, and stress tested.
- a comprehensive budgeting process, the production and review of monthly management accounts and key performance indicators for all areas of operational activity, including quarterly external reporting;
- the review and approval of the Governance Manual and Financial Regulations of the organisation and a clear set of delegated authorities detailing responsibilities for expenditure and authorisation of payments;
- the incorporation of key risks into a Risk Map and the consideration of this and significant risks on individual projects by the Board;
- a programme of internal audit work which is linked to the Risk Map and is reported regularly to the Audit Committee and annually to the Board. The Audit Committee also regularly monitors the implementation of external and internal audit recommendations;
- job descriptions that clearly allocate responsibilities to manage risk;
- a programme of Service Improvement Reviews to seek continuous improvement;
- an operational work plan that seeks to ensure that our IT systems are reliable and efficient; and
- processes and systems for appraising development projects via the officers Project and Approvals Panel, Directors Group and the Board.

There is significant emphasis on the Board's internal control responsibilities with regard to fraud. Octavia's anti-fraud policy expresses a commitment to the highest ethical standards. The policy sets out:

- the importance of operating procedures and control systems for detecting and deterring fraud, reinforced by a culture of openness and honesty among staff;
- Octavia's policies on whistle-blowing and concerning the investigation of fraud (whether suspected, attempted or actual); and
- the disciplinary procedures which may follow the discovery of a fraud or attempted fraud and reporting actions (including to the HCA and to the police where appropriate).

Octavia's policy is to seek recovery of losses from those responsible, report them to the police and to maintain fidelity insurance cover against fraud. While the risk of fraud being committed can never be fully eliminated, in the opinion of the Board a strong internal control system reduces the opportunity for fraud and increases the likelihood that attempted frauds will be detected. Octavia maintains a fraud register which is reviewed periodically by the Audit Committee and annually by the Board.

External Review

The work of our internal and external auditors is an important part of the control environment. There is a programme of internal audit visits throughout the year and the risk of fraud is always considered when deciding on the scope of work for each visit. During the year, Mazars carried out their planned programme of internal audit reviews and BDO LLP carried out their work as external auditors.

The Board confirms that for the year ended 31 March 2016 and up to the date of the approval of these financial statements, there have been no regulatory concerns which have led any regulatory authority to intervene in the affairs of Octavia, nor are there significant problems in relation to failures of internal controls that required disclosure in the financial statements.

Auditors

All the current Board members have taken all the steps that they consider necessary to make themselves aware of any information needed by the external auditors for the purposes of their audit and to establish that the auditors are aware of that information. The Directors are not aware of any relevant information that has not been made available to the external auditors.

The Board will recommend the re-appointment of BDO LLP at the forthcoming Annual General Meeting. BDO LLP have expressed their willingness to continue.

Andrew Herbert Chairman

Statement approved by the Board on 28 July 2016

Statement of Board's responsibilities in respect of the Board of Management's report and the financial statements

The board members are responsible for preparing the report of the board and the financial statements in accordance with applicable law and regulations.

Co-operative and Community Benefit Society and social housing legislation require the board members to prepare financial statements for each financial year for the group and association in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the association and of the surplus or deficit of the group and association for that period.

In preparing these financial statements, the board members are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice: Accounting by registered social housing providers (Update 2014) 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 association will continue in business.

The board members are responsible for keeping adequate accounting records that are sufficient to show and explain the association's transactions and disclose with reasonable accuracy at any time the financial position of the association and enable them to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. They are also responsible for safeguarding the assets of the association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The board is responsible for ensuring that the report of the board is prepared in accordance with the Statement of Recommended Practice: Accounting by registered social housing providers (2014).

Financial statements are published on the group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the group's website is the responsibility of the board members. The board members' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Independent auditor's report to the members of Octavia Housing

We have audited the financial statements of Octavia Housing for the year ended 31 March 2016 which comprise the consolidated and association statements of comprehensive income, the consolidated and association balance sheets, the consolidated and association statements of changes in reserves, the consolidated and association cash flow statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the association's members, as a body, in accordance with the Housing and Regeneration Act 2008 and Section 87 of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the 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

As explained more fully in the statement of board member responsibilities, the board members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and parent association's affairs as at 31 March 2016 and of the group's and parent association's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where we are required to report to you if, in our opinion:

- the information given in the Report of the Board for the financial year for which the financial statements are prepared is not consistent with the financial statements;
- adequate accounting records have not been kept by the parent association, or returns adequate for our audit have not been received from branches not visited by us; or
- a satisfactory system of control has not been maintained over transactions; or
- a comprehensive budgeting process, the production and review of monthly management accounts and the parent association financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

BDO LLP, statutory auditor
Gatwick, West Sussex
United Kingdom
Date 4 August 2016

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

CONSOLIDATED AND ASSOCIATION STATEMENTS OF COMPREHENSIVE INCOME

For the year to 31 March

	Note	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Turnover	4	**49,970**	41,534	**50,106**	40,688
Cost of sales	4	**(6,236)**	(4,899)	**(6,250)**	(4,358)
Operating costs	4	**(32,678)**	(28,922)	**(32,794)**	(29,149)
Operating surplus	4	**11,056**	7,713	**11,062**	7,181
Surplus on disposal of fixed assets	12	**4,200**	3,106	**4,853**	3,106
Other interest receivable and similar income	13	**92**	124	**539**	466
Interest and financing costs	14	**(7,425)**	(5,956)	**(7,625)**	(6,270)
Gain on Business combination	34	**28,532**	-	**-**	-
Movement in fair value of financial instruments	27	**1**	(41)	**1**	(41)
Movement in fair value of investment properties	17	**24**	78	**24**	78
Surplus before taxation		**36,480**	5,024	**8,854**	4,520
Taxation on surplus		**-**	-	**-**	-
Surplus for the financial year		**36,480**	5,024	**8,854**	4,520
Movement in fair value of hedged financial instrument	27	**(537)**	(2,901)	**(537)**	(2,901)
Total comprehensive income for year		**35,943**	**2,123**	**8,317**	1,619

All amounts are derived from continuing operations.

CONSOLIDATED AND ASSOCIATION BALANCE SHEETS

At 31 March

	Note	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Fixed assets					
Tangible fixed assets – housing properties	15	**434,309**	383,417	**400,310**	384,257
Tangible fixed assets - other	16	**9,215**	8,036	**8,524**	8,036
Investment properties	17	**8,552**	8,705	**8,552**	8,705
Investments - other	18	**-**	-	**10**	10
		452,076	400,158	**417,396**	401,008
Current assets					
Stocks	19	**11,098**	9,844	**2,440**	5,006
Debtors – receivable within one year	20	**12,599**	3,808	**21,458**	3,540
Debtors – receivable after one year	20	**-**	-	**-**	5,122
Short term deposits		**1,363**	1,350	**101**	100
Cash and cash equivalents		**16,465**	15,390	**9,188**	10,383
		41,525	30,392	**33,187**	24,151
Creditors: amounts falling due within one year	21	**(22,380)**	(22,571)	**(20,279)**	(21,346)
Net current assets		**19,145**	7,821	**12,908**	2,805
Total assets less current liabilities		**471,221**	407,979	**430,304**	403,813
Creditors: amounts falling due after more than one year	22	**(355,028)**	(327,729)	**(345,903)**	(327,729)
Net assets		**116,193**	80,250	**84,401**	76,084
Capital and reserves					
Called up share capital	29	**-**	-	**-**	-
Cash flow hedge reserve		**(3,821)**	(3,284)	**(3,821)**	(3,284)
Income and expenditure reserve		**120,014**	83,534	**88,222**	79,368
		116,193	80,250	**84,401**	76,084

The financial statements were approved by the Board of Directors and authorised for issue on 28th July 2016.

A Herbert Chairman **S Porter** Treasurer **M S A Gayfer** Deputy Secretary

CONSOLIDATED STATEMENT OF CHANGES IN RESERVES

For the year ended 31 March

	Cash flow hedge reserve £'000	Income and expenditure reserve £'000	Total £'000
Balance at 1 April 2014	(383)	78,510	78,127
Surplus for the year 2014/15	-	5,024	5,024
Movement in fair value of hedging financial instrument	(2,901)	-	(2,901)
Balance at 31 March 2015	(3,284)	83,534	80,250
Surplus for the year 2015/16	-	36,480	36,480
Movement in fair value of hedging financial instrument	(537)	-	(537)
Balance at 31 March 2016	**(3,821)**	**120,014**	**116,193**

ASSOCIATION STATEMENT OF CHANGES IN RESERVES

For the year ended 31 March

	Cash flow hedge reserve £'000	Income and expenditure reserve £'000	Total £'000
Balance at April 2014	(383)	74,848	74,465
Surplus for the year 2014/15	-	4,520	4,520
Movement in fair value of hedging financial instrument	(2,901)	-	(2,901)
Balance at 31 March 2015	(3,284)	79,368	76,084
Surplus for the year 2015/16	-	8,854	8,854
Movement in fair value of hedging financial instrument	(537)	-	(537)
Balance at 31 March 2016	**(3,821)**	**88,222**	**84,401**

The notes on pages 53 to 96 form part of these financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March

	Note	2016 £'000	2015 £'000
Cash flows from operating activities			
Surplus for the financial year		**36,480**	5,024
Adjustments for:			
Gain on business combination	34	**(28,532)**	-
Depreciation of fixed assets - housing properties	15	**5,777**	5,638
Depreciation of fixed assets - other	16	**599**	530
Amortised grant	5	**(2,143)**	(2,080)
Net fair value (gains) recognised in profit or loss	13,14	**(25)**	(37)
Interest payable and finance costs	14	**7,425**	5,956
Interest receivable	13	**(92)**	(124)
Surplus on the sale of fixed assets - housing properties	12	**(4,200)**	(3,106)
(Increase) / decrease in working capital	36	**(9,550)**	3,950
Net cash generated from operating activities		**5,739**	15,751
Cash flows from investing activities			
Purchase of fixed assets – housing properties	15	**(23,512)**	(34,615)
Sales of fixed assets - housing properties		**7,351**	5,534
Purchases of fixed assets - other	16	**(1,087)**	(376)
Cash aquired with subsidiary		**2,433**	-
Receipt of grant	15	**761**	1,701
Short term deposit		**(13)**	(8)
Interest received	13	**92**	124
Net cash from investing activities		**(13,975)**	(27,640)
Cash flows from financing activities			
Interest paid	14	**(7,781)**	(6,746)
New loans drawn	26	**30,200**	4,000
Repayment of loans	26	**(13,108)**	(4,400)
Net cash used in financing activities		**9,311**	(7,146)
Net decrease in cash and cash equivalents		**1,075**	(19,035)
Cash and cash equivalents at beginning of year		**15,390**	34,425
Cash and cash equivalents at end of year		**16,465**	15,390

The notes on pages 53 to 96 form part of these financial statements

ASSOCIATION STATEMENT OF CASH FLOWS

For the year ended 31 March

	Note	2016 £'000	2015 £'000
Cash flows from operating activities			
Surplus for the financial year		**8,854**	4,520
Adjustments for:			
Depreciation of fixed assets - housing properties	15	**5,777**	5,638
Depreciation of fixed assets - other	16	**599**	530
Amortised grant	5	**(2,143)**	(2,080)
Net fair value(gains) recognised in profit or loss	13,14	**(25)**	(37)
Interest payable and finance costs	14	**7,625**	6,270
Interest receivable	13	**(539)**	(466)
Surplus on the sale of fixed assets - housing properties	12	**(4,800)**	(3,106)
Surplus on sale of other fixed assets		**(53)**	-
(Increase)/decrease in working capital	36	**(9,403)**	3,049
Net cash generated from operating activities		**5,892**	14,318
Cash flows from investing activities			
Purchase of fixed assets – housing properties	15	**(24,399)**	(33,836)
Proceeds of sales of fixed assets	12	**8,166**	5,534
Short term deposits		**(1)**	-
Purchases of fixed assets - other	16	**(1,087)**	(376)
Receipt of grant	15	**761**	1,701
Interest received	13	**539**	466
Net cash from investing activities		**(16,021)**	(26,511)
Cash flows from financing activities			
Interest paid	14	**(8,158)**	(7,060)
New loans drawn	26	**30,200**	4,000
Repayment of loans	26	**(13,108)**	(4,400)
Net cash used in financing activities		**8,934**	(7,460)
Net decrease in cash and cash equivalents		**(1,195)**	(19,653)
Cash and cash equivalents at beginning of year		**10,383**	30,036
Cash and cash equivalents at end of year		**9,188**	10,383

The notes on pages 53 to 96 form part of these financial statements

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

1 Legal status

The Association is registered in England with the Financial Conduct Authority under the Co-operative and Community Benefits Societies Act 2014 and is registered with the Homes and Communities Agency as a social housing provider.

2 Accounting policies

The financial statements have been prepared in accordance with applicable law and UK accounting standards (United Kingdom Generally Accepted Accounting Practice) which for Octavia Housing includes the Cooperative and Community Benefit Societies Act 2014 (and related group accounts regulations), the Housing and Regeneration Act 2008, the Statement of Recommended Practice (SORP) for Registered Social Housing Providers 2014, "Accounting by registered social housing providers" and the Accounting Direction for Private Registered Providers of Social Housing 2015. For the first time this year applicable accounting standards also include FRS 102.

Octavia Housing is a Public Benefit Entity and has used the relevant sections of FRS 102 in the preparation of these accounts.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in applying the Group's accounting policies.

The following principal accounting policies have been applied:

Basis of consolidation

The consolidated financial statements present the results of Octavia Housing – Registered Provider of social housing and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between group organisations are therefore eliminated in full. In accordance with the transitional exemption available in FRS 102, the group has chosen not to retrospectively apply the standard to business combinations that occurred before the transition date of 1 April 2014.

Business combinations that are gifts

Where there is a business combination that is in substance a gift, any excess of fair value over the assets received over the fair value of the liabilities assumed is recognised as a gain in the income and expenditure account. This gain represents the gift of the value of one entity to another and is recognised as income. Where the fair value of the liabilities exceeds the fair value of the assets, the loss represents net obligations assumed and is recognised as an expense.

Income

Income is measured at the fair value of the consideration received or receivable. The group generates the

2 Accounting policies (continued)

following material income streams:

- Rental income receivable (after deducting lost rent from void properties available for letting),
- First tranche sales of Low Cost Home Ownership housing properties developed for sale.
- Sales of other residential property developed for sale
- Service charges receivable,
- Revenue grants and proceeds from the sale of land and property
- Sales in charity shops
- Letting of commercial properties

Rental income is recognised from the point when properties under development reach practical completion and are formally let. Income from first tranche sales and sales of residential properties developed for sale are recognised at the point of legal completion of the sale. Charity shop sales are recognised on the date of sale.

Supported housing schemes

The Group receives Supporting People and other grants from a number of London Boroughs in connection with the provision of supported housing. The grants received in the period as well as costs incurred by the Group in the provision of support services have been included in the Income and Expenditure Account. Any excess of cost over the grant received is borne by the Group where it is not recoverable from tenants.

Service charges

The Group adopts the fixed cost method for calculating and charging service charges to its tenants, but for leaseholders the variable cost method is used. Expenditure is recorded when a service is provided and charged to the relevant service charge account or to a sinking fund. Income is recorded based on the actual or estimated amounts chargeable respectively.

Schemes managed by agents

Income from schemes managed by agents represents rent receivable. Any management or other fees payable to agents are included in operating costs.

Value Added Tax

Value Added Tax (VAT) is charged on some income and some of the VAT incurred on expenditure is recovered. The financial statements include VAT as an expense to the extent that it is suffered by the Group and not recoverable from HM Revenue and Customs. Recoverable VAT arises from chargeable and partially exempt activities and is credited to Income or Fixed Assets as appropriate.

Finance costs

Finance costs are charged to the income and expenditure account over the term of the debt using the effective interest rate method so that the amount charged is at a constant rate on the carrying amount.

2 Accounting policies (continued)

Issue costs are initially recognised as a reduction in the proceeds of the associated loan or capital instrument.

Pension costs

Contributions to the group's defined contribution pension schemes are charged to the income and expenditure account the year in which they become payable.

The Group participates in a defined benefit scheme, the Social Housing Pension Scheme (SHPS) managed by the Pensions Trust. This is a multi employer scheme and, as it is not possible to identify the share of the assets and liabilities in relation to the group, the scheme is accounted for as a defined contribution scheme with a liability recognised for agreed contributions towards past service deficits.

Holiday pay accrual

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

Tangible fixed assets - Housing Properties

Housing properties constructed or acquired (including land) are stated at cost less depreciation and impairment (where applicable).

The cost of housing land and property represents their purchase price and any directly attributable costs of acquisition which may include an appropriate amount for staff costs and other costs of managing development.

Directly attributable costs of acquisition includes capitalised interest calculated, on a proportional basis, using finance costs on borrowing which has been drawn in order to finance the relevant construction or acquisition. Where housing properties are in the course of construction, finance costs are only capitalised where construction is on-going and has not been interrupted or terminated.

Expenditure on major refurbishment to properties is capitalised where major components are replaced or where the works increase the net rental stream over the life of the property. An increase in the net rental stream may arise through a reduction in future maintenance costs, or a subsequent extension in the life of the property.

Housing properties in the course of construction, excluding the estimated cost of the element of shared ownership properties expected to be sold in first tranche, are included in Property, Plant and equipment they are recorded at the lower of cost and recoverable amount and held at cost less any impairment, and are transferred to completed properties when ready for letting.

Completed housing properties acquired from subsidiaries are held at cost at the date of acquisition.

Commercial properties within mixed developments are held as investment properties.

Depreciation of housing property

Freehold land is not depreciated on account of its indefinite useful economic life.

2 Accounting policies (continued)

The portion of shared ownership property retained or expected to be retained is not depreciated on the expectation that the net realisable value at the time of disposal will be in excess of historic cost. Neither the depreciable amount nor the expected annual depreciation charge for such assets is considered material, individually or in aggregate.

Assets in the course of construction are not depreciated until they are completed and ready for use so as to ensure that they are depreciated only in periods in which economic benefits are expected to be consumed.

Housing properties are split between the structure and the major components which require periodic replacement. The costs of replacement or restoration of these components are capitalised and depreciated over the determined average useful economic life as follows:

Description	Economic useful life
Service Chargeable components – short life	10 years
Boilers	15 years
Energy improvements	20 years
Kitchens	20 years
Bathrooms	30 years
Central heating systems	30 years
Electric	30 years
Externals	30 years
Service Chargeable components – long life	30 years
Windows and doors	30 years
Roofs	50 years
Structure	100 years

Leasehold properties are depreciated over the length of the lease except where the expected useful economic life of properties is shorter than the lease; in such cases the lease and building elements are depreciated separately over their expected useful economic lives.

Donated Land and other assets

Land and other assets donated by local authorities and other government sources are added to cost at the fair value of the land at the time of the donation. Where the land is donated by a public body an amount equivalent to the increase in value between fair value and consideration paid is treated as a non-monetary grant and recognised in the balance sheet as a liability. Where the donation is from a non-public source the value of the donation is included as income when the asset being financed comes into use.

2 Accounting policies (continued)

Shared ownership properties and staircasing

Under low cost home ownership arrangements, the Group disposes of a long lease on low cost home ownership housing units for a share ranging between 25% and 75% of value. The Buyer has the right to purchase further proportions and up to 100% based on the market valuation of the property at the time each purchase transaction is completed.

Low cost home ownership properties are split proportionately between current and fixed assets based on the element relating to expected first tranche sales .The first tranche proportion is classed as a current asset and related sales proceeds included in turnover .The remaining element, "staircasing element", is classed as Property, Plant and Equipment(PPE) and included in completed housing property at cost less any provision for impairment. Sales of subsequent tranches are treated as a part disposal of PPE. Such staircasing sales may result in capital grant being repaid, deferred or abated and any abatement is credited in the sale account in arriving at the surplus or deficit.

Where the retained element of shared ownership accommodation generates a low level of rental income such that the Existing Use Value of the property is lower than historic cost, an additional charge is included in Cost of Sales sale so that the carrying value of the retained element is equivalent to Existing Use Value – Social Housing.

For shared ownership accommodation that the Group is responsible for, it is the Group's policy to require them to be maintained in a continuous state of sound repair. Maintenance of other shared ownership properties is the responsibility of the shared owner. Any impairment in the value of such properties is charged to the Statement of Comprehensive Income.

Allocation of costs for mixed tenure and shared ownership developments

Costs are allocated to the appropriate tenure where it is possible to specify which tenure the expense relates to. Where it is not possible to relate costs to a specific tenure, costs are allocated on a floor area or unit basis depending on the appropriateness for each scheme. Additionally, where the social rented element of a mixed tenure scheme is only economically viable due to the surplus generated on the shared ownership elements, this is reflected in the value attributed to the land.

Tangible fixed assets – Other

Other tangible fixed assets, other than Investment properties, are stated at historic cost less accumulated depreciation. Historic cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation of other tangible fixed assets

Land is not depreciated. Depreciation on other assets is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives range as follows:

Depreciation is charged on a straight-line basis from the month of purchase over the expected useful lives of the assets at the following rates:

2 Accounting policies (continued)

a) Office buildings are depreciated at 1.33% per annum of the cost.

b) Other premises held for their service potential are depreciated at 2% per annum of the cost.

c) Office fixtures, fittings and equipment are depreciated at 10% per annum of the cost.

d) Computer equipment is depreciated at 25% per annum of the cost.

e) Computer software costing more than £10,000 is depreciated at 33.3% per annum of the cost.

f) Motor vehicles are depreciated at 25% per annum of the cost.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other operating income' in the statement of comprehensive income.

Government grants

Government capital grants received in relation to housing properties are accounted for using the accrual model set out in FRS 102 and the Housing SORP 2014. Grant is carried as deferred income in the balance sheet and released to the income and expenditure account on a systematic basis over the useful economic lives of the asset for which it was received. In accordance with Housing SORP 2014 the useful economic life of the housing property structure has been selected as the basis for grant recognition.

Where social housing grant (SHG) funded property is sold, the grant becomes recyclable and is transferred to a recycled capital grant fund until it is reinvested in a replacement property. If there is no requirement to recycle or repay the grant on disposal of the assets any unamortised grant remaining within creditors is released and recognised as income within the income and expenditure account.

Grants relating to revenue are recognised in income and expenditure over the same period as the expenditure to which they relate once performance related conditions have been met.

Grants due from government organisations or received in advance are included as current assets or liabilities.

Recycled Capital Grant Fund (RCGF)

On the occurrence of certain relevant events, primarily the sale of dwellings, the GLA can direct the Association to recycle capital grants or to make repayments of the recoverable amount. The Group adopts a policy of recycling, for which a separate RCGF fund is maintained. If unused within a three year period, it will be repayable to the GLA with interest. Any unused recycled capital grant held within the RCGF, which it is anticipated will not be used within one year are disclosed in the balance sheet under "creditors due after more than one year". The remainder is disclosed under "creditors due within one year".

Disposal Proceeds Fund (DPF)

Receipts from Right to Acquire (RTA) sales are required to be retained in a ring fenced fund that can only be used for providing replacement housing. The sales receipts less eligible expenses are credited to the DPF.

2 Accounting policies (continued)

Any sales receipts less eligible expenses held within the DPF, which it is anticipated will not be used within one year are disclosed in the balance sheet under "creditors due after more than one year". The remainder is disclosed under "creditors due within one year".

Investment properties

Investment properties consist of commercial properties and other properties within social housing schemes which are not held for social benefit or for use in the business. Investment properties are measured at cost on initial recognition and subsequently carried at fair value determined annually by external valuers or the directors. Valuations are based on the current market rents and investment property yields for comparable real estate, adjusted if necessary for any difference in the nature, location or condition of the specific asset. No depreciation is provided. Changes in fair value are recognised in income or expenditure.

Investments in Subsidiaries

Investments in subsidiaries are measured at cost less any accumulated impairment.

Impairment of fixed assets

The housing property portfolio for the Group is assessed for indicators of impairment at each balance sheet date. Where impairment indicators are identified then a detailed assessment is undertaken to compare the carrying amount of assets or cash generating units for which impairment is indicated to their recoverable amounts. An option appraisal is carried out to determine the option which produces the highest net realisable value. Valuations based on rental return or potential sale proceeds are obtained and used to inform the options. The Group looks at the net realisable value, under the options available, when considering the recoverable amount for the purposes of impairment assessment. The recoverable amount is taken to be the higher of the fair value less costs to sell or value in use of an asset or cash generating unit. The assessment of value in use may involve considerations of the service potential of the assets or cash generating units concerned or the present value of future cash flows to be derived from them appropriately adjusted to account for any restrictions on their use. No properties have been valued at Value in Use.

The Group defines cash generating units as schemes except where its schemes are not sufficiently large enough in size or where it is geographically sensible to group schemes into larger cash generating units. Where the recoverable amount of an asset or cash generating unit is lower than its carrying value an impairment is recorded through a charge to the Income and Expenditure account.

Stock

Stock represents work in progress and completed properties developed for outright sale and shared ownership properties. For shared ownership properties the value held as stock is the estimated cost of the element to be sold as a first tranche.

Stock is stated at the lower of cost and net realisable value. Cost comprises materials, direct labour and direct development overheads. Net realisable value is based on estimated sales proceeds after allowing for all further costs to completion and selling costs.

2 Accounting policies (continued)

Debtors and creditors

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

Loans, Investments and short term deposits

All loans, investments and short term deposits held by the Group, are classified as basic financial instruments in accordance with FRS 102. These instruments are initially recorded at the transaction price less any transaction costs (historic cost), FRS 102 requires that basic financial instruments are subsequently measured at amortised cost, however the Group has calculated that the difference between the historic cost and amortised cost basis is not material and so these financial instrument are stated on the balance sheet at historical cost. Loans and investments that are payable or receivable within one year are not discounted.

Financial liabilities and equity

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form.

Taxation

Current tax is recognised in respect of income or corporation tax payable in respect of the surplus for the current or prior periods at the relevant rates applicable.

Cash and cash equivalents

Cash and cash equivalents in the Group's Consolidated Statement of Financial Position consists of cash at bank, in transit and in hand and money market and bank deposits with an original maturity of three months or less.

The Group has also identified some assets, which meet the definition of cash and cash equivalents but are restricted in their use; these investments have been classified as debtors - amounts held by lenders as security for borrowings and other debtors

Derivative instruments and hedge accounting

The Group holds floating rate loans which expose the Group to interest rate risk. To mitigate against this risk the Group uses either the option to fix interest rates within the loan facility or stand alone fixed rate interest rate swaps. Stand alone interest rate swaps are measured at fair value at each reporting date. They are carried as assets when the fair value is positive and as liabilities when the fair value is negative. No revaluation is made of embedded fixed rate agreements.

The Group has designated each of the swaps against existing drawn floating rate debt. To the extent the hedge is effective movements in fair value adjustments, other than adjustments for own or counter party credit risk, are recognised in other comprehensive income and presented in a separate cash flow hedge reserve. Any movements in fair value relating to ineffectiveness and adjustments for our own or counter party credit risk are recognised in income and expenditure.

2 Accounting policies (continued)

Leasehold Sinking Funds

Unexpended amounts collected from leaseholders for major repairs on leasehold schemes and any interest received are included in creditors.

Contingent liabilities

A contingent liability is recognised for a possible obligation, for which it is not yet confirmed that a present obligation exists that could lead to an outflow of resources; or for a present obligation that does not meet the definitions of a provision or a liability as it is not probable that an outflow of resources will be required to settle the obligation or when a sufficiently reliable estimate of the amount cannot be made. A contingent liability exists on grant repayment which is dependent on the disposal of related property.

Leased assets

There being no finance leases, all leases are treated as operating leases. Their annual rentals are charged to profit or loss on a straight-line basis over the term of the lease.

3 Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements, the key judgements have been made in respect of the following:

- Whether there are indicators of impairment of the group's tangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit. The measurement basis to determine the recoverable amount of assets has been assessed against EUV-SH or depreciated replacement cost.
- The anticipated costs to complete on a development scheme have been based on anticipated construction cost, the effective rate of interest on loans during the construction period, legal costs and other costs. Based on the costs to complete, the recoverability of the cost of properties developed for outright sale and/or land held for sale is determined. This judgement is also based on the best estimate of sales value based on economic conditions within the area of development.
- The liability for the contributions in respect of the past service deficit of its SHPS defined benefit scheme will be covered by the recovery plan agreed following the September 2014 scheme revaluation.
- The appropriate allocation of costs for mixed tenure developments, and furthermore the allocation of costs relating to shared ownership between current and fixed assets.
- The categorisation of housing properties as investment properties or property, plant and equipment, based on the use of the asset.

3 Judgements in applying accounting policies and key sources of estimation uncertainty (continued)

- What constitutes a cash generating unit when indicators of impairment require there to be an impairment review.
- The categorisation of leases as operating leases.
- The assessment of fair value of interest rate swap agreements.

Other key sources of estimation uncertainty

- Tangible fixed assets (see note 15 and 16).

Tangible fixed assets, other than investment properties, are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as the current level of demand for renting such properties, void levels and values are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

For housing property assets, the assets are broken down into components based on management's assessment of the properties. Individual useful economic lives are assigned to these components.

Investment properties are valued annually. These valuations are generally based on market rental values capitalised at a market capitalisation rate but there is an inevitable degree of judgement involved in that each property is unique and value can only ultimately be reliably tested in the market itself. Key inputs into the valuations were professional valuations undertaken in 2014 by Savills and indices for movement in valuations of retail premises.

- Rental and other trade receivables (debtors) (see note 20)

The estimate for receivables relates to the recoverability of the balances outstanding at year end. A review is performed on historic experience of recoverability of rental debts and on an individual debtor basis for other debts.

4. Particulars of turnover - cost of sales, operating cost and operating surplus

Group 2016	Turnover 2016 £'000	Cost of sales 2016 £'000	Operating costs 2016 £'000	Operating surplus/ (deficit) 2016 £'000
Social housing lettings (Note 5)	**34,848**	**-**	**(27,650)**	**7,198**
Other Social Housing Activities				
First tranche low cost home ownership sales	**10,763**	**(6,236)**	**-**	**4,527**
Supporting people	**146**	**-**	**(141)**	**5**
Other	**142**	**-**	**(1,116)**	**(974)**
	45,899	**(6,236)**	**(28,907)**	**10,756**
Activities other than Social Housing Activities				
Market rents	**136**	**-**	**(45)**	**91**
Rents on investment properties	**716**	**-**	**(322)**	**394**
Other	**3,219**	**-**	**(3,404)**	**(185)**
	4,071	**-**	**(3,771)**	**300**
	49,970	**(6,236)**	**(32,678)**	**11,056**

Group 2015	Turnover 2015 £'000	Cost of sales 2015 £'000	Operating costs 2015 £'000	Operating surplus/ (deficit) 2015 £'000
Social housing lettings (Note 5)	31,717	-	(24,196)	7,521
Other Social Housing Activities				
First tranche low cost home ownership sales	4,162	(3,440)	-	722
Supporting people	299	-	(269)	30
Other	66	-	(1,026)	(960)
	36,244	(3,440)	(25,491)	7,313
Activities other than Social Housing Activities				
Properties developed for market sale	1,876	(1,459)	-	417
Market rents	95	-	(19)	76
Rents on investment properties	718	-	(307)	411
Other	2,601	-	(3,105)	(504)
	5,290	(1,459)	(3,431)	400
	41,534	**(4,899)**	**(28,922)**	**7,713**

4. Particulars of turnover - cost of sales, operating cost and operating surplus

Association 2016	Turnover 2016 £'000	Cost of sales 2016 £'000	Operating costs 2016 £'000	Operating surplus/ (deficit) 2016 £'000
Social housing lettings (Note 5)	34,848	-	(27,650)	7,198
Other Social Housing Activities				
First tranche low cost home ownership sales	10,763	(6,250)	-	4,513
Supporting people	146	-	(141)	5
Other	142	-	(1,116)	(974)
	45,899	(6,250)	(28,907)	10,742
Activities other than Social Housing Activities				
Market rents	136	-	(45)	91
Rents on investment properties	716	-	(322)	394
Other	3,355	-	(3,520)	(165)
	4,207	-	(3,887)	320
	50,106	(6,250)	(32,794)	11,062

Association 2015	Turnover 2015 £'000	Cost of sales 2015 £'000	Operating costs 2015 £'000	Operating surplus/ (deficit) 2015 £'000
Social housing lettings (Note 5)	31,677	-	(24,296)	7,381
Other Social Housing Activities				
First tranche low cost home ownership sales	4,162	(3,440)	-	722
Supporting people	299	-	(269)	30
Other	195	-	(1,026)	(831)
	36,333	(3,440)	(25,591)	7,302
Activities other than Social Housing Activities				
Properties developed for market sale	1,113	(918)	-	195
Market rents	95	-	(19)	76
Rents on investment properties	718	-	(307)	411
Other	2,429	-	(3,232)	(803)
	4,355	(918)	(3,558)	(121)
	40,688	(4,358)	(29,149)	7,181

5. Income and expenditure from social housing lettings

Group	General needs £'000	Supported housing £'000	Low cost home ownership £'000	Total 2016 £'000	Total 2015 £'000
Income					
Rents net of identifiable service charges	23,521	1,692	1,566	26,779	24,918
Service charge income	2,140	707	664	3,511	2,810
Amortised government grants	1,756	239	148	2,143	2,080
Net rental income*	27,417	2,638	2,378	32,433	29,808
Government grants taken to income	-	27	-	27	123
Grants for care and support	-	2,388	-	2,388	1,786
Turnover from social housing lettings	27,417	5,053	2,378	34,848	31,717
Expenditure					
Management	5,053	813	166	6,032	5,282
Service charge costs	2,373	642	750	3,765	3,062
Routine maintenance	5,693	216	26	5,935	4,705
Planned maintenance	2,837	37	-	2,874	3,055
Major repairs expenditure	474	-	-	474	385
Bad debts	85	-	-	85	104
Depreciation of housing properties:					
- annual charge	5,094	412	-	5,506	4,764
- accelerated on disposal of components	271	-	-	271	874
Other costs	-	2,708	-	2,708	1,965
Operating expenditure on social housing lettings	21,880	4,828	942	27,650	24,196
Operating surplus on social housing lettings	5,537	225	1,436	7,198	7,521
* Net rental income is stated net of void losses of	(424)	(42)	(20)	(486)	(337)

5. Income and expenditure from social housing lettings

Association	General needs £'000	Supported housing £'000	Low cost home ownership £'000	Total 2016 £'000	Total 2015 £'000
Income					
Rents net of identifiable service charges	23,521	1,692	1,566	26,779	24,918
Service charge income	2,140	707	664	3,511	2,810
Amortised government grants	1,756	239	148	2,143	2,040
Net rental income*	27,417	2,638	2,378	32,433	29,768
Government grants taken to income	-	27	-	27	123
Grants for care and support	-	2,388	-	2,388	1,786
Turnover from social housing lettings	27,417	5,053	2,378	34,848	31,677
Expenditure					
Management	5,053	813	166	6,032	5,382
Service charge costs	2,373	642	750	3,765	2,833
Routine maintenance	5,693	216	26	5,935	4,705
Planned maintenance	2,837	37	-	2,874	3,055
Major repairs expenditure	474	-	-	474	385
Bad debts	85	-	-	85	104
Depreciation of housing properties:					
- annual charge	5,094	412	-	5,506	4,764
- accelerated on disposal of components	271	-	-	271	874
Other costs	-	2,708	-	2,708	2,194
Operating expenditure on social housing lettings	21,880	4,828	942	27,650	24,296
Operating surplus on social housing lettings	5,537	225	1,436	7,198	7,381
* Net rental income is stated net of void losses of	(424)	(42)	(20)	(486)	(337)

Notes forming part of the financial statements.

6. Particulars of turnover

From non-social housing lettings

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Market rent	136	95	136	95

7. Units of housing stock

	Group 2016	Group 2015	Association 2016	Association 2015
General needs housing:				
- Social	3,396	3,287	3,313	3,287
- Affordable	184	105	184	105
Low cost home ownership	378	340	378	340
Supported housing	249	249	249	249
Housing for older people	128	129	128	129
Total social housing units	4,335	4,110	4,252	4,110
Keyworker accommodation	60	41	60	41
Leaseholder management	230	211	230	211
Market rent	6	6	6	6
Student accommodation	154	-	-	-
Total owned	4,785	4,368	4,548	4,368
Accommodation managed for others	6	6	6	6
Units managed by other associations	(137)	(137)	(137)	(137)
Total managed accommodation	4,654	4,237	4,417	4,237
Units under construction	157	266	157	266

Ducane Housing Association with 237 units of housing stock joined Octavia Housing on 31 March 2016 and these units are included in the table above for the first time.

8. Operating surplus

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
This is arrived at after charging/ (crediting)				
Depreciation of housing properties:				
- annual charge (note 17a)	**5,506**	3,180	**5,506**	3,180
- accelerated depreciation on replaced components	**271**	331	**271**	331
Depreciation of other tangible fixed assets	**535**	614	**535**	614
Operating lease charges – land & building	**694**	684	**694**	684
Auditors' remuneration (excluding VAT):				
- fees payable to the group's auditor for the audit of the group's annual accounts	**45**	44	**38**	38
-fees for corporate finance	**-**	1	**-**	1
-fees for other non-audit services	**-**	6	**-**	6

9. Employees

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Staff costs (including Executive Management Team) consist of:				
Wages and salaries	**8,745**	8,049	**8,570**	7,874
Social security costs	**809**	746	**790**	727
Cost of SHPS defined benefit scheme (see note 28)	**57**	-	**57**	-
Increase in future contributions to cover past service pension deficits	**749**	-	**749**	-
Cost of defined contribution scheme	**422**	446	**408**	433
	10,782	9,241	**10,574**	9,034

9. Employees (continued)

The average number of employees (including Executive Management Team) expressed as full time equivalents (calculated based on a standard working week of 35-39 hours) during the year was as follows:

	Group 2016	Group 2015	Association 2016	Association 2015
Administration	**76**	68	**73**	72
Charity Shops	**38**	38	**38**	38
Marketing and Sales	**4**	4	**-**	-
Development	**10**	10	**10**	10
Housing, Support and Care	**184**	163	**176**	163
	312	283	**297**	283

During the year an extra care supported housing scheme at Park Lodge, Hounslow came into operation with 12 staff. On 31 March 2016, Ducane Housing Association joined the Octavia Housing group. Ducane employs 11 full time staff which are not include in the table above as they joined the group only on 31 March 2016

10. Directors' and Key Management Personnel remuneration

The directors are defined as the members of the Board of Management, the Chief Executive and the Executive Management Team as stated on page 1

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Executive directors' emoluments	**543**	538	**543**	538
Amounts paid to non-executive directors	**55**	55	**55**	55
Contributions to Directors' pension schemes	**56**	55	**56**	14
	654	648	**654**	607

The board of management received no expenses more than £50 each for both 2015/16 and 2014/15. The total amount payable to the Chief Executive, who was also the highest paid director, in respect of emoluments was £138,235 (2015 - £136,000). Pension contributions of £14,468 (2015 - £14,000) were also made to a defined benefit scheme on his behalf. The terms of membership of the Social Housing Pension Scheme (SHPS), for the Chief Executive are identical to those of other members.

Three other directors were members of the SHPS defined contribution pension scheme as at 31 March 2016 (2015 - 2), and 3 of the directors accrued benefits under the group's defined benefit pension scheme during the year (2015 - 3).

10. Directors' and Key Management Personnel remuneration (continued)

The remuneration paid to other staff (including Executive Management Team) earning over £60,000 was as follows:

	Group 2016	Group 2015	Association 2016	Association 2015
£60,000 - £69,999	**9**	7	**9**	7
£70,000 - £79,999	**-**	-	**-**	-
£80,000 - £89,999	**1**	1	**1**	1
£90,000 - £99,999	**-**	1	**-**	1
£100,000 - £109,999	**1**	2	**1**	2
£110,000 - £119,999	**3**	1	**3**	1

11. Board members

Board members	Remuneration	Audit Committee	Finance Committee	Remuneration Committee	Group Board
Andrew Herbert	12,000	√	√	√	√
Simon Porter	6,500	√	√	√	√
Gwen Godfrey	4,500	√	√		√
Annie Lathaen	4,500				√
Debbie Sorkin	5,500			√	√
Rosalind Stevens	4,500				√
Angus Taylor	4,500				√
Rajan Upadhyaya	6,500				√
Aldo Williams	4,500				√
Alexandra Theaker (appointed 31/03/2016)	-				√
Stephen Smith (appointed 19/10/2015)	1,875		√		√

12. Surplus of disposal of fixed assets

Group	Shared ownership 2016 £'000	Other housing properties 2016 £'000	Commercial Property 2016 £'000	Total 2016 £'000	Total 2015 £'000
Housing Properties:					
Disposal proceeds	**4,598**	**2,753**	**-**	**7,351**	5,534
Cost of disposals	**(2,533)**	**(439)**	**-**	**(2,972)**	(2,296)
Selling costs	**(10)**	**(89)**	**-**	**(99)**	(92)
Grant recycled	**(43)**	**(37)**	**-**	**(80)**	(40)
Surplus on disposal of fixed assets	**2,012**	**2,188**	**-**	**4,200**	3,106

Association	Shared ownership 2016 £'000	Other housing properties 2016 £'000	Commercial Property 2016 £'000	Total 2016 £'000	Total 2015 £'000
Housing Properties:					
Disposal proceeds	**4,598**	**3,338**	**230**	**8,166**	5,534
Cost of disposals	**(2,518)**	**(439)**	**(177)**	**(3,134)**	(2,296)
Selling costs	**(10)**	**(89)**	**-**	**(99)**	(92)
Grant recycled	**(43)**	**(37)**	**-**	**(80)**	(40)
Surplus on disposal of fixed assets	**2,027**	**2,773**	**53**	**4,853**	3,106

13. Interest receivable income from investments

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Interest receivable from group undertakings	**-**	-	**472**	355
Interest receivable and similar income from third parties	**92**	124	**67**	111
	92	124	**539**	466

14. Interest payable and similar charges

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Interest payable on bank loans and overdrafts	**4,783**	5,274	**4,783**	5,274
Interest payable on other loans	**955**	627	**955**	627
Cost of breaking fixed interest rates	**2,315**	1,355	**2,368**	1,314
Disposal proceeds fund	-	7	-	7
Recycled capital grant fund	**6**	6	**6**	6
Interest capitalised on construction of housing properties	**(634)**	(1,313)	**(487)**	(958)
	7,425	5,956	**7,625**	6,270
Other financing costs through other comprehensive income				
Gain/(loss) on fair value of hedged derivative instruments	**(536)**	(2,901)	**(536)**	(2,901)
	6,889	3,055	**7,089**	3,369

15. Tangible fixed assets - Housing propery

Group	General needs completed £'000	Student and key worker houses £'000	General needs under construction £'0000	Shared ownership completed £'000	Shared ownership under construction £'000	Total £'000
Cost or valuation:						
At 1 April 2015	347,896	-	17,877	49,836	8,815	424,424
Additions:						
- transfers to shared ownership	(322)	-	-	322	-	-
- construction costs	-	-	18,466	-	1,880	20,346
- replaced components	3,684	-	-	-	-	3,684
- improvements	460	-	-	-	-	460
Assets acquired on business combination	-	35,741	-	-	-	35,741
Completed schemes	22,454	-	(22,454)	7,639	(7,639)	-
Transfer to current assets	-	-	-	(590)	-	(590)
Disposals:						
Properties	(522)	-	-	(2,535)	-	(3,057)
Replaced components	(611)	-	-	-	-	(611)
At 31 March 2016	373,039	35,741	13,889	54,672	3,056	480,397
Depreciation:						
At 1 April 2015	40,957	-	-	-	-	40,957
Charge for the year	5,506	-	-	-	-	5,506
Eliminated on disposals:						
- replaced components	(340)	-	-	-	-	(340)
- Properties	(83)	-	-	-	-	(83)
At 31 March 2016	46,040	-	-	-	-	46,040
Impairment:						
At 1 April 2015	-	-	-	50	-	50
Released in the year	-	-	-	(2)	-	(2)
At 31 March 2016	-	-	-	48	-	48
Net book value at 31 March 2016	326,999	35,741	13,889	54,624	3,056	434,309
Net book value at 31 March 2015	306,939	-	17,877	49,786	8,815	383,417

15. Tangible fixed assets - Housing property

Association	General needs completed £'000	General needs under construction £'0000	Shared ownership completed £'000	Shared ownership under construction £'000	Total £'000
Cost or valuation:					
At 1 April 2015	349,880	17,514	49,836	8,402	425,632
Additions:					
'- transfer to shared ownership	(322)	-	322	-	-
- construction costs	-	18,859	-	2,262	21,121
- replaced components	3,684	-	-	-	3,684
- Improvements	460	-	-	-	460
Completed schemes	22,484	(22,484)	7,608	(7,608)	-
Transfer to current assets	-	-	(478)	-	(478)
Disposals:					-
Properties	(522)	-	(2,520)	-	(3,042)
Replaced components	(611)	-	-	-	(611)
At 31 March 2016	375,053	13,889	54,768	3,056	446,766
Depreciation:					
At 1 April 2015	41,325	-	-	-	41,325
Charge for the year	5,506	-	-	-	5,506
Eliminated on disposals:					
- replaced components	(340)	-	-	-	(340)
- Properties	(83)	-	-	-	(83)
At 31 March 2016	46,408	-	-	-	46,408
Impairment					
At 1 April 2015	-	-	50	-	50
Released in the year	-	-	(2)	-	(2)
At 31 March 2016	-	-	48	-	48
Net book value at 31 March 2016	328,645	13,889	54,720	3,056	400,310
Net book value at 31 March 2015	308,555	17,514	49,786	8,402	384,257

15. Tangible fixed assets - Housing property (continued)

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
The net book value of housing properties may be further analysed as:				
Freehold	347,524	302,146	313,525	302,986
Long leasehold	83,597	77,900	83,597	77,900
Short leasehold	3,188	3,371	3,188	3,371
	434,309	383,417	400,310	384,257
Interest capitalisation				
Interest capitalisation in the year	(481)	(984)	(487)	(629)
Cumulative interest capitalised	(3,960)	(3,473)	(3,960)	(3,473)
Rate used for capitalisation	3.7%	4.0%	3.7%	4.0%
Work to properties				
Improvements to existing properties capitalised	4,144	5,931	4,144	5,931
Major repairs expenditure to income and expenditure account	474	385	474	385
	4,618	6,316	4,618	6,316
Total Social Housing Grant received or receivable to date is as follows:				
Capital Grants-				
- deferred capital grant	189,008	191,480	189,008	191,480
- amortised to the Statement of Comprehensive income	23,689	21,546	23,689	21,546
Recycled capital grant fund	2,547	1,371	2,547	1,371
Contingent liability re Ducane HA	7,299	-	-	-
	222,543	214,397	215,244	214,397

15. Tangible fixed assets - Housing property (continued)

Impairment

The group considers a scheme to represent the appropriate level of cash generating units (CGU's) when assessing for impairment in accordance with the requirements of FRS102 and SORP 2014.

During the current year, the group and association have recognised no impairment loss (2015 - £Nil) in respect of general needs housing stock. As part of the Welfare Reform Act 2016 the Government has required social landlords to reduce rents in social housing in England by 1% a year for four years from April 2016. The Government indicated this will result in a 12% reduction in average rents by 2020/21, compared to previous forecasts. As such, this triggered an indicator of impairment and a full review was performed.

Properties charged as security

As at 31 March 2016 1,780 (2015:1,631) properties with a book value of £121.4m (2015:£114.9m) were charged as security for loans made to Octavia Housing

As at 31 March 2016 237 properties with a book value of £35.7m were charged as security for loans made to Ducane Housing Association

Valuation

Octavia Housing commissions a desk top valuation each year of its housing stock from Jones Lang LaSalle so that indicative information can be included in the Report of the Board. A summary of this valuation is as follows:

	2016 £m	2015 £m
Open Market Value with Vacant Possession	2,288	1,973
Market Value subject to existing Tenancies	999	949
Existing Use Value for Social Housing	461	416
Estimated Annual Market Rent of General Needs social rented portfolio	89	87
Actual annual rent roll of General Needs social rented portfolio	24	22

16. Other tangible fixed assets

Group	Office Buildings £'000	Motor vehicles £'000	Fixtures fittings, and equipment £'000	Total £'000
Cost or Valuation				
At 1 April 2015	8,157	94	2,898	11,149
Additions	556	-	531	1,087
Assets acquired on business combination	396	-	295	691
At 31 March 2016	9,109	94	3,724	12,927
Depreciation				
At 1 April 2015	(754)	(93)	(2,266)	(3,113)
Charge for the year	(106)	(1)	(492)	(599)
At 31 March 2016	(860)	(94)	(2,758)	(3,712)
Net book value				
At 31 March 2016	8,249	-	966	9,215
At 31 March 2015	7,403	1	632	8,036

Association				
Cost or Valuation				
At 1 April 2015	8,157	94	2,898	11,149
Additions	556	-	531	1,087
At 31 March 2016	8,713	94	3,429	12,236
Depreciation				
At 1 April 2015	(754)	(93)	(2,266)	(3,113)
Charge for the year	(106)	(1)	(492)	(599)
At 31 March 2016	(860)	(94)	(2,758)	(3,712)
Net book value				
At 31 March 2016	7,853	-	671	8,524
At 31 March 2015	7,403	1	632	8,036

17. Investment properties

	2016 Total £'000	2015 Total £'000
Group and Association		
At 1 April	**8,705**	8,627
Disposals	**(177)**	-
Revaluations	**24**	78
At 31 March	**8,552**	8,705

The group's investment properties comprise shops, garages and other property ancillary to its social housing portfolio. They are valued annually on 31 March at fair value, either by an independent valuer or by the Directors. The last independent valuation was carried out by Savills at 31 March 2014 - this indicated a value of £8,640k. The Directors have updated this valuation taking account of the sale of one property during the year to Octavia Housing subsidiary Octavia Living at £230k. Details on the assumptions made and the key sources of estimation uncertainty are given below.

The properties are valued using the traditional "all risks" yield method of valuation, having regard to comparable evidence and current investment market sentiment. The key driver for investors will be income certainty, lettability in the event of tenant default and the reversionary vacant possession value.

The surplus on revaluation of investment property arising of £24k has been credited to the Statement of Comprehensive Income for the year.

If investment property had been accounted for under the historic cost accounting rules, the properties would have been measured as follows:

	Group and Association 2016 £'000	Group and Association 2015 £'000
Historic cost	**5,841**	5,879
Accumulated depreciation	**(1,779)**	(1,700)
	4,062	4,179

18. Subsidiary undertakings

The undertakings in which the Association has an interest are as follows:

	Country of incorporation or registration	Proportion of voting rights / ordinary share capital held	Nature of entity	2016 and 2015 Investment carrying value £'000
Ducane Housing Association Limited	England	100%	Registered Provider	-
Kensal Enterprises Limited	England	100%	Trading company	-
Octavia Development Services Limited	England	100%	Trading company	-
Octavia Hill Limited	England	100%	Housing charity	-
Octavia Living Limited	England	100%	Trading company	10
Ducane Commercial Services Limited	England	100%	Trading company	-
				10

19. Stock including properties for sale

Group	First tranche shared ownership properties 2016 £'000	Outright market sales 2016 £'000	Other 2016 £'000	Total 2016 £'000	Total 2015 £'000
Housing Work in progress	**1,197**	**8,652**	**-**	**9,849**	7,639
Charity Shop Stock	**-**	**-**	**6**	**6**	31
Completed housing properties for sale	**1,229**	**14**	**-**	**1,243**	2,174
	2,426	**8,666**	**6**	**11,098**	9,844

Properties developed for sale include capitalised interest of £869k (2015-£815k)

Association					
Housing Work in progress	**1,197**	**-**	**-**	**1,197**	2,832
Completed housing properties for sale	**1,229**	**14**	**-**	**1,243**	2,174
	2,426	**14**	**-**	**2,440**	5,006

Properties developed for sale include capitalised interest of £56k (2015-£140k)

20. Debtors

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Due within one year				
Rent and service charge arrears	**1,376**	1,176	**1,367**	1,176
Less: Provision for doubtful debts	**(527)**	(525)	**(525)**	(525)
	849	651	**842**	651
Amounts owed by group undertakings	**-**	-	**8,911**	-
Amounts held by lenders as security for borrowings	**6,656**	-	**6,656**	-
Other debtors	**4,438**	2,173	**4,395**	2,168
Prepayments and accrued income	**656**	984	**654**	721
	12,599	3,808	**21,458**	3,540
Due after one year				
Amounts owed by group undertakings	**-**	-	**-**	5,122
	12,599	3,808	**21,458**	8,662

Amounts owed by group undertakings includes £8,757k in relation to a loan to Octavia Living Ltd. In July 2016 the maturity of this loan was extended to March 2018.

Other debtors includes £3.1m in relation to fees billed to local authorities relating to care and support charges.

Amounts held by lending organisations comprises loan proceeds retained by Affordable Housing Finance Ltd pending the finalisation of property security.

21. Creditors - amounts falling due within one year

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Loans and borrowings (note 26)	**4,452**	5,453	**4,008**	5,453
Trade creditors	**10,591**	11,358	**9,637**	10,510
Donation received from the Reed Family Foundation for buildings under construction	**900**	-	**900**	-
Rent and service charges received in advance	**1,287**	982	**1,260**	982
Amounts owed to group undertakings and related parties	**79**	72	**76**	335
Taxation and social security	**321**	280	**259**	280
Other creditors	**639**	1,077	**630**	437
Deferred capital grant (Note 23)	**2,150**	2,143	**2,150**	2,143
Recycled capital grant fund (Note 24)	**126**	-	**126**	-
Disposal proceeds fund (Note 25)	**-**	-	**-**	-
SHPS pension agreement plan	**249**	152	**225**	152
Accruals and deferred income (incl Holiday pay)	**678**	100	**100**	100
Accrued interest	**908**	954	**908**	954
	22,380	22,571	**20,279**	21,346

22. Creditors - amounts falling after more than one year

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Loans and borrowings (note 26)	**159,901**	132,398	**150,935**	132,398
Interest rate swap – cash flow hedge	**3,861**	3,325	**3,861**	3,325
Deferred capital grant (Note 23)	**186,858**	189,337	**186,858**	189,337
Recycled capital grant fund (Note 24)	**2,421**	1,371	**2,421**	1,371
SHPS pension deficit funding	**1,987**	1,298	**1,828**	1,298
	355,028	327,729	**345,903**	327,729

23. Deferred capital grant

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
At 1 April	**189,337**	190,037	**189,337**	190,037
Grants received during the year	**761**	1,701	**761**	1,701
Grants transferred (to)/from RCGF	**(1,090)**	(258)	**(1,090)**	(258)
Released to income during the year	**(2,150)**	(2,143)	**(2,150)**	(2,143)
At 31 March	**186,858**	189,337	**186,858**	189,337

24. Recycled capital grant fund

Group and Association

Funds pertaining to activities within areas covered by	GLA 2016 £'000	GLA 2015 £'000
At 1 April	**1,371**	1,067
Inputs to fund:		
Grant recycled from deferred capital grants	**1,090**	648
Grant recycled from statement of comprehensive income	**80**	40
Interest accrued	**6**	6
Recycling of grant:		
New build	-	(390)
At 31 March	**2,547**	**1,371**
Amounts 3 years or older where repayment may be required	**494**	179

Withdrawals from the recycled capital grant fund were used for new build development.

25. Disposable proceeds fund

Group and Association

Funds pertaining to activities within areas covered by	GLA 2016 £'000	GLA 2015 £'000
At 1 April	-	503
Interest accrued	-	7
Use/ allocation of funds:		
New build	-	(510)
At 31 March	-	-

Withdrawals from the disposal proceeds fund were used for new build development.

26. Loans and borrowing

Maturity of debt

Group	Capital Markets 2016 £'000	Bank loans 2016 £'000	Other loans 2016 £'000	Total 2016 £'000
In one year or less, or on demand	**2,050**	**2,402**	-	**4,452**
In more than one year but not more than two years	**55**	**2,594**	-	**2,649**
In more than two years but not more than five years	**190**	**13,074**	-	**13,264**
More than five years	**18,445**	**125,518**	**25**	**143,988**
	20,740	**143,588**	**25**	**164,353**

Association	Capital Markets 2016 £'000	Bank loans 2016 £'000	Other loans 2016 £'000	Total 2016 £'000
In one year or less, or on demand	**2,050**	**1,958**	-	**4,008**
In more than one year but not more than two years	**55**	**2,182**	-	**2,237**
In more than two years but not more than five years	**190**	**10,287**	-	**10,477**
More than five years	**18,445**	**119,751**	**25**	**138,221**
	20,740	**134,178**	**25**	**154,943**

Group	Capital Markets 2015 £'000	Bank loans 2015 £'000	Other loans 2015 £'000	Total 2015 £'000
In one year or less, or on demand	61	5,392	-	5,453
In more than one year but not more than two years	2,066	1,806	-	3,872
In more than two years but not more than five years	3,740	9,689	-	13,429
More than five years	536	114,536	25	115,097
	6,403	**131,423**	**25**	**137,851**

Association	Capital Markets 2015 £'000	Bank loans 2015 £'000	Other loans 2015 £'000	Total 2015 £'000
In one year or less, or on demand	61	5,392	-	5,453
In more than one year but not more than two years	2,066	1,806	-	3,872
In more than two years but not more than five years	3,740	9,689	-	13,429
More than five years	536	114,536	25	115,097
	6,403	**131,423**	**25**	**137,851**

26. Loans and borrowing (continued)

During the year the Association borrowed through the Affordable Housing Finance plc tap issue on 4 August 2015, drawing a total of £18m at a rate of 2.893% which is repayable on the 30 July 2043. Issue costs of £123k have been deducted off the initial carrying value.

The Association also drew down on the EIB loan facility on the 1st December 2015 in the sum of £10m, which had previously been fixed at a rate of interest of 4.168%. This is repayable in semi annual £250k instalments ending on 8 July 2045, with loan issue costs of £130k having been deducted from the carrying value. On 17 December 2015 the Association purchased £3.5m (nominal) of The Housing Finance Corporation (Social Housing Finance) 8.75% 2021 Debenture Stock and in January 2016 the lender cancelled these bonds against the indebtedness from the Association.

The Association has also drawn and repaid amounts on its revolving credit facilities with the Nationwide Building Society and Svenska Handlesbanken AB.

Loans are secured by first fixed charges on the housing properties of the Group and Cash which has been deposited in sinking funds managed by Affordable Housing Finance plc, pending the finalisation of first fixed charges over housing properties. Loans bear interest at fixed rates ranging between 0.9975% and 14% or at variable rates calculated at a margin over the London Inter Bank Offer Rate.

Ducane Housing Association joined the Group on the 31 March 2016 and its borrowings from EIB through THFC, Lloyds Bank and the Royal Bank of Scotland totalling £9,584k have been added on that date.
At 31 March 2016 the Association and Group had undrawn, secured and available loan facilities of £26.8m (2015: £35m).

27. Financial instruments

The Group's and Association's financial instruments may be analysed as follows:

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Financial assets				
Financial assets measured at historic cost				
- Debtors	**12,599**	3,808	**21,458**	8,662
- Short term deposits	**1,363**	1,350	**101**	100
- Cash and cash equivalents	**16,465**	15,390	**9,188**	10,383
Total financial assets	**30,427**	20,548	**30,747**	19,145
Financial liabilities				
Financial liabilities measured at amortised cost				
- Loans payable	**164,353**	137,851	**154,943**	137,851
Financial liabilities measured at historic cost				
- Trade Creditors	**10,591**	11,358	**9,637**	10,510
- Other Creditors	**3,443**	2,435	**2,648**	2,058
Derivative financial instruments designated as hedges of variable interest rate risk	**3,861**	3,325	**3,861**	3,325
Total financial liabilities	**182,248**	154,969	**171,089**	153,744

Financial assets measured at historic cost comprise cash and cash equivalents, short term deposits, debtors, amounts held by lenders, and amounts due from group undertakings.

Financial liabilities measured at amortised historic cost comprise bank loans. Financial liabilities measured at historic cost comprise trade creditors and other creditors.

Derivative financial instruments designated as hedges of variable interest rate risk comprise interest rate swaps.

Hedge of variable interest rate risk arising from bank loan liabilities

To hedge the potential volatility in future interest cash flows arising from movements in LIBOR, the group has entered into a stand alone floating to fixed interest rate swap with a nominal value of £12m with the same term as certain underlying variable rate loans and with interest re-pricing dates identical to those of the variable rate loans. These result in the group paying 3.392% and receiving LIBOR (though cash flows are settled on a net basis) and effectively fix the total interest cost on loans and the interest rates swap at 3.667% per annum.

The derivatives are accounted for as a hedge of variable rate interest rate risks, in accordance with FRS 102 and had a fair value of £3,861k (2015: £3,325k) at the balance sheet date. The cash flows arising from the interest rate swaps will continue until their maturity in November 2037. The change in fair value in the period was £536k (2015; £2,942k) with almost all entire charge being recognised in Other Comprehensive Income as the swap is a 99% effective hedge, as follows.

27. Financial instruments (continued)

	Association and Group 2016 £'000	Association and Group 2015 £'000
Fair value at 1 April	(3,325)	(383)
Change in fair value charged to income and expenditure	1	(41)
Change in fair value charged to cash flow hedge reserve	(537)	(2,901)
Fair value at 31 March	(3,861)	(3,325)

28. Pensions

Several pension schemes are operated by the group

Defined benefit pension scheme

The Association and Group participate in the Social Housing Pension Scheme, a multi-employer scheme which provides benefits to some 500 non-associated employers. The scheme is a defined benefit scheme in the UK. It is not possible for the Association or Group to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore it accounts for the scheme as a defined contribution scheme.

The scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and Technical Actuarial Standards issued by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.

The scheme is classified as a 'last-man standing arrangement'. Therefore the Group or Association are potentially liable for other participating employers' obligations if those employers are unable to meet their share of the scheme deficit following withdrawal from the scheme. Participating employers are legally required to meet their share of the scheme deficit on an annuity purchase basis on withdrawal from the scheme.

A full actuarial valuation for the scheme was carried out with an effective date of 30 September 2014. This actuarial valuation was certified on 23 November 2015 and showed assets of £3,123m, liabilities of £4,446m and a deficit of £1,323m. To eliminate this funding shortfall, the trustees and the participating employers have agreed that additional contributions will be paid.

The Association also participates in the "Growth Plan", another multi-employer scheme administered by its Pension Trust.

Where the scheme is in deficit and where the Group or Association has agreed to a deficit funding arrangement, the Group or Association recognises a liability for this obligation. The amount recognised is the net present value of the deficit reduction contributions payable under the agreement that relates to the

28. Pensions (continued)

deficit. The present value is calculated using the discount rate detailed in these disclosures. The unwinding of the discount rate is recognised as a finance cost.

Deficit contributions

Tier 1

From 1 April 2016 to 30 September 2020: £40.6m per annum (payable monthly and increasing by 4.7% each year on 1st April)

Tier 2

From 1 April 2016 to 30 September 2023: £28.6m per annum (payable monthly and increasing by 4.7% each year on 1st April)

Tier 3

From 1 April 2016 to 30 September 2026: £32.7m per annum (payable monthly and increasing by 3.0% each year on 1st April)

Tier 4

From 1 April 2016 to 30 September 2026: £31.7m per annum (payable monthly and increasing by 3.0% each year on 1st April)

Reconciliation of Opening and Closing Provisions year ended 31 March 2016

	SHPS £'000	Growth Plan £'000	Total £'000
Provision at start of period	1,389	61	1,450
Unwinding the discount factor (interest expense)	25	1	26
Deficit contribution paid	(145)	(7)	(152)
Remeasurements - impact of any changes in assumptions	(13)	(1)	(14)
Remeasurements - amendments to the contribution schedule	736	13	749
	1,992	67	2,059

Defined contribution schemes

The Association also operates a defined contribution pension scheme with the Social Housing Pension Scheme and one other. The Association has no liability beyond its regular contributions on behalf of employees in respect of these schemes.

29. Share capital

Each member of Octavia Housing holds a non-equity share from one of the following classes of allotted, issued and fully paid shares:

Shares	2016 £	2015 £
108 £1 ordinary	**108**	106
77 Class "A" £1	**77**	77
1 Class "B" £0.05	**-**	-
18 Class "C" £5	**90**	90
As at 31 March	**275**	273

30 Contingent liabilities

The Group receives grant from the Homes and Communities Agency and from the Greater London Authority, which is used to fund the acquisition and development of housing properties and their components. Grant of £29.3m (2015:£21.5m) for the Group and £23.6m (2015:£21.5m) for the Association received in respect of housing properties held at 31 March 2016 has been credited to reserves in accordance with the requirements of SORP 2014. The Group has a future obligation to recycle such grant if there is a disposal of the properties that it funds.

As the timing of any future disposal is uncertain, no provision for such a liability has been recognised in these financial statements.

31. Operating leases

The group and the association had minimum lease payments under non-cancellable operating leases as set out below:

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Amounts payable as a lessee				
Not later than 1 year	**667**	694	**667**	694
Later than 1 year and not later than 5 years	**1,874**	2,086	**1,874**	2,086
Later than 5 years	**523**	979	**523**	979
Total	**3,064**	3,759	**3,064**	3,759
Amounts receivable as a lessor				
Not later than 1 year	**426**	467	**426**	467
Later than 1 year and not later than 5 years	**921**	1,321	**921**	1,321
Later than 5 years	**1,461**	1,563	**1,461**	1,563
Total	**2,808**	3,351	**2,808**	3,351

The amounts payable as a lessee principally relate to rental obligations on charity shops.
The amounts receivable as a lessor comprise rental obligations on the association's investment properties.

32. Capital commitments

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Commitments contracted but not provided for :				
Construction	**17,671**	19,131	**17,671**	19,131
Commitments approved by the Board but not contracted for :				
Construction	**10,040**	21,362	**10,040**	21,362
Maintenance	**4,395**	4,500	**4,395**	4,500
	32,106	44,993	**32,106**	44,993

Contracted capital commitments for the group and association will be funded as follows:

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Social Housing Grant	**2,338**	3,531	**2,338**	3,531
Borrowings from existing secured facilities	**11,583**	15,600	**11,583**	15,600
Sales of properties	**3,750**	-	**3,750**	-
	17,671	19,131	**17,671**	19,131

33. Related party disclosures

The ultimate controlling party of the group is Octavia Housing - a registered social housing provider. There is no ultimate controlling party of Octavia Housing.

Transactions with non regulated entities

The association provides management services, other services and loans to its subsidiaries. The association also buys assets and receives services from its subsidiaries. The quantum and basis of those charges is set out below.

Payable to Association by subsidiaries:	2016 £'000	2015 £'000
Intra-group Management fees (see below)		
Kensal Enterprises Limited	**6**	20
Octavia Development Services Limited	**10**	10
Octavia Hill Limited	**10**	12
Octavia Living Limited	**20**	20
	46	62
Interest		
Octavia Living Limited	**472**	355
Total	**518**	417

Payable by the Association to subsidiaries:	2016 £'000	2015 £'000
Octavia Living Limited		
Purchase of completed housing	**760**	-
Stage payments for developments in progress	**1,014**	-
Sales Commissions	**404**	230
	2,178	230
Octavia Development Services Limited		
Purchase of Land & Buildings	**244**	4,259
Total	**2,422**	4,489

Intra-group management fees

Intra-group management fees are receivable by the association from subsidiaries to cover the running costs the association incurs on behalf of managing its subsidiaries. The management fee is calculated on a department basis, with varying methods of allocation. The costs are apportioned as follows:

Department	By reference to
Finance	Headcount
Human resources	Headcount
Facilities	Floor space
Executive	Staff time
Health & Safety	Headcount

Intra-group loans

Entity granting loan	Entity receiving loan	At 1 April 2015 £'000	Movement £'000	At 31 March 2016 £'000
Octavia Housing	**Octavia Living Limited**	**5,027**	3,730	8,757

This inter-group loan is for a maximum amount of £17m, repayable on 31 March 2017, bearing interest at a rate of 4.65% with a non-utilisation fee of 1.65%. Subsequent to the balance sheet date the maturity of this loan was extended to 31 March 2018.

The loan is secured by a first fixed charge over land.

Balances outstanding from the subsidiaries

Payable to the Association by subsidiaries:	2016 £'000	2015 £'000
Kensal Enterprises Limited	**49**	74
Octavia Development Services Limited	**-**	-
Octavia Hill Limited	**13**	23
Octavia Living Limited	**8,757**	5,027
	8,819	5,124

There are two Board members who are tenants of Octavia Housing and one who is a shared owner - none of them had any arrears at 31 March 2016 (2015:£nil). Details of their remuneration are given in note 11 above. None of them enjoy any other special arrangements.

Octavia Housing made a donation of £370,000 (2015 £320,000) to the Octavia Foundation, a charitable entity which works to assist tenants of Octavia Housing and the wider community and which operates from Octavia Housing's offices in West London. At 31 March 2016, the balance owing by Octavia Housing to the Octavia Foundation was £76,194 (2015:£21,464).

34. Business combinations

Ducane Housing Association Limited

On 31 March 2016 Ducane Housing Association Limited changed its rules and issued a £1 ordinary share to Octavia Housing making it a 100% subsidiary of Octavia from that date. No consideration passed in relation to this transaction.

In calculating the gain arising on business combination, the fair values of the net assets of Ducane Housing Association Limited have been assessed and adjustments from book value have been made where necessary. These adjustments are summarised in the following table:

	Book value £'000	Adjustments £'000	Fair value £'000
Fixed assets			
Housing properties	23,002	12,739	35,741
Other fixed assets	691	-	691
	23,693	12,739	36,432
Current assets			
Debtors	46	-	46
Cash at bank and in hand	2,433	-	2,433
	2,479	-	2,479
Total assets	26,172	12,739	38,911
Deferred capital grant	(5,844)	5,844	-
Other Creditors	(10,379)	-	(10,379)
Net assets acquired			
Amount treated as donation income in the year	9,949	18,583	28,532

As the fair value of the Housing properties was determined on the basis of Existing Use Value - Social Housing, the related social housing grant has been credited to the Income and expenditure accounts and recognised as a contingent liability.

No entities joined the Octavia Housing Group in the year ended 31 March 2015.

35. First time adoption of FRS 102

Group	Note	Reserves as at 1 April 2014 £'000	Year ended 31 March 2015 £'000	Reserves as at 31 March 2015 £'000
As previously stated under former UK GAAP		77,285	5,044	82,329
Transitional adjustments				
Increase in depreciation of housing properties	a	(16,770)	(1,584)	(18,354)
Amortisation of capital grants relating to housing properties	b	19,506	2,040	21,546
Reinstatement of grant on replaced components	c	(4,265)	(543)	(4,808)
Inclusion of SHPS pension payment plan	d	(1,480)	30	(1,450)
Revaluation of commercial properties	e	4,374	78	4,452
Fair value of non basic swaps	f	(383)	(2,942)	(3,325)
Inclusion of holiday pay accrual	g	(100)	-	(100)
Write back of amortised grant on sales	h	-	(40)	(40)
As stated in accordance with FRS 102		78,167	2,083	80,250

Association	Note	Reserves as at 1 April 2014 £'000	Year ended 31 March 2015 £'000	Reserves as at 31 March 2015 £'000
As previously stated under former UK GAAP		73,483	4,680	78,163
Transitional adjustments				
Increase in depreciation of housing properties	a	(16,770)	(1,584)	(18,354)
Amortisation of capital grants relating to housing properties	b	19,506	2,040	21,546
Reinstatement of grant on replaced components	c	(4,265)	(543)	(4,808)
Inclusion of SHPS pension payment plan	d	(1,480)	30	(1,450)
Revaluation of commercial properties	e	4,374	78	4,452
Fair value of non basic swaps	f	(383)	(2,942)	(3,325)
Inclusion of holiday pay accrual	g	(100)	-	(100)
Write back of amortised grant on sales	h	-	(40)	(40)
As stated in accordance with FRS 102		74,365	1,719	76,084

35. First time adoption of FRS 102 (continued)

Explanation of changes to previously reported surplus and reserves

a. FRS102 requires that the grant previously deducted from the cost of the fixed assets is treated as a creditor where the fixed assets are carried at cost and depreciation is calculated on the gross cost. The effect compared with current UK GAAP is an increase to the carrying value of the housing properties resulting in an increase in the depreciation charge on transition of £16,770,000.

b. Social Housing Grant can no longer be offset against housing property within fixed assets. Under section 24 of FRS 102, where properties are held at cost, the related social housing grant will be recognised using the 'accrual model' with the grant amortised over the life of the structure and components of the property. Grants relating to revenue are recognised in income and expenditure over the same period as the expenditure to which they relate, once performance related conditions have been met.
Grants due from government organisations or received in advance are included as current assets or liabilities.

c. Grant which was previously written off when a component was replaced has been reinstated and allocated to the structure in accordance with the requirements of FRS102.

d. FRS 102 requires the recognition of the liability to make the agreed past service deficits payments in respect of the Social Housing Pension Scheme (SHPS) multi employer Defined Benefit Scheme.

e. FRS 102 requires that changes in the fair value of investment properties be recognised in its surplus or deficit for the year. Under previous UK GAAP these changes were not recognised as such properties were held at cost and depreciated.

f. FRS 102 requires the fair value of the standalone swap with Notting Hill Housing Trust to be recognised in the balance sheet. Any change in the fair value of a hedged financial instruments is recognised in other comprehensive income to the extent that the hedge is effective. On transition £383,000 has been recognised as a cash flow hedge reserve.

g. FRS102 requires that the unused entitlement of short-term employee benefits is measured and recognised in the reporting period. The effect is that unused holiday entitlement has now been recognised as an accrual in the reporting period date. This has resulted in a decrease of reserves of £100,000.

h. Following the amortisation of the grant on housing properties, when a sale occurs the element which has been taken to the income and expenditure account is written back or transferred to the Recycled Capital Grant Fund.

i. Section 7 of FRS102 requires cash and cash equivalents in the Group's consolidated balance sheet to consist of cash at bank and in hand and bank and money market deposits with an original maturity of three months or less. The effect of this is that bank and money market deposits with maturity of more than three months totalling £1,350k at 31 March 2015 (2014:£1,119k) were not included in cash and cash equivalents.

36. Changes in working capital

Group	Note	2016 £'000	2015 £'000
(Increase) / decrease in trade and other debtors		**(8,745)**	377
(Increase) / decrease in stocks		**(1,254)**	789
Increase / (decrease) in pension creditor	28	**603**	(30)
(Decrease) / increase in grant creditors		**(120)**	3,403
(Decrease) in trade creditors		**(34)**	(589)
		(9,550)	3,950

Association	Note	2016 £'000	2015 £'000
Increase in trade and other debtors		**(12,796)**	(680)
Decrease in stocks		**2,566**	1,469
Increase / (decrease) in pension creditor	28	**603**	(30)
(Decrease) / increase in grant creditors		**(120)**	3,403
Increase / (decrease) in trade creditors		**344**	(1,113)
		(9,403)	3,049

Alan Johnson MP was another contributor to our book, A Life More Noble but the relationship goes much further back than last year. A social housing tenant until his early adulthood, Alan grew up in the Notting Hill area in a property once owned by the Rowe Housing Trust, an organisation which eventually became Octavia Housing. In 2014 we invited him to be interviewed by Guardian Journalist Hannah Poole at an event for residents, which we knew would be popular. What we were not expecting however was that the event would also be a family reunion as local resident Betty, Alan's aunt, surprised him on the night after over 35 years.

"Social housing saved us, they were the only landlords of the time who wanted to provide ethical housing rather than to make a profit out of poor people". Alan Johnson MP

OCTAVIA

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