OCTAVIA

ANNUAL REPORT AND FINANCIAL STATEMENTS

2016/2017

CONTENTS

Executives and advisors	01
Chairmans statement	02
Report of the Board of Management (including Strategic Report)	04
Independent auditor's report	38
Consolidated and Association Statements of Comprehensive Income	40
Consolidated and Association balance sheets	41
Consolidated and Association statements of changes in reserves	42
Consolidated statement of cash flows	43
Association statement of cash flows	44
Notes forming part of the financial statements	45

Cover picture: YourSpace, annual resident fun day 2017.

EXECUTIVES AND ADVISORS

The Board

Sandeep Katwala – Chairman (appointed 24/04/2017)

Andrew Herbert – Chairman (retired 24/04/2017)

Gwendoline Godfrey – Vice Chair

Simon Porter – Treasurer

Grahame Hindes

Malcolm Holloway (appointed 31/03/2017)

Annie Lathaen

Stephen Smith

Debbie Sorkin

Rosalind Stevens

Angus Taylor

Alexandra Theaker (resigned 31/3/2017)

Rajan Upadhyaya

Aldo Williams (resigned 16/01/2017)

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 (Ducane HA & Octavia Living Managing Director)

Secretary & Registered Office

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Internal Auditors

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Auditors

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CHAIRMAN'S STATEMENT
WELCOME TO THE REPORT AND ACCOUNTS

This is my first introduction to the Annual Report as Chair of Octavia and as such my first task is to thank, both personally and on behalf of my colleagues on the Board, Andrew Herbert, who stood down as Chair in April 2017 after six years leading the Board.

Andrew has passed an organisation on to me that is financially robust and which has stayed true to its purpose of delivering homes and services to the poorest in our community. Just as Andrew was departing we were the subject of an In Depth Assessment by the Homes and Community Agency (HCA). I am pleased to report that the HCA has subsequently reported that the organisation continues to meet all of their Regulatory and Viability expectations. At the same time we received the results of our three yearly resident survey – reported later in this document – which evidences continuing improvement in resident satisfaction levels that were already in the top quartile of comparable organisations. Our recent staff survey results were also very positive. As always, there is room for improvement and we continue to strive to do better but these results are a great credit to Andrew and the Board, the Directors team and all of the staff and volunteers who work at Octavia.

What lies in store for the next period? We face a highly uncertain economic, regulatory and political environment. The sector also is undergoing considerable change both internally and as a result of changes in Government policy. The consequences of Brexit have yet to be worked through. Yet, some factors are certain. There is a desperate need for housing in London that is affordable not just for the most disadvantaged in society but also, for example, for the young starting out in their careers, for those with young families and for the many who work in jobs that are vital to the functioning of the city. We know that public funding for affordable homes and also for care arrangements is likely to remain severely constrained. Equally, that housing associations will continue to be under close scrutiny to provide efficient services.

Octavia has a vital role to play in providing homes and delivering services to the inner London community it serves, the majority of our homes are in the Royal Borough of Kensington and Chelsea and the City of Westminster. In response to the demands outlined above we have set ourselves some stretching goals for the coming few years. We are going to increase the rate at which we provide new homes and will aim to deliver 1,000 new homes over the next five years. We are also planning to increase the outreach of our community work – we know that we can extend the scope of the work we currently undertake and therefore reach substantially more people than we currently do. We are also going to strive to improve even further the quality of the services we provide to our tenants.

Octavia has a strong and long tradition in delivering homes in inner London. It also has considerable financial strength through the quality of the property portfolio it owns. The Board is clear that going forward we want to shape and deliver an organisation that reaches significantly more people in the community that desperately need our support (through new homes and also community services) whilst ensuring that Octavia stays financially strong and true to its social purpose. I look forward to playing my part in that exciting and challenging journey.

Sandeep Katwala

REPORT OF THE BOARD OF MANAGEMENT (INCLUDING STRATEGIC REPORT)

Overview and purpose

Over 150 years ago our founder, Octavia Hill, acquired her first properties and created what eventually became "Social Housing". From those early days we have helped generations to remain in London, providing housing, care, support and other opportunities for people to fulfil their aspirations for better futures.

Many people think of housing associations as primarily property based organisations. However, while the portfolio of buildings that we own is important, just as significant is the work we do on behalf of residents and the wider communities is the relationship we have with residents. We aim to make a difference:

- to the people who live in our homes, many of whom would otherwise be priced out of London
- to the vitality of local areas and their ability to give the extra care and support required 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.

Our work has never been more important. London is one of the richest and most developed cities of the world and yet in 2017, access to affordable, good quality housing and health and social support is getting harder for many people.

As this report shows we have made significant progress during the year in managing our homes and in developing a stronger organisation, capable of helping more people on low incomes to have the security and reassurance of a good-quality home.

Legal structure and governance

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 2017.

"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). Octavia now has six subsidiaries:

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

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

c) Octavia Foundation provides community support to people in central and west London, including Octavia residents

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) Ducane Housing Association Ltd develops and manages intermediate housing primarily for, key workers, post graduates and students

f) Ducane Commercial Services Limited manages property for third parties

At the close of the financial year the Octavia Foundation, which had previously been a separate entity supported by, but legally independent of, Octavia joined the Group. We made this change in recognition of the fact that the community work which the Foundation has been doing in partnership with Octavia is integral to our overall purpose. We aim to build significantly on the services that the Foundation already provides to Octavia residents and the local community in the coming years. This planned development is referred to later in his report.

During the year we made one other change to the legal structure, which was to transfer all of the assets of Octavia Hill Ltd to Ducane Housing and to wind up that company. In the next twelve months it is our intention to further simplify the structure of the Group by transferring the activities of Ducane Commercial Services to Octavia Living and closing Ducane Commercial Services.

External environment

Demand for housing across a range of tenures continues to exceed supply in London. The Mayor's Housing Strategy highlights that London's population increased by 14% in the last decade but housing stock grew by 9%. Affordability in terms of home ownership and private rent in the capital is increasingly challenging with first time buyers often requiring a 25% deposit. The external policy environment has shifted substantially in the last year. It is more uncertain and unpredictable than it has been for many years, given Brexit and the results of the last general election.

Demographic change and housing supply

The population of London is expected to increase by around 1 million between 2011 and 2021 to 8.6 million, rising to a peak of 10 million by 2031 (Housing in London 2014, GLA). Within this overall population growth, the Greater London Authority predicts a 12% increase in Londoners aged 70 and above between 2016 and 2021. The London School of Economics has concluded that 59,000 new homes were needed per year in the capital (The Future Housing Needs of London, 2015, LSE), more than double the numbers actually built in 2015-16.

Affordable homes and mixed communities

The way in which housing associations contribute to building new homes has changed significantly over recent years with decreased grant funding from 65% under the previous regime to between 10%-15% under current arrangements. This makes providing genuinely 'affordable' homes particularly challenging.

The Right to Buy scheme to be extended to housing associations on a voluntary basis has been delayed pending a second regional pilot taking place. The scheme, if it goes ahead, gives certain tenants discounts of over £100,000 to purchase their home and will be funded through selling off high value local authority stock. We await the findings of the second pilot before deciding on our approach.

Reduction in rental income

In the 2015 Autumn Statement the Government announced that social rents were to decrease by 1% each year for the next 4 years from April 2016. This reduced our expected rental income for housing associations last year as it will for the next three years and the position post 2020 remains uncertain.

Welfare reform

The Welfare Reform and Work Act passed 2016 continued a series of Government policies designed to reduce welfare costs. In addition to a deduction of Housing Benefit for those under-occupying, the benefit cap was further reduced to £23,000 in London and main benefits were frozen for the next four years. The roll-out of Universal Credit continues, and with tenants now having to wait at least six to eight weeks for first payments, Associations' income collection across the sector are likely to be adversely affected.

The Autumn Statement 2015 included announcements that the Local Housing Allowance (LHA) rates for the private sector will be applied to housing associations thus limiting the amount of Housing Benefit available to social housing tenants. The LHA shared accommodation rate for single people aged under 35 with no dependents is especially challenging and affects new tenancies signed from April 2016 but applied from April 2018.

Pressures on Social Care and local public spending

Previous governments' ambition to reduce public spending has impacted on the monies available for essential care and support services. In 2011-12 local authorities began implementing a 40% cut in funding from central Government spread over 6 years with social care as one of the three areas most affected. The position going forwards remains unclear.

Governance and Public Body Classification

The Government made legislative changes through the Housing and Planning Act 2016 to the regulatory framework within which the Homes and Communities Agency (HCA) works, and to enable a reclassification of Housing Associations as private sector entities again. A principal change implemented in April 2017 was the removal of the requirement to seek approval from the HCA for the disposal or change of use of properties, and for mergers between housing associations.

Brexit and the wider economy

The Brexit negotiations are an ongoing source of major uncertainty for the sector and the wider economy. Potential impacts include difficulties in recruiting care staff from other parts of the European Union, a negative impact on property prices in central London; on interest rates; and there is weaker GDP growth predicted in the next few years.

Operational issues

Operational performance is ultimately the responsibility of the Board. Detailed monitoring is undertaken by the Directors Group, the Development Panel, an Audit Committee, and the Health and Safety Committee. A Services Scrutiny Panel (made up of residents and independent members) undertake scrutiny on identified service areas based on resident feedback.

Housing

Top quartile performance

The Board receive detailed performance information each month. The suite of performance indicators is comprehensive and covers all areas of work. Figure 1 provides a summary of performance for key indicators compared to other London based associations as reported by Housemark:

Figure 1 – performance on KPIs

Performance Indicator	Octavia 2016/17 Outturn	Octavia 2015/16 Outturn	London Housemark comparison
Rent arrears as % rent due	4.1%	4.3%	Upper median
Rent collection as % of rent due	99.7%	99.2%	Upper median
General needs standard voids – average re-let time (in days)	20	26	Top quartile
% of emergency repairs completed on time	99.5%	100%	Top quartile
% of gas appliances with a current certificate	100%	100%	Top quartile
Average call answering in seconds	12	10	Upper median
% complaints responded to within timescale	95%	96%	Upper median
% Fire safety risk assessments completed	100%	100%	Top quartile
Staff turnover	18.5%	16%	Top quartile

Our ambition is for our performance to be top quartile compared to peers. We are achieving our ambitions in some areas including voids re-let times, repairs completion times, and number of complaints received reduced by 14% from the previous year. Two complaints were referred to the Housing Ombudsman, in each case the Ombudsman found in favour of Octavia. We have plans in place to achieve top quartile performance across all areas going forwards.

"Volunteering is a wonderful way to give something back. Octavia's volunteers are making a positive difference every day."

Actor Tamsin Greig at the Octavia Foundation Volunteer Celebration Awards


ation
ARY
Octavia Foundation Shop Volunteer of the Year
This award is presented to
nition of his outstanding commitment and
contribution to volunteering.
Octavia Foundation

Service outcomes and resident satisfaction

We consider service outcomes in many ways. The Board receives a resident involvement feedback report each month, and we carry out satisfaction surveys on a range of services. We carry out Housemark's STAR survey (the sector's most common satisfaction survey) every three years. Our 2017 STAR survey findings are very encouraging. Satisfaction with our overall service improved to 83%. We are in the top quartile for London Associations on all except one of the satisfaction indicators, and we already have plans in place to improve on service charges as Value For Money.

Figure 2: STAR survey topline scores

STAR satisfaction survey	STAR 2016-17	STAR 2013-14	+ / -	London Housemark comparison
Taking everything into account, how satisfied or dissatisfied are you with the service provided by Octavia	83%	82%	+1%	Top quartile
How satisfied are you with the overall quality of your home?	84%	78%	+6%	Top quartile
How satisfied are you with your neighbourhood as a place to live?	87%	86%	+1%	Top quartile
How satisfied are you that your rent provides value for money?	86%	80%	+6%	Top quartile
How satisfied are you that your service charges provides value for money?	59%	66%	-7%	Upper median
Generally, how satisfied or dissatisfied are you with the way Octavia deals with repairs and maintenance?	77%	72%	+5%	Top quartile
How satisfied or dissatisfied are you that Octavia listens to your views and acts upon them?	69%	65%	+4%	Top quartile

Rent setting

Our aim is to keep rents affordable to support mixed communities in our local areas. As most of our homes are in high value locations, the difference between the rents we charge and full market rent is significant. Jones Lang LaSalle estimate the market rental on our general needs portfolio to be £85m per year. The rents actually charged in the financial year were £25m. The difference represents the social dividend that the local community and Government receives from the historic investment in Octavia's properties – a return of some 30% on the capital grants received in respect of this housing.

During the year average rents across all properties decreased slightly from £124.78 per week to £124.62 per week. The slight reduction reflects the 1% decrease in social rents required by the previous government which was applied from 1 April 2016, offset by the impact of higher rents on relets and for the new homes handed over during the year. Overall our average rents continue to be well below the government formula for equivalent social housing properties, which averaged £152.72 per week.

Another 18 new Affordable Rent homes were completed during the year to make a total of 202 homes where rents are set under this new system. While it is possible to charge up to 80% of market rents under the new system, the Board remain committed to helping those on low incomes and in low paid employment. On average we estimate that our Affordable Rents represent less than 40% of market rent levels in the relevant area.

Asset management

Irreplaceable portfolio and quality of homes

Our property portfolio is in the most expensive boroughs in the country. Capital values in our local areas are high and the need for affordable housing is intense. Our homes are irreplaceable as a social asset.

Our planned works cost per property was £2,356 in 2016-17, which is high when compared to other London associations. Around half of our homes are street properties built in the Victorian era or in conservation areas and therefore require significant investment. Our approach to Asset Management is to take a long term view, invest responsibly in our homes now to protect property value, ensure homes are safe and attractive, and avoid higher costs later.

As set out earlier, our STAR survey results show a significant increase in satisfaction with the quality of our homes (+6% to 84%) placing Octavia in the top quartile under Housemark benchmarking for this key indicator.

Targeted disposals

We are active in managing our stock and review the potential for disposal of individual units as and when they become available in line with our Disposal Policy. The triggers include: properties outside our core areas; the costs of bringing the property up to standard exceed £50,000; the property has a 'hard to let' history; properties in Local Authority blocks; and flats in a block where we have a minority leasehold interest.

Our Projects Panel consider proposed disposals. When we dispose of high value void properties, we use the monies generated only to finance schemes in the borough of the disposed property.

In the last year we disposed of one property in line with policy. The surplus from that property disposal and the surplus from first or second and subsequent tranche shared ownership sales was £1.6m collectively. The surpluses help us to deliver our ambition to grow our social and affordable rented housing.

Environmental impact and safety

A key objective is to ensure all our homes achieve an Energy Performance Certificate (EPC) "C" rating with an average 30% CO2 reduction by 2023. In 2016-17 521 homes benefitted in some way from energy efficiency measures, including 63 units where we have installed external wall insulation to the rear of properties, and 221 properties where we carried out draught proofing works. The impact of energy efficiency works carried out has improved the average Standard Assessment Procedure (SAP) rating of our stock from 64 in 2010 to 68.4 at March 2017.

The safety of our residents is paramount. We have a programme of fire safety inspections across our portfolio of properties, and completed all the inspections in the 2016-17 programme. We had 100% current gas safety certificates at the end of March 2017.

New repairs contracts

We continue to work with our partners Mears (who are responsible for day to day and cyclical repairs) and Village Heating Ltd (gas and electrical work). Together we have improved resident satisfaction with the service and reduced costs through a price per property payment model. In 2018, our ten year contracts with each of these companies will end. We are already working towards the retendering to retain service quality and achieve the best value for money outcome.

Better lives

We believe in 'good homes and better lives' and want our work to have positive impact on the lives of the people we house and those in our local communities.

Care and support

Our care portfolio includes 286 homes certified as housing for Older People and Supported Housing units. We manage six extra care schemes providing independent living for older people with the benefit of 24 hour care and support. All six schemes met the high standards required of them at their latest Care Quality Commission inspections.

Our care and support services provide essential support to elderly and other residents to assist them to remain in their homes and also help alleviate social isolation.

Over the course of the year:

- 129 older people attended our three Day Services.
- Our floating support service helped 153 older people in Westminster and Kensington & Chelsea.
- We completed 232 adaptations to help Octavia residents to continue living independently.
- We recently opened Bridgewater House, our seventh extra-care scheme. The new facility offers thirty six homes in an attractive setting amongst listed buildings on the banks of the River Thames.

In September 2017, we will complete 13 new homes for older people as part of a wider development of The Reed, a new Community Hub funded by a generous contribution from The Reed Family Foundation. This new space will offer opportunities for both older and younger people to socialise, develop interests and improve well-being.

Octavia Foundation

The Octavia Foundation runs a variety of projects that help to build local community life and support people in disadvantaged situations. In the last year:

- The employment and training programme supported 106 residents into full time work or to be more job ready through volunteering and work placements.

- The apprentice scheme, placed local unemployed young people into the workplace so they could learn new skills and build confidence.
- Our BASE project and young people's summer projects helped 143 children and teenagers to build confidence, learn life skills, promote healthy living, and learn creative media skills.
- The outreach and befriending service supported 386 older people and vulnerable adults who were experiencing loneliness and isolation.
- The debt and welfare benefits advice service (delivered through the Citizens Advice Bureau) provided over 455 advice sessions to help residents manage debts, maximise income, and cope with welfare reform.
- 119 residents were assisted with welfare or education grants providing essential household items and help to pursue education.
- Our handyperson service provided a free service to elderly and disabled tenants with small jobs that are normally not a landlord's responsibility. Last year 354 residents used the service.

The Octavia Foundation charity shops across the capital generated a trading surplus of £0.3m in 2016/17 to support the work of the Foundation, with the help of over 100 volunteers.

Jude, volunteer

"I wanted to face my fears around the working environment and the anxieties I had about it. It wasn't as bad as I thought because it wasn't bad at all! I have a lot of self-worth now."

Growth and development

Octavia has an ambitious approach to development and is on target to complete 675 homes in the five years to 2021. Our strategy is to develop a range of housing in Central and West London where our focus is to build homes for rent and shared ownership, which we supplement with a modest programme of private sales. We currently have 469 homes that are either in progress on site or have agreed terms, and we are in a good position to secure further opportunities.

The nature of our programme is that completions fluctuate year on year. Last year, we completed 35 homes, 24 of these were for rent, 10 for shared ownership and 1 for private sale. 27 of the homes are in Paddington, with the others in Cricklewood and Kensington.

In 2017/18 we expect to complete a further 160 homes. These include an Extra Care project - Bridgewater House in Isleworth, and an attractive estate of 38 homes in Cricklewood with 24 homes developed for private sale, the profits of which support the rest of the programme. The new programme includes a number of Section 106 schemes that are in high value locations; a project working with the Westway Trust to develop 13 homes for shared ownership and intermediate rent as part of the regeneration of Portobello Market; and further projects in Southall and Brent. Looking forward, our aim is to grow at an annual compound rate of about 4% per annum – equivalent to 200 homes a year by focusing on a mix of planning gain opportunities in Central London and land opportunities in the suburbs.

For the contracted development programme as of 31 March 2017, the remaining development costs to be incurred are estimated at £17.5m. Social Housing Grant of £2.6m is expected to be received following practical completions. This net investment of £14.9m in new social housing development is more than covered by existing secured and available borrowing facilities of £18.5m and the existing free cash and deposit balances of £9.6m. Shared ownership sales from these developments (estimated at £8.6m) are also expected to be subsequently realised, which will be used to repay revolving loan facilities. Accordingly, to support our continuing investments in social housing, we expect to increase borrowing and gearing levels over the next few years and have been arranging new loans and reviewing capital structures.

Internal organisation

Our approach as an employer

We are grateful for the contribution that our staff make towards our ambition to provide 'good homes, better lives'. Our ambition to be a good employer was reflected in the results of our all staff survey during the year, which demonstrated exceptional levels of staff engagement. The latest staff survey results show that 88% of staff would recommend Octavia as a good place to work. During the year we also had our status renewed as an Investors In People Silver employer and we were selected as Care Employer of the Year at The Great British Care Awards, which recognises the best employers in the sector drawn from private and not for profit organisations nationally.

During the year we invested significantly in learning and development, providing regular training in the areas of Health and Safety, Data Protection, Diversity and Information Security. We continued a substantial programme of development training for managers and introduced an extensive new series of training for our care staff around embracing change and compassionate care, starting with self-compassion. We also ran a 'Dragons Den' style innovation project and introduced a 'Learn a New Skill' offer to encourage staff to learn any skill of their choice with a small personal budget.

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.

This year, the Government increased the National Living Wage for over 25's from £7.20 to £7.50 per hour from April 2017. This increase has had no impact on Octavia's staffing costs as all staff were already paid in excess of the National Living Wage.

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

Information technology

We have been making significant progress in using technology to make processes more efficient including continued work on a customer relationship management system, which is used to record all contacts with residents and mobile working. We have focussed on improving resilience and information security in a business continuity event - an area we prioritise particularly given the issues many businesses faced from ransomware attacks. During the year we introduced a Procurement to Payments system, including Purchase Order Processing and a new Service Charge and Rents system.

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

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 residents, employees and others affected by our activities.

Health and safety risks are regularly reviewed by the Directors Group, the Audit Committee and the Board. The 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. 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 as set out above.

After year-end we identified that samples of cladding from one of our buildings had failed the combustion tests carried out by the Building Research Establishment (BRE) on behalf of the Department of Communities and Local Government (DCLG) and we are now working with the contractors and the London Fire Brigade to plan a way forward. We have also been advised by the freeholder of a second building that its cladding should also be checked for possible failure – we are currently arranging this testing and will take appropriate action once this has been carried out and the results known..

In previous years we have reported that we have taken 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 have now been successfully resolved and action continues to recover costs from the developers involved.

"My [family member] couldn't be in a better place, its ideal. Staff are all absolutely brilliant and I can't praise them enough for the work they do." Family member.

CQC Report for Octavia's Highlever Road, 2017

"Buying a home was a new experience for us, and one that we didn't want to get wrong, so we made sure we got lots of advice. The whole process with Octavia was very simple and straight forward, we couldn't have asked for a better first experience."

Two new shared owners, Victoria and Alexandra

Financial matters

Financial review

The Group's financial performance over the last five years is summarised in the tables below, with the impact of Ducane joining on 31 March 2016 and Octavia Foundation joining on 31 March 2017 clearly visible in those year's results:

Year	2016/17 £m	2015/16 £m	2014/15 £m	2013/14* £m	2012/13* £m
Turnover	44.8	50.0	39.4	58.5	32.5
Cost of sales	(1.5)	(6.2)	(4.9)	(23.9)	(1.7)
Operating Costs	(33.0)	(32.7)	(26.8)	(26.5)	(24.1)
Operating surplus	10.2	11.1	7.7	8.1	6.7
Net interest payable	(4.7)	(5.0)	(4.5)	(3.6)	(3.2)
Interest breakage costs	-	(2.3)	(1.3)	-	-
Gain on business combination	2.5	28.5	-	-	-
Surplus on asset disposals	1.6	4.2	3.1	1.1	2.0
Surplus for the year	**12.1**	**36.5**	**5.0**	**5.6**	**5.5**
Borrowings - gross	168	164	138	139	140
Borrowings - net	154	148	121	103	126

*Not FRS102 basis

Our underlying financial strength comes from the portfolio of housing, much of which is in Central London and which we have held for a long period. This value is reflected in a desktop valuation of the completed housing property portfolio at 31 March 2017 by Jones Lang LaSalle:

Year	2017 £m	2016 £m	2015 £m	2014 £m
Open Market Value with Vacant Possession	2,337	2,288	1,973	1,785
Market Value subject to existing Tenancies	1,095	999	949	859
Existing Use Value for Social Housing	466	461	416	382
Estimated annual market rent of General Needs social rented portfolio	85	89	87	81
Actual annual rent roll of General Needs social rented portfolio	25	24	22	21

This independent valuation indicates that the average Vacant Possession Value for our General Needs properties remains broadly unchanged from March 2016 at approximately £540,000 per unit – while values of our Central London stock have fallen slightly, the more suburban stock continued to rise.

The Existing Use Values for Social Housing of our stock remains broadly unchanged from 2016 but, as a result of the required rent reductions, we expect these to fall over the next two years. However, given the substantial amount of uncharged housing stock we currently have, we anticipate that there will be few practical consequences from the expected reduction in values.

The financial plan adopted by the Board in early June 2017 envisaged spending just under £26m on property maintenance and health and safety requirements over the next five years, which includes a 10 year energy efficiency programme.

In addition to the housing property portfolio, the commercial properties show in the balance sheet at a Valuation of £11.5m (2016: £8.7m) of Open Market Value in March 2017 by FPD Savills. These properties are mainly integral to our social housing schemes. They have been funded by our 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 our 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, our borrowings tend to be long term.

In the year to 31 March 2017, gross borrowings increased from £164m to £168m as new loans were drawn to finance capital investment. A further £18m of borrowing facilities were in place at that date, all of which were fully secured and available to draw immediately.

Our Treasury Strategy is set annually by the Board. Subsequent to the year-end we have agreed a new £30m five year revolving loan facility and are close to finalising an additional £40m five year revolving facility covering both Octavia Housing and Ducane HA. These facilities will enable us to complete all the current development schemes we have agreed in principle until 2021.

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

Rate fixing period	Target	At 31 March 2017	At 31 March 2016
Fixed for more than 10 years	At least 50%	61%	65%
Fixed for more than 1 year but less than 10 years	Between 0% and 50%	16%	14%
Variable/ Less than one year	Less than 25%	23%	21%

Further interest rate fixings are under consideration to reduce the level of variable rate debt during 2017/18.

At the year-end only 43% 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 are considering plans to increase our target level of development to 200 new homes a year. To enable the Group to do this, we will need to expand our levels of investment and the level of borrowing and so a review is under way of our long term funding structures with a view to identifying if these are optimal for the scale of development we want. As part of this review we are looking at the potential to take advantage of the current low long term borrowing rates in the bond markets and carry out a refinancing of our existing loans with their gearing constraints.

The Board monitors compliance with loan covenants regularly. At 31 March 2017 the position in respect of the two main sets of covenants was as follows:

- Interest cover 336% (lowest permitted level 125%)
- Gearing 53% (highest permitted level 65%)

Net indebtedness for the Group at 31 March 2017 stood at £154m of which £24m was funding the construction of properties under the development programme with a further £19m funding outright sale and shared ownership properties unsold at that date. The balance of borrowing, £111m funds completed social housing properties and represents an average debt of around £24,000 per home.

Value for Money (VFM)

For the last three years we have published on our website a statement of how Octavia complies with the VFM regulatory requirements and we will publish a further comprehensive statement by September 2017 in line with the Board's VFM strategy.

In considering VFM, the regulator, the Homes and Communities Agency (HCA), requires organisations to optimise the return on assets. Nearly all of our homes are in areas that have high property values and the rental income that we charge is substantially below market rates. Accordingly, the social dividend we create is significant. This approach to rent setting means that Octavia receives a low return overall on its assets - the gross rental yield of £25m represents a 1% per annum return on the replacement value of its social housing assets of £2.3bn and a rather higher 10.7% on net historic cost.

Our approach 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 rules. This enables us to acquire property at significantly below market Vacant Possession Values and make it available to local people at affordable rents.

During the year efficiency gains totalling some £0.3m were achieved through more effective procurement and management of VAT. We are now aiming to further reduce unit costs for day to day repairs, improve our ways of working in carrying out cyclical works and continue with our rolling programme of re-procuring a number of overhead costs, with a view to continuing to keep the increase in management costs below the rate of inflation.

In planning ahead, the key areas that we are working on in improving VFM 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 at genuinely affordable rents, reviewing our work on tackling tenancy fraud to safeguard scarce social housing 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 VFM is available on our website (octavia.org.uk).

Going concern

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. As noted above, we will need to raise additional new finance if we are to achieve our 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.

Other financial matters

Impairment

Despite the impact of the Government's requirement for 1% reductions in social rents for four years, no provisions for impairment were found to be necessary this year following the annual impairment review.

Provisions for bad debts

The level of loss on rental arrears and other debts can change in response to a number of different pressures. We have adopted a provisioning policy based on recent historic experience.

Valuation of freestanding financial derivatives

In the attached statements we have used the valuations provided by TRL Exchange, an independent organisation through which the derivative transaction was originally executed. All freestanding financial derivatives are treated as highly effective hedges against interest rate exposures in loan agreements. This means that changes in value are recognised largely through reserves rather than the Statement of Comprehensive Income.

We continue to build new homes for a range of tenures including this development in Cricklewood, which offers six affordable, eight shared ownership and 24 private sale homes.

Our aim in future is to build 200 new homes each year.

Corporate governance overview

Octavia is governed by a Board which comprises 10 non-executives (of whom two 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 and complies with 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 team including the Chief Executive and Directors of Housing and Care Services, Asset Management, Development and Finance, The Octavia Foundation and 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 and the Nominations and Remuneration Committee.

During the year Alexandra Theaker and Aldo Williams resigned from the Board – the Board thanks them for their work during their periods of service. Malcolm Holloway, a Ducane board member, joined in March 2017. In April 2017, our Chairman, Andrew Herbert retired from the Board having completed nine years of service, and was succeeded as Chairman by Sandeep Katwala, who has a background in Corporate Financing, most latterly as a partner of Linklaters.

An Octavia main board member is on the board of each of its subsidiaries, in all but one case as Chair.

Octavia was the subject of an In Depth Review by the HCA in spring 2017 following which its ratings were confirmed as grade one for both governance and viability in July 2017.

The Board has considered whether the activities of the Group in the year ended 31 March 2017 complied in all materials respects with the HCAs Governance and Viability Standard and has concluded that they did.

Risk, uncertainty and 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 and this report of the Board has been based on this statement.

The internal control framework that has been established by the Board is as follows:

- the adoption of a business plan and 30-year Long Term Financial Plan model which is regularly updated and reviewed by the Board and is subject to detailed stress testing under a series of different scenarios:
- 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 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);
- 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 maintains a fraud register which is reviewed periodically by the Audit Committee and annually by the Board. Our policy is to seek recovery of any 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. There were no frauds identified during the year that met the requirements for reporting to the HCA.

Risk management

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 three years. We have reworked our plans for the future and remain positive about our 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 in rents, we would need to review our plans again.
- Inflation: Traditionally, over the long term, our income (primarily rents) and operating costs tended to move in a linked fashion with inflation. Over the past few years general constraints on public sector pay have meant that income has increased by more than costs. However we now expect employee and maintenance related costs will increase more rapidly than revenues 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: The 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. The risk that rental income will become more difficult to collect in future seems almost certain to materialise given the proposed changes in welfare benefits. 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.
- Sales risks: With only limited government funding available for subsidising new social housing, housing associations are making up part of this shortfall through the generation of surpluses on 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 carefully drafted contracts with individual assigned managers, pre-set budgets and monthly monitoring. 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.

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 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 HCA 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. The Board plan to further review the Information Technology strategy during 2017.

Compliance with relevant law and regulations

As required by the HCA, the Board has conducted a review of the level of compliance by Octavia since 1 April 2016 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. 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.

External review

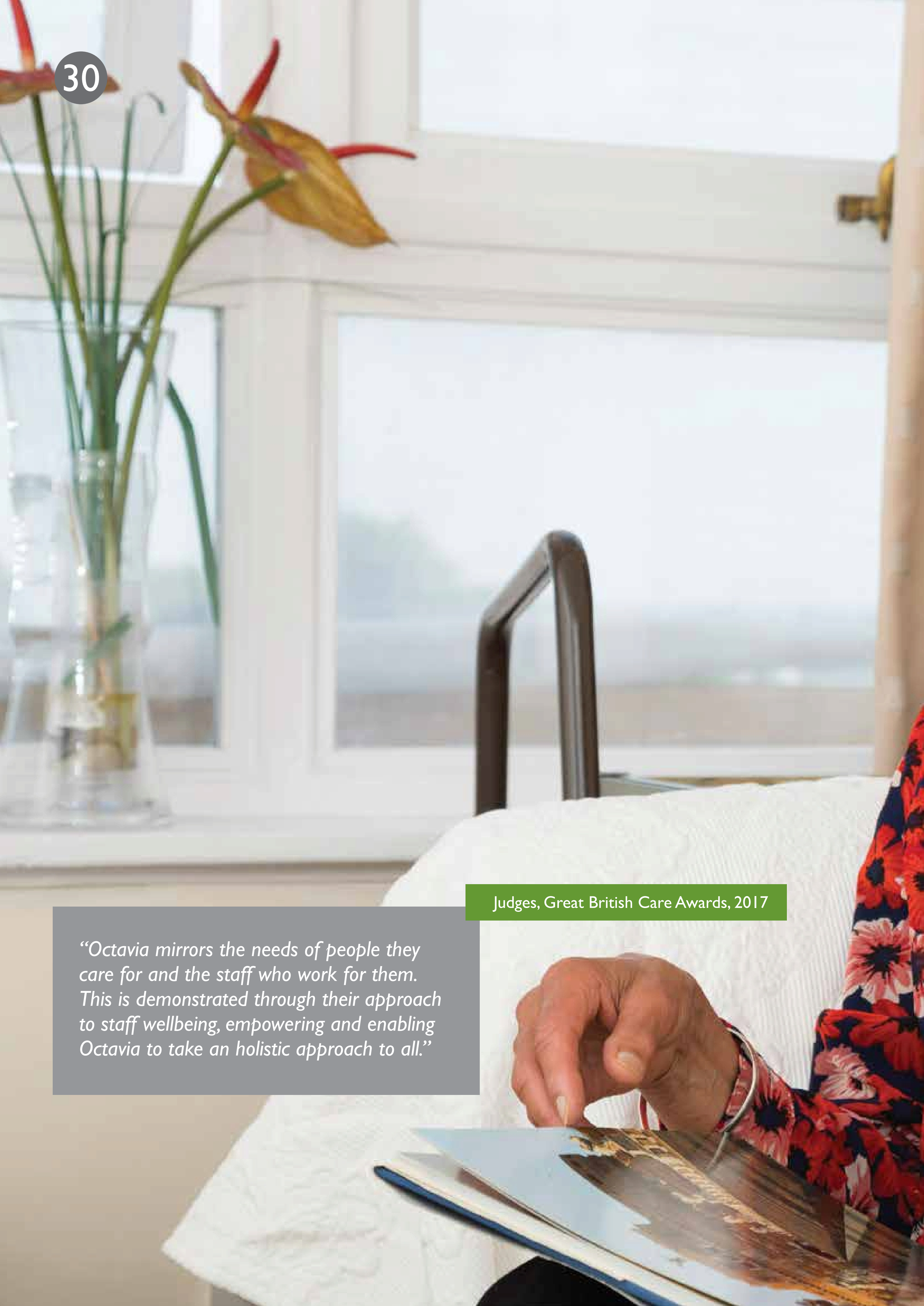
The work of our internal and external auditors is an important part of the control environment. There is a programme of internal audit visits throughout the year and the risk of fraud is always considered when deciding on the scope of work for each visit. During the year, Mazars carried out their planned 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 2017 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.



"Octavia mirrors the needs of people they care for and the staff who work for them. This is demonstrated through their approach to staff wellbeing, empowering and enabling Octavia to take an holistic approach to all."

Judges, Great British Care Awards, 2017

The future

Over the last few years we have built an operating model based on a series of clear principles.

- The core of our work is a unique portfolio of properties in central and West London that provide the basis for achieving our mission of 'good homes, better lives'.

- Fundamental to the realisation of our aim is that the properties are well managed and maintained. This not only allows residents to get on with their lives but it also ensures that the properties (and their value) are safeguarded for the long term. We know that repairs are the single most important service to residents and so we have invested significantly in providing an effective repairs service. We are now about to re tender the principle contracts for delivery with the aim of further improving the quality (and possibly reducing the cost) of what we do.

- Our approach to property management, with skilled specialist staff and onsite estates officers, serves residents well. It also supports our development ambitions and helps to engage developers and their planning obligations. Developers are often attracted to working with a landlord committed to effective management and close links to the Local Authority.

- We see our work as supportive of Local Authorities and co-operate closely on nomination agreements and in the production of more homes. In the case of Westminster, Royal Borough of Kensington and Chelsea, and Hounslow we have also developed close working relationships with the officers working on social care.

- In the last ten years we have supplemented our work with activities organised through the Octavia Foundation. These have been for the benefit of both residents and non-residents. We have established outreach services with funding from local health partnerships, and we are working with young people on a number of projects. All of the activities that we promote are in support of "better lives". Fundamentally our projects aim to tackle social isolation and promote community cohesion. We aim to expand the reach of those community activities consistently in the next few years.

- In the same period our work in care has grown. To date this has largely been property based with care services largely provided in accommodation that we own. The exception to this being Burgess Fields where we now provide care in a scheme owned by RBKC. The services we provide are well regarded locally and we are being encouraged to develop additional types of provision – closer to home care – that would fit neatly with the outreach work that we already do through the Octavia Foundation and the care work we already do in extra care schemes.

- Our development programme is concentrated in the geographic area of Central and West London. This is an area in which land values are high, but so too are property prices. Operating close to the office base supports our strategy of providing effective management and repairs services. It means that we are able to maintain reasonably close working relationships with a limited number of Local Authorities. It also creates opportunities for financial benefit in terms of development activity for profit, building voluntary and charitable income through supporters such as the Friends of Octavia and the Friends of Kensington Day Centre and generating income through the Charity shops. Building this base of local support is also an opportunity for growth both financially and in terms of local knowledge. We are now gearing up to grow at a compound rate of 4% which will mean a further 1,000 homes over the next six years.

- We have, to date, adopted a conservative financial strategy overall but with a number of significant ambitious projects undertaken after careful evaluation, including the projects with outright sales elements at Sulgrave Gardens and Elizabeth House. We are completing the scheme at Gladstone Village and we have a number of small projects on site through Octavia Living. This type of scheme has generated substantial profits so far but we have undertaken them in a phased manner with an exit route in place in each case if sales do not materialise. The planned growth of the development activities will be closely managed to ensure that the financial risks are properly evaluated and controlled with a restricted exposure to sales at any one time.

In conclusion, while the Board remain open to discussions about mergers or other changes this will only happen if they will clearly and demonstrably fit with achieving our overall mission.

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

Sandeep Katwala

Chairman

Statement approved by the Board on 8 August 2017.

94 % Cleaning service rating.

Housemark Quality Assessment 2017.


OCTAVIA
ESTATE SERVICES

"[Octavia's] culture is very strong, with a set of core values that are becoming increasingly embedded in many processes such as recruitment, performance management and reward and recognition."

Investors In People Assessor, 2017

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 2017 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 2017 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
- 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 8 August 2017

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 ended 31 March

	Note	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Turnover	4	**44,768**	49,970	**41,907**	50,106
Cost of sales	4	**(1,548)**	(6,236)	**(1,538)**	(6,250)
Operating costs	4	**(33,002)**	(32,678)	**(31,454)**	(32,794)
Operating surplus	4,7	**10,218**	11,056	**8,915**	11,062
Surplus on disposal of fixed assets	11	**1,621**	4,200	**1,621**	4,853
Other interest receivable and similar income	12	**45**	92	**673**	539
Interest and financing costs	13	**(4,758)**	(7,425)	**(4,902)**	(7,625)
Gain on Business combination	32	**2,558**	28,532	**-**	-
Movement in fair value of financial instruments	25	**(40)**	1	**(40)**	1
Movement in fair value of investment properties	16	**2,498**	24	**2,498**	24
Surplus before taxation		**12,142**	36,480	**8,765**	8,854
Taxation on surplus		**-**	-	**-**	-
Surplus for the financial year		**12,142**	36,480	**8,765**	8,854
Movement in fair value of hedged financial instrument	25	**(442)**	(537)	**(442)**	(537)
Total comprehensive income for year		**11,700**	**35,943**	**8,323**	8,317

All amounts are derived from continuing operations.

CONSOLIDATED AND ASSOCIATION BALANCE SHEETS

At 31 March

	Note	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Fixed assets					
Tangible fixed assets - housing properties	14	**447,024**	434,309	**405,536**	400,310
Tangible fixed assets - other	15	**9,986**	9,215	**9,360**	8,524
Investment properties	16	**11,050**	8,552	**11,050**	8,552
Investments - other		**1,929**	-	**10**	10
		469,989	452,076	**425,956**	417,396
Current assets					
Stock including properties for sale	18	**18,897**	11,098	**5,098**	2,440
Debtors – receivable within one year	19	**4,721**	12,599	**4,598**	12,701
Debtors – receivable after one year	19	**-**	-	**14,095**	8,757
Investments		**-**	-	**-**	-
Short term deposits		**102**	1,363	**102**	101
Cash and cash equivalents		**14,248**	16,465	**11,961**	9,188
		37,968	41,525	**35,854**	33,187
Creditors: amounts falling due within one year	20	**(21,873)**	(22,380)	**(19,569)**	(20,279)
Net current assets		**16,095**	19,145	**16,285**	12,908
Total assets less current liabilities		**486,084**	471,221	**442,241**	430,304
Creditors: amounts falling due after more than one year	21	**(358,191)**	(355,028)	**(349,517)**	(345,903)
Net assets		**127,893**	116,193	**92,724**	84,401
Capital and reserves					
Called up share capital	27	**-**	-	**-**	-
Cash flow hedge reserve		**(4,263)**	(3,821)	**(4,263)**	(3,821)
Income and expenditure reserve		**132,156**	120,014	**96,987**	88,222
		127,893	116,193	**92,724**	84,401

The Financial Statements were approved by the Board of Directors and authorised for issue on the 8 August 2017.

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

The notes on pages 45 to 84 form part of these financial statement

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 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
Surplus for the year 2016/17	-	12,142	12,142
Movement in fair value of hedging financial instrument	(442)	-	(442)
Balance at 31 March 2017	**(4,263)**	**132,156**	**127,893**

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 1 April 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
Surplus for the year 2016/17	-	8,765	8,765
Movement in fair value of hedging financial instrument	(442)	-	(442)
Balance at 31 March 2017	**(4,263)**	**96,987**	**92,724**

The notes on pages 45 to 84 form part of these financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March

	Note	2017 £'000	2016 £'000
Cash flows from operating activities			
Surplus for the financial year		**12,142**	36,480
Adjustments for:			
Gain on business combination		**(2,498)**	(28,532)
Depreciation of fixed assets - housing properties	7	**6,283**	5,777
Depreciation of fixed assets - other	15	**562**	599
Amortised grant	5	**(1,950)**	(2,143)
Net fair value (gains) recognised in profit or loss		**(2,498)**	(25)
Interest payable and finance costs	13	**4,758**	7,425
Interest receivable	12	**(45)**	(92)
Surplus on the sale of fixed assets - housing properties	11	**(1,621)**	(4,200)
Decrease / (increase) in trade and other debtors		**8,008**	(8,745)
(Increase) in stocks		**(7,799)**	(1,254)
(Decrease) / increase in pension creditor		**(138)**	603
(Decrease) in grant creditors		**(1,806)**	(120)
Increase / (decrease) in trade creditors		**2,577**	(34)
Net cash generated from operating activities		**15,975**	5,739
Cash flows from investing activities			
Purchase of fixed assets – housing properties	14	**(20,207)**	(23,512)
Sales of fixed assets - housing properties		**3,250**	7,351
Purchases of fixed assets - other	15	**(1,333)**	(1,087)
Cash acquired with subsidiary		**64**	2,433
Receipt of grant	14	**198**	761
Short term deposit		**1,261**	(13)
Interest received	12	**45**	92
Net cash from investing activities		**(16,722)**	(13,975)
Cash flows from financing activities			
Interest paid	13	**(4,859)**	(7,781)
New loans - bank	24	**8,300**	12,200
New loans - other	24	**-**	18,000
Repayment of loans - bank	24	**(4,911)**	(9,445)
Repayment of loans - other	24	**-**	(3,663)
Net cash used in financing activities		**(1,470)**	9,311
Net (decrease) / increase in cash and cash equivalents		**(2,217)**	1,075
Cash and cash equivalents at beginning of year		**16,465**	15,390
Cash and cash equivalents at end of year		**14,248**	16,465

The notes on pages 45 to 84 form part of these financial statements

ASSOCIATION STATEMENT OF CASH FLOWS

For the year ended 31 March

	Note	2017 £'000	2016 £'000
Cash flows from operating activities			
Surplus for the financial year		**8,765**	8,854
Adjustments for:			
Depreciation of fixed assets - housing properties	7	**5,814**	5,777
Depreciation of fixed assets - other	15	**496**	599
Amortised grant	5	**(1,989)**	(2,143)
Net fair value (gains) recognised in profit or loss		**(2,498)**	(25)
Interest payable and finance costs	13	**4,902**	7,625
Interest receivable	12	**(673)**	(539)
Surplus on the sale of fixed assets - housing properties	11	**(1,621)**	(4,800)
Surplus on sale of other fixed assets		**-**	(53)
Increase / (decrease) in trade and other debtors		**2,765**	(12,796)
(Increase) / decrease in stocks		**(2,658)**	2,566
(Increase) / decrease in pension creditor		**(120)**	603
(Decrease) in grant creditors		**(1,807)**	(120)
Increase in trade creditors		**2,147**	344
Net cash generated from operating activities		**13,523**	5,892
Cash flows from investing activities			
Purchase of fixed assets – housing properties	14	**(20,132)**	(24,399)
Proceeds of sales of fixed assets - housing properties		**10,573**	7,936
Proceeds of sale of other fixed assets		**-**	230
Short term deposits		**1**	(1)
Purchases of fixed assets - other	15	**(1,332)**	(1,087)
Receipt of grant	14	**198**	761
Interest received	12	**673**	539
Net cash from investing activities		**(10,019)**	(16,021)
Cash flows from financing activities			
Interest paid	13	**(5,003)**	(8,158)
New loans - bank	24	**8,300**	12,200
New loans - other	24	-	18,000
Repayment of loans - bank	24	**(4,028)**	(9,445)
Repayment of loans - other	24	**-**	(3,663)
Net cash used in financing activities		**(731)**	8,934
Net increase / (decrease) in cash and cash equivalents		**2,773**	(1,195)
Cash and cash equivalents at beginning of year		**9,188**	10,383
Cash and cash equivalents at end of year		**11,961**	9,188

The notes on pages 45 to 84 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.

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 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 the fair value of the assets received over the fair value of the liabilities assumed is recognised as a gain in the Statement of Comprehensive Income. 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.

2 Accounting policies (continued)

Income

Income is measured at the fair value of the consideration received or receivable. The Group generates the following material income streams:

- Rental income receivable (after deducting lost rent from void properties available for letting), including letting of commercial properties.
- 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 for supported housing as they fall due per the contract.
- Proceeds from the sale of land and property.
- Sales in charity shops.

Rental income is recognised from the point when properties under development reach practical completion and are formally let. Income from all property sales is 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 grants and other fees from a number of London Boroughs in connection with the provision of supported housing. The income received in the period as well as costs incurred by the Group in the provision of support services have been included in the Statement of Comprehensive Income. 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.

2 Accounting policies (continued)

Finance costs

Finance costs are charged to the Statement of Comprehensive Income over the term of the loan. Issue costs are recognised as a reduction in the proceeds of the associated loan and are amortised on a straight line basis over the term of the loan.

Pension costs

Contributions to the Group's defined contribution pension schemes are charged to the Statement of Comprehensive Income 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.

2 Accounting policies (continued)

Depreciation of housing property

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

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

Depreciation is not charged on housing assets in the year of completion but in subsequent year(s). 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.

Shared ownership properties and staircasing

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 so that the carrying value of the retained element is equivalent to Existing Use Value – Social Housing.

For those areas of maintenance to shared ownership and leasehold properties where the Group retains responsibility under the lease, it is the Group’s policy to build up sinking funds so that the properties can be maintained in a sound state of repair. Maintenance of other areas (mainly internal to the property) is the responsibility of the shared owner/leaseholder.

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

2. Accounting policies (continued)

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:

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 'surplus on disposal of fixed assets' 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 Statement of Comprehensive Income on a systematic basis over the useful economic lives of the asset for which it was received. In accordance with the 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 Statement of Comprehensive Income.

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".

2. Accounting policies (continued)

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 Statement of Comprehensive Income.

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.

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.

2. Accounting policies (continued)

Loans, investments and short term deposits

All loans, investments and short term deposits held by the Group, are classified as basic financial instruments as they meet the criteria set out in 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 instruments are stated on the balance sheet at historic 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 Balance Sheet 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 assets 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.

Leasehold Sinking Funds

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

2. Accounting policies (continued)

Contingent liabilities

A contingent liability is recognised for:

a) a possible obligation, for which it is not yet confirmed that a present obligation exists that could lead to an outflow of resources; or
b) 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
c) 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 income and expenditure 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.

- 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.

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

Other key sources of estimation uncertainty

- Tangible fixed assets (see note 14 and 15).

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. The valuations were based on professional valuations undertaken in 2014 and 2017 by Savills.

- Rental and other trade receivables (debtors) (see note 19).

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 2017	Turnover 2017 £'000	Cost of sales 2017 £'000	Operating costs 2017 £'000	Operating surplus/ (deficit) 2017 £'000
Social housing lettings (note 5)	35,927	-	(27,310)	8,617
Other Social Housing Activities				
First tranche low cost home ownership sales	2,966	(1,538)	-	1,428
Supporting people	63	-	(128)	(65)
Student Accommodation	1,666	-	(904)	762
Other	49	-	(987)	(938)
	40,671	(1,538)	(29,329)	9,804
Activities other than Social Housing Activities				
Market rents	114	-	(13)	101
Rents on investment properties	668	-	(269)	399
Other	3,315	(10)	(3,391)	(86)
	4,097	(10)	(3,673)	414
	44,768	(1,548)	(33,002)	10,218

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
Student Accommodation	-	-	-	-
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

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

Association 2017	Turnover 2017 £'000	Cost of sales 2017 £'000	Operating costs 2017 £'000	Operating surplus/ (deficit) 2017 £'000
Social housing lettings (note 5)	34,893	-	(26,767)	8,126
Other Social Housing Activities				
First tranche low cost home ownership sales	2,966	(1,538)	-	1,428
Supporting people	63	-	(128)	(65)
Other	49	-	(936)	(887)
	37,971	(1,538)	(27,831)	8,602
Activities other than Social Housing Activities				
Market rents	114	-	(13)	101
Rents on investment properties	668	-	(269)	399
Other	3,154	-	(3,341)	(187)
	3,936	-	(3,623)	313
	41,907	(1,538)	(31,454)	8,915

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

5. Income and expenditure from social housing lettings

Group	General needs £'000	Supported housing £'000	Low cost home ownership £'000	Total 2017 £'000	Total 2016 £'000
Income					
Rents net of identifiable service charges	24,743	1,743	1,788	28,274	26,779
Service charge income	1,936	724	531	3,191	3,511
Amortised government grants	1,451	252	247	1,950	2,143
Net rental income*	28,130	2,719	2,566	33,415	32,433
Government grants taken to income	-	-	-	-	27
Grants for care and support	-	2,512	-	2,512	2,388
Turnover from social housing lettings	28,130	5,231	2,566	35,927	34,848
Expenditure					
Management	4,493	794	252	5,539	6,032
Service charge costs	1,863	640	671	3,174	3,765
Routine maintenance	5,279	220	20	5,519	5,935
Planned maintenance	3,183	91	-	3,274	2,874
Major repairs expenditure	381	-	-	381	474
Bad debts	140	-	-	140	85
Depreciation of housing properties:					
- annual charge	5,617	137	-	5,754	5,506
- accelerated on disposal of components	306	-	-	306	271
Other costs	21	3,202	-	3,223	2,708
Operating expenditure on social housing lettings	21,283	5,084	943	27,310	27,650
Operating surplus on social housing lettings	6,847	147	1,623	8,617	7,198
* Net rental income is stated net of void losses of	(106)	(132)	-	(238)	(272)

5. Income and expenditure from social housing lettings

Association	General needs £'000	Supported housing £'000	Low cost home ownership £'000	Total 2017 £'000	Total 2016 £'000
Income					
Rents net of identifiable service charges	23,731	1,743	1,788	27,262	26,779
Service charge income	1,876	723	531	3,130	3,511
Amortised government grants	1,490	252	247	1,989	2,143
Net rental income*	27,097	2,718	2,566	32,381	32,433
Government grants taken to income	-	-	-	-	27
Grants for care and support	-	2,512	-	2,512	2,388
Turnover from social housing lettings	27,097	5,230	2,566	34,893	34,848
Expenditure					
Management	4,381	793	252	5,426	6,032
Service charge costs	1,787	640	671	3,098	3,765
Routine maintenance	5,199	220	20	5,439	5,935
Planned maintenance	3,182	91	-	3,273	2,874
Major repairs expenditure	381	-	-	381	474
Bad debts	134	-	-	134	85
Depreciation of housing properties:					
- annual charge	5,371	137	-	5,508	5,506
- accelerated on disposal of components	306	-	-	306	271
Other costs	-	3,202	-	3,202	2,708
Operating expenditure on social housing lettings	20,741	5,083	943	26,767	27,650
Operating surplus on social housing lettings	6,356	147	1,623	8,126	7,198
* Net rental income is stated net of void losses of	(92)	(132)	-	(224)	(258)

6. Units of housing stock

	Group 2017 Number	Group 2016 Number	Association 2017 Number	Association 2016 Number
General needs housing:				
- Social	**3,402**	3,396	**3,313**	3,313
- Affordable	**202**	184	**202**	184
Low cost home ownership	**383**	378	**383**	378
Supported housing	**247**	249	**247**	249
Keyworker accommodation	**67**	60	**43**	60
Student accommodation	**154**	154	**-**	-
Housing for older people	**128**	128	**128**	128
Total social housing units	**4,583**	4,549	**4,316**	4,312
Leaseholder management	**237**	230	**237**	230
Market rent	**6**	6	**6**	6
Total owned	**4,826**	4,785	**4,559**	4,548
Accommodation managed for others	**-**	6	**6**	6
Units managed by other associations	**(114)**	(137)	**(90)**	(137)
Total managed accommodation	**4,712**	4,654	**4,475**	4,417
Units under construction	**182**	157	**158**	157

7. Operating surplus

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
This is arrived at after charging				
Depreciation of housing properties:				
- annual charge (note 14)	**5,977**	5,506	**5,508**	5,506
- accelerated depreciation on replaced components	**306**	271	**306**	271
Total depreciation of housing properties	**6,283**	5,777	**5,814**	5,777
Depreciation of other tangible fixed assets	**561**	535	**496**	535
Operating lease charges – land & building	**796**	694	**796**	694
Auditors' remuneration (excluding VAT):				
- fees payable to the Group's auditor for the audit of the Group's annual accounts	**45**	45	**39**	38

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Staff costs (including Executive Management Team) consist of:				
Wages and salaries	**9,535**	8,745	**8,957**	8,570
Social security costs	**905**	809	**848**	790
Cost of SHPS defined benefit scheme (see note 26)	**82**	57	**51**	57
Increase in future contributions to cover past service pension deficits	**-**	749	**-**	749
Cost of defined contribution scheme	**404**	422	**390**	408
	10,926	10,782	**10,246**	10,574

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 2017	Group 2016	Association 2017	Association 2016
Administration	**43**	40	**40**	40
Charity Shops	**49**	45	**49**	45
Marketing and Sales	**4**	4	**-**	-
Development	**9**	10	**9**	10
Housing, Support and Care	**215**	213	**206**	202
	320	312	**304**	297

19 staff from The Octavia Foundation joined the group on 31 March 2017; as they joined on the last day of the year they have not been included in the average employee figures above. Similarly 11 staff from Ducane HA joined the group on 31 March 2016 and were excluded from the average employee figures for 2016.

9 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 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Executive directors' emoluments	**625**	543	**548**	543
Amounts paid to non-executive directors	**58**	55	**58**	55
Contributions to Directors' pension schemes	**66**	56	**45**	56
	749	654	**651**	654

9. Employees (continued)

One expense claim was received in 2016-17 for £357 and no others over £50. No expense claims for more than £50 were received in 2015-16.

The total amount payable to the Chief Executive, who was also the highest paid director, in respect of emoluments was £138,791 (2016 - £138,235). Pension contributions of £3,617 (2016 - £14,468) 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 2017 (2016 - 3), and three of the directors accrued benefits under the Group's defined benefit pension scheme during the year (2016 - 3).

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

	Group 2017 Number	Group 2016 Number	Association 2017 Number	Association 2016 Number
£60,000 - £69,999	**9**	11	**8**	10
£70,000 - £79,999	**8**	4	**8**	4
£80,000 - £89,999	**1**	-	**-**	-
£90,000 - £99,999	**1**	1	**1**	1
£100,000 - £109,999	**-**	-	**-**	-
£110,000 - £119,999	**1**	3	**1**	3
£120,000 - £129,999	**2**	-	**2**	-
£130,000 - £139,999	**-**	-	**-**	-
£140,000 - £149,999	**1**	1	**1**	1

10. Board Members

Board members	Remuneration	Group Board	Finance Committee	Remuneration Committee	Audit Committee
Sandeep Katwala (appointed 24/04/2017)	2,754	√	√	√	√
Andrew Herbert (retired 24/04/2017)	12,000	√	√	√	√
Simon Porter	6,500	√	√	√	√
Gwen Godfrey	4,500	√	√		√
Malcolm Holloway (appointed 31/03/2017)	-	√	√		√
Annie Lathaen	4,500	√			
Stephen Smith	4,500	√	√		
Debbie Sorkin	6,500	√		√	
Rosalind Stevens	4,500	√			
Angus Taylor	4,500	√			
Rajan Upadhyaya	6,500	√			
Aldo Williams (resigned 16/01/2017)	3,548	√			
Alexandra Theaker (resigned 31/03/2017)	4,125	√			

11. Surplus of disposal of fixed assets

Group	Shared ownership 2017 £'000	Other housing properties 2017 £'000	Total 2017 £'000	Total 2016 £'000
Housing Properties:				
Disposal proceeds	**2,925**	**325**	**3,250**	7,351
Cost of disposals	**(1,567)**	**(12)**	**(1,579)**	(2,972)
Selling costs	-	**(17)**	**(17)**	(99)
Grant recycled	-	**(33)**	**(33)**	(80)
Surplus on disposal of fixed assets	**1,358**	**263**	**1,621**	4,200

11. Surplus of disposal of fixed assets (continued)

Association	Shared ownership 2017 £'000	Other housing properties 2017 £'000	Total 2017 £'000	Total 2016 £'000
Housing Properties:				
Disposal proceeds	**2,925**	**7,648**	**10,573**	8,166
Cost of disposals	**(1,567)**	**(7,328)**	**(8,895)**	(3,219)
Selling costs	-	**(24)**	**(24)**	(14)
Grant recycled	-	**(33)**	**(33)**	(80)
Surplus on disposal of fixed assets	**1,358**	**263**	**1,621**	4,853

12. Interest receivable and income from investments

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Interest receivable from group undertakings	**-**	-	**642**	472
Interest receivable and similar income from third parties	**45**	92	**31**	67
	45	92	**673**	539

13. Interest payable and similar charges

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Interest payable on bank loans and overdrafts	**4,875**	4,783	**4,856**	4,783
Interest payable on other loans	**628**	955	**628**	955
Cost of breaking fixed interest rates	-	2,315	-	2,368
Recycled capital grant fund	**8**	6	**8**	6
Interest capitalised on construction of housing properties	**(753)**	(634)	**(590)**	(487)
	4,758	7,425	**4,902**	7,625
Other financing costs through other comprehensive income				
Loss on fair value of hedged derivative instruments	**442**	537	**442**	537
	5,200	7,962	**5,344**	8,162

14. Tangible fixed assets - Housing properties

Group	General needs completed £'000	Student and key worker £'000	General needs under construction £'0000	Shared ownership completed £'000	Shared ownership under construction £'000	Total £'000
Cost						
At 1 April 2016	373,039	35,741	13,889	54,672	3,056	480,397
Additions:						
- construction costs	-	-	10,761	-	5,619	16,380
- replaced components	1,806	75	-	-	-	1,881
- energy improvements	1,748	-	-	-	-	1,748
Assets acquired on business combination	561	-	-	-	-	561
Completed schemes	5,811	-	(5,811)	3,076	(3,076)	-
Disposals:						
- properties	(6)	-	-	(1,571)	-	(1,577)
- replaced components	(855)	(10)	-	-	-	(865)
At 31 March 2017	382,104	35,806	18,839	56,177	5,599	498,525
Depreciation:						
At 1 April 2016	46,040	-	-	-	-	46,040
Charge for the year	5,508	469	-	-	-	5,977
Eliminated on disposals:						
- replaced components	(549)	(10)	-	-	-	(559)
- properties	-	-	-	-	-	-
At 31 March 2017	50,999	459	-	-	-	51,458
Impairment:						
At 1 April 2016	-	-	-	48	-	48
Released in the year	-	-	-	(5)	-	(5)
At 31 March 2017	-	-	-	43	-	43
Net book value at 31 March 2017	**331,105**	**35,347**	**18,839**	**56,134**	**5,599**	**447,024**
Net book value at 31 March 2016	326,999	35,741	13,889	54,624	3,056	434,309

14. Tangible fixed assets - Housing properties (continued)

Association	General needs completed £'000	General needs under construction £'0000	Shared ownership completed £'000	Shared ownership under construction £'000	Total £'000
Cost					
At 1 April 2016	375,053	13,889	54,768	3,056	446,766
Additions:					
- construction costs	-	10,761	-	5,619	16,380
- replaced components	1,806	-	-	-	1,806
- energy improvements	1,748	-	-	-	1,748
Completed schemes	5,811	(5,811)	3,076	(3,076)	-
- disposals:					
- properties	(7,507)	-	(1,571)	-	(9,078)
- replaced components	(855)	-	-	-	(855)
At 31 March 2017	376,056	18,839	56,273	5,599	456,767
Depreciation:					
At 1 April 2016	46,040	-	-	-	46,040
Charge for the year	5,508	-	-	-	5,508
Eliminated on disposals:					
- replaced components	(549)	-	-	-	(549)
- properties	(179)	-	-	-	(179)
At 31 March 2017	50,820	-	-	-	50,820
Impairment:					
At 1 April 2016	368	-	48	-	416
Released in the year	-	-	(5)	-	(5)
At 31 March 2017	368	-	43	-	411
Net book value at 31 March 2017	**324,868**	**18,839**	**56,230**	**5,599**	**405,536**
Net book value at 31 March 2016	328,645	13,889	54,720	3,056	400,310

14. Tangible fixed assets - Housing properties (continued)

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
The net book value of housing properties may be further analysed as:				
Freehold	**350,258**	347,524	**308,770**	313,525
Long leasehold	**93,782**	83,597	**93,782**	83,597
Short leasehold	**2,984**	3,188	**2,984**	3,188
	447,024	434,309	**405,536**	400,310
Interest capitalisation				
Interest capitalisation in the year	**753**	481	**590**	487
Cumulative interest capitalised	**4,550**	3,960	**4,550**	3,960
Rate used for capitalisation	**3.5%**	3.7%	**3.5%**	3.7%
Work to properties				
Improvements to existing properties capitalised	**3,775**	4,144	**3,752**	4,144
Major repairs expenditure to income and expenditure account	**381**	474	**381**	474
	4,156	4,618	**4,133**	4,618
Total Social Housing Grant received or receivable to date is as follows:				
Capital Grants:				
- deferred capital grant	**186,933**	189,008	**186,933**	189,008
- amortised to the Statement of Comprehensive Income	**25,777**	23,689	**25,777**	23,689
Recycled capital grant fund	**2,814**	2,547	**2,814**	2,547
Contingent liability re Ducane HA SHG	**7,299**	7,299	**-**	-
	222,823	222,543	**215,524**	215,244

14. Tangible fixed assets - Housing properties (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 (2016 - £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 in 2015/16 and a full review was performed.

Properties charged as security

As at 31 March 2017 1,869 (2016:1,780) properties with a book value of £124.0m (2016:£121.4m) were charged as security for loans made to Octavia Housing.

As at 31 March 2017 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:

	2017 £m	2016 £m
Open Market Value with Vacant Possession	**2,337**	2,288
Market Value subject to existing Tenancies	**1,095**	999
Existing Use Value for Social Housing	**466**	461
Estimated Annual Market Rent of General Needs social rented portfolio	**85**	89
Actual annual rent roll of General Needs social rented portfolio	**25**	24

15. Other tangible fixed assets

Group	Office Buildings £'000	Motor vehicles £'000	Fixtures fittings, and equipment £'000	Total £'000
Cost or Valuation				
At 1 April 2016	9,109	94	3,724	12,927
Additions	591	-	742	1,333
At 31 March 2017	9,700	94	4,466	14,260
Depreciation				
At 1 April 2016	(860)	(94)	(2,758)	(3,712)
Charge for the year	(97)	-	(465)	(562)
At 31 March 2017	(957)	(94)	(3,223)	(4,274)
Net book value				
At 31 March 2017	**8,743**	**-**	**1,243**	**9,986**
At 31 March 2016	8,249	-	966	9,215

Association	Office Buildings £'000	Motor vehicles £'000	Fixtures fittings, and equipment £'000	Total £'000
Cost or Valuation				
At 1 April 2016	8,713	94	3,429	12,236
Additions	590	-	742	1,332
At 31 March 2017	9,303	94	4,171	13,568
Depreciation				
At 1 April 2016	(860)	(94)	(2,758)	(3,712)
Charge for the year	(91)	-	(405)	(496)
At 31 March 2017	(951)	(94)	(3,163)	(4,208)
Net book value				
At 31 March 2017	**8,352**	**-**	**1,008**	**9,360**
At 31 March 2016	7,853	-	671	8,524

16. Investment properties

Group and Association	2017 Total £'000	2016 Total £'000
Valuation		
At 1 April	**8,552**	8,705
Disposals	-	(177)
Revaluations	**2,498**	24
At 31 March	**11,050**	8,552

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 2017 - this indicated a value of £11,050k.

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 £2,498k 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	2017 £'000	2016 £'000
Historic cost	**5,953**	5,841
Accumulated depreciation	**(1,849)**	(1,779)
	4,104	4,062

17. Subsidiary undertakings

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

Name	Country of incorporation or registration	Proportion of voting rights / ordinary share capital held	Nature of entity	2017 and 2016 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 Foundation	England	100%	Registered Charity	-
Octavia Hill Limited	England	100%	Housing charity	-
Octavia Living Limited	England	100%	Trading company	10
Ducane Commercial Services Limited	England	100%	Trading company	-

18. Stock including properties for sale

Group	First tranche shared ownership properties 2017 £'000	Outright market sales 2017 £'000	Total 2017 £'000	Total 2016 £'000
Housing Work in progress	2,428	13,799	16,227	9,849
Charity Shop Stock	-	-	-	6
Completed housing properties for sale	1,905	765	2,670	1,243
	4,333	**14,564**	**18,897**	11,098

Properties developed for sale include capitalised interest of £1,555k (2016-£869k)

Association	First tranche shared ownership properties 2017 £'000	Outright market sales 2017 £'000	Total 2017 £'000	Total 2016 £'000
Housing Work in progress	2,428	-	2,428	1,197
Completed housing properties for sale	1,905	765	2,670	1,243
	4,333	**765**	**5,098**	2,440

Properties developed for sale include capitalised interest of £79k (2016-£56k).

19. Debtors

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Due within one year				
Rent and service charge arrears	**1,338**	1,376	**1,313**	1,367
Less: Provision for doubtful debts	**(544)**	(527)	**(536)**	(525)
	794	849	**777**	842
Amounts owed by group undertakings	**-**	-	**109**	154
Amounts held by lenders as security for borrowings	**522**	6,656	**522**	6,656
Other debtors	**2,792**	4,438	**2,624**	4,395
Prepayments and accrued income	**613**	656	**566**	654
	4,721	12,599	**4,598**	12,701
Due after one year				
Amounts owed by group undertakings	**-**	-	**14,095**	8,757
	-	-	**14,095**	8,757
	4,721	12,599	**18,693**	21,458

Amounts owed by group undertakings includes £14.0m in relation to a loan to Octavia Living Ltd from Octavia Housing. In March 2017 the maturity of this loan was extended to March 2019.

Amounts held by lending organisations at 31 March 2016 comprised loan proceeds retained by Affordable Housing Finance Ltd pending the finalisation of property security – these amounts were all released during 2016.

The remaining amount of £522k relates to one year's interest on the AHF loan, which is held by AHF in a liquidity reserve fund.

20. Creditors - amounts falling due within one year

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Loans and borrowings (note 24)	**2,658**	4,452	**2,229**	4,008
Trade creditors	**7,675**	8,909	**6,481**	7,955
Donation received from the Reed Family Foundation for buildings under construction	**900**	900	**900**	900
Rent and service charges received in advance	**1,688**	1,287	**1,417**	1,260
Amounts owed to group undertakings and related parties	**-**	79	**95**	76
Taxation and social security	**284**	321	**275**	259
Other creditors	**761**	639	**722**	630
Deferred capital grant (note 22)	**2,089**	2,150	**2,088**	2,150
Recycled capital grant fund (note 23)	**1,132**	126	**1,132**	126
SHPS pension deficit funding liability	**257**	249	**233**	225
Accruals and deferred income (incl Holiday pay)	**3,622**	2,360	**3,190**	1,782
Accrued interest	**807**	908	**807**	908
	21,873	22,380	**19,569**	20,279

21. Creditors - amounts falling after more than one year

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Loans and borrowings (note 24)	**165,519**	159,901	**156,986**	150,935
Interest rate swap – cash flow hedge	**4,303**	3,861	**4,303**	3,861
Deferred capital grant (note 22)	**184,845**	186,858	**184,845**	186,858
Recycled capital grant fund (note 23)	**1,683**	2,421	**1,683**	2,421
SHPS pension deficit funding liability	**1,841**	1,987	**1,700**	1,828
	358,191	355,028	**349,517**	345,903

22. Deferred capital grant

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
At 1 April	**189,008**	191,480	**189,008**	191,480
Grants received during the year	**198**	761	**198**	761
Grants transferred (to)/from RCGF	**(226)**	(1,090)	**(226)**	(1,090)
Released to income during the year	**(2,047)**	(2,143)	**(2,047)**	(2,143)
At 31 March	**186,933**	189,008	**186,933**	189,008

23. Recycled capital grant fund

Group and Association Funds pertaining to activities within areas covered by	GLA 2017 £'000	GLA 2016 £'000
At 1 April	**2,547**	1,371
Inputs to fund:		
Grant recycled from deferred capital grants	**474**	1,090
Grant recycled from Statement of Comprehensive Income	**33**	80
Interest accrued	**9**	6
Recycling of grant:		
New build	**(248)**	-
At 31 March	**2,815**	2,547
Amounts 3 years or older where repayment may be required	**403**	498

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

24. Loans and borrowing

Maturity of debt:

Group	Capital Markets 2017 £'000	Bank loans 2017 £'000	Other loans 2017 £'000	Total 2017 £'000
In one year or less, or on demand	49	2,609	-	2,658
In more than one year but not more than two years	47	7,510	-	7,557
In more than two years but not more than five years	149	16,150	-	16,299
More than five years	18,436	123,224	23	141,683
	18,681	149,493	23	168,197

Association	Capital Markets 2017 £'000	Bank loans 2017 £'000	Other loans 2017 £'000	Total 2017 £'000
In one year or less, or on demand	49	2,180	-	2,229
In more than one year but not more than two years	47	7,082	-	7,129
In more than two years but not more than five years	149	9,613	-	9,762
More than five years	18,436	121,636	23	140,095
	18,681	140,511	23	159,215

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

24. Loans and borrowing (continued)

During the year the Association has drawn £8.3m on its revolving credit facilities with the Nationwide Building Society and made scheduled loan repayments on its loans of £4.0m (Group £4.9m).

Loans are secured by first fixed charges on the housing properties of the Group and Cash which has been deposited in a liquidity reserve fund managed by Affordable Housing Finance plc. The amount was £522k at the end of March 2017. 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.

At 31 March 2017 the Association and Group had undrawn, secured and available loan facilities of £18.5m (2016: £26.8m).

25. Financial instruments

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

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Financial assets				
Financial assets measured at historic cost				
- debtors	**4,721**	12,599	**18,693**	21,458
- short term deposits	**102**	1,363	**102**	101
- cash and cash equivalents	**14,248**	16,465	**11,961**	9,188
Total financial assets	**19,071**	30,427	**30,756**	30,747
Financial liabilities				
Financial liabilities measured at amortised cost				
- loans payable	**168,197**	164,353	**159,215**	154,943
Financial liabilities measured at historic cost				
- trade Creditors	**7,675**	8,909	**6,481**	7,955
- other Creditors	**6,631**	5,456	**6,222**	4,780
Derivative financial instruments designated as hedges of variable interest rate risk	**4,303**	3,861	**4,303**	3,861
Total financial liabilities	**186,806**	182,579	**176,221**	171,539

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 £4,303k (2016: £3,861k) 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 £442k (2016; £536k) with almost all entire charge being recognised in Other Comprehensive Income, as the swap is a 99% effective hedge, as follows:

25. Financial instruments (continued)

	Association and Group 2017 £'000	Association and Group 2016 £'000
Fair value at 1 April	**(3,861)**	(3,325)
Change in fair value charged to Statement of Comprehensive Income	**(40)**	1
Change in fair value charged to cash flow hedge reserve	**(442)**	(537)
Fair value at 31 March	**(4,343)**	**(3,861)**

26. Pensions

Several pension schemes are operated by the Group.

Defined benefit pension scheme

The Association and Group participates 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.

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 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.

26. Pensions (continued)

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 1 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 1 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 1 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 1 April)

Reconciliation of Opening and Closing liability for year ended 31 March 2017

Group	SHPS £'000	Growth Plan £'000	Total £'000
Liability at start of period	2,174	67	2,241
Unwinding the discount factor (interest expense)	41	1	42
Deficit contribution paid	(241)	(7)	(248)
Remeasurements - impact of any changes in assumptions	61	2	63
	2,035	63	2,098

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

Local Government Pension Scheme (LGPS) - Defined benefit pension scheme

The Association is also an admitted body to the LGPS administered by the Royal Borough of Kensington and Chelsea (RBKC). The LGPS is a multi-employer defined benefit statutory scheme administered in accordance with the LGPS (Benefits, Membership and Contribution) Regulations 2007, the LGPS (Administration) Regulations 2008 and the LGPS (Transitional Provisions) Regulations 2008.

Membership of the scheme is restricted to former RBKC employees who were transferred under Transfer of Undertakings Protection of Employment (TUPE) Regulations on 1 December 2014 at which there were no past service deficits. Any future service deficits are guaranteed by a bond (£135,000) underwritten by HSBC Plc.

26. Pensions (continued)

The triennial statutory revaluation of the fund was carried out as at 31 March 2016 to assess the contribution rate of individual employers within the fund. The employers' contribution rate is the average cost of future service benefits of pensionable pay with adjustments to take account of certain circumstances that are peculiar to individual employers or group of employers.

During the accounting period the Association paid contributions at the rate of up to 16% with a minimum employee contribution of 5.5%.

As at March 17 there were 8 active members of the Scheme employed by the Association. The charge to the Association for the year was £31,851.

Defined contribution schemes:

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

27. 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	At 1 April	Cancelled	2017 £	2016 £
108 £1 ordinary	108	(108)	-	108
43 Class "A" £1	77	(34)	**43**	77
7 Class "C" £5	90	(55)	**35**	90
As at 31 March			**78**	275

All shares carry equal voting rights but have no entitlement to interest, dividend or bonus and are cancellable on death, expulsion or withdrawal of a member from Octavia Housing.

28. 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 £33.1m (2016:£29.3m) for the Group and £25.8m (2016:£23.6m) for the Association received in respect of housing properties held at 31 March 2017 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.

29. Operating leases

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

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Amounts payable as a lessee				
Not later than 1 year	**670**	667	**669**	667
Later than 1 year and not later than 5 years	**1,817**	1,874	**1,816**	1,874
Later than 5 years	**256**	523	**256**	523
Total	**2,743**	3,064	**2,741**	3,064
Amounts receivable as a lessor				
Not later than 1 year	**455**	426	**455**	426
Later than 1 year and not later than 5 years	**1,519**	921	**1,519**	921
Later than 5 years	**2,947**	1,461	**2,947**	1,461
Total	**4,921**	2,808	**4,921**	2,808

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.

30. Capital commitments

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Commitments contracted but not provided for :				
Construction	**17,507**	17,671	**17,507**	17,671
Commitments approved by the Board but not contracted for :				
Construction	**51,942**	10,040	**51,942**	10,040
Maintenance	**5,114**	4,395	**5,090**	4,395
	74,563	32,106	**74,539**	32,106

Contracted capital commitments for the Group and Association will be funded as follows:

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Social Housing Grant	**2,622**	2,338	**2,622**	2,338
Borrowings from existing secured facilities	**9,185**	11,583	**9,185**	11,583
Sales of properties	**5,700**	3,750	**5,700**	3,750
	17,507	17,671	**17,507**	17,671

31. 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:	2017 £'000	2016 £'000
Intra-group Management fees (see below)		
Kensal Enterprises Limited	1	6
Octavia Development Services Limited	1	10
Octavia Hill Limited	-	10
Octavia Living Limited	20	20
	22	46
Interest		
Octavia Living Limited	642	472
Total	664	518

Payable by the Association to subsidiaries:	2017 £'000	2016 £'000
Octavia Living Limited		
Purchase of completed housing	-	760
Stage payments for developments in progress	1,112	1,014
Sales Commissions	141	404
	1,253	2,178
Octavia Development Services Limited		
Purchase of Land & Buildings	52	244
Total	1,305	2,422

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:

31. Related party disclosures (continued)

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 2016 £'000	Movement £'000	At 31 March 2017 £'000
Octavia Housing	Octavia Living Limited	8,757	5,227	13,984

This intra-group loan is for a maximum amount of £17m, repayable on 31 March 2019, bearing interest at a rate of 4.65% with a non-utilisation fee of 1.65%. The loan is secured by a first fixed charge over land and properties in the course of construction.

Balances outstanding from the subsidiaries

Payable to / (from) the Association by subsidiaries	2017 £'000	2016 £'000
Kensal Enterprises Limited	**44**	49
Octavia Development Services Limited	**(95)**	-
Octavia Hill Limited	**-**	13
Octavia Living Limited	**13,984**	8,757
Octavia Foundation	**65**	-
Ducane Commercial Services Limited	**5**	-
Ducane Housing Association Limited	**111**	-
	14,114	8,819

There were two Board members who were tenants of Octavia Housing during the year - neither of them had any arrears at 31 March 2017 (2016: £nil). Details of their remuneration are given in note 10 above. Neither of them enjoy any other special arrangements.

Octavia Housing made a donation of £370,000 (2016: £370,000) 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. The Octavia Foundation became a subsidiary of Octavia Housing on 31 March 2017.

32. Business combinations

The Octavia Foundation

On 31 March 2017 The Octavia Foundation 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 The Octavia Foundation have been assessed and adjustments from book value have been made where necessary. These adjustments are summarised in the following table:

	Book value £'000	Fair value Adjustment £'000	Fair value £'000
Fixed assets			
Investments with CCLA	1,929	-	1,929
Housing Properties	651	(90)	561
	2,580	(90)	2,490
Current assets			
Debtors	130	-	130
Cash at bank and in hand	64	-	64
	194	-	194
Total assets	2,774	(90)	2,684
Creditors	(126)	-	(126)
Amount treated as donation income in the year	2,648	(90)	2,558

33 Post balance sheet events

Following recent events, the cladding on one of our buildings is to be replaced. The costs of this work and the extent of Octavia's liability to pay for it have yet to be determined. The position in respect of a second building is currently being investigated.

"Octavia have been very supportive at a time when everything was falling apart for my family"

Anonymous resident comment, STAR survey 2017

OCTAVIA

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