OCTAVIA

GOOD HOMES BETTER LIVES

ANNUAL REPORT AND
FINANCIAL STATEMENTS 2017–2018

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BOARD, EXECUTIVES AND ADVISORS

The Board

Sandeep Katwala	*Chairman*
Gwendoline Godfrey	*Vice Chair*
Simon Porter	*Treasurer*
Grahame Hindes	
Malcolm Holloway	
Annie Lathaen	
Stephen Smith	
Debbie Sorkin	
Visakha Sri Chandrasekera	*Appointed 23/04/2018*
Rosalind Stevens	
Angus Taylor	
Rajan Upadhyaya	*Resigned 01/11/2017*

Executive management

Grahame Hindes	*Chief Executive*
Noel Brosnan	*Director of Asset Management*
Mark Gayfer	*Finance Director*
Sarah Mbatha	*Director of Housing, Care and Communities – Appointed19/03/2018*
David Woods	*Development Director*
Mike Wilkins	*Managing Director of Ducane HA & Octavia Living*

Secretary & Registered Office

Colin Hughes
Emily House
202-208 Kensal Road
London
W10 5BN

Tel: 020 8354 5500

PRINCIPAL ADVISORS

Bankers

HSBC
90 Baker Street Branch
London
W1U 6AX

Internal Auditors

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

Auditors

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

Principal Legal Advisors

Devonshires
30 Finsbury Circus
London
EC2M 7DT

CHAIR'S STATEMENT

WELCOME TO THE REPORT AND ACCOUNTS

It is the diversity of London that makes it such an exciting place.

And for London to function well as a city, that diversity needs the support of a strong social infrastructure – including housing. We know from our day-to-day work just what a difference a decent and affordable home can make and so, in the last year, we have completed more new homes, provided more care and support and run a series of community support schemes as our contribution to making the capital even better.

What follows in the detailed review of our work over the year to March 2018 will take a while to digest. So for those short of time, here are four figures to give an insight into what we do:

- **£70 million** – the social value of our sub market rents. Our average rent is less than a quarter of the market rent. If we were a private landlord, our rental income would be £95 million and not the £25 million we charge. This difference is the biggest contribution we make to supporting London's diverse communities.

- **6** – the number of large family houses that we acquired with the generous support of a private charitable trust. These homes, which were just some of the 168 we completed last year, were purchased as part of our contribution to supporting some of the families affected by the fire at Grenfell Tower.

- **84%** - independently assessed resident satisfaction. We know that building more homes and supporting community working both matter, but when something goes wrong we need services that work. With this in mind we spend a lot of time on managing the basics.

- **442** older or isolated adults supported by our outreach and 'befriending' programme.

The report shows that the work Octavia does has real impact. Even so there is more, much more, still to be done.

Sandeep Katwala

REPORT OF THE BOARD OF MANAGEMENT

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.

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 care and support required to people who need it; and
- to London as a whole, playing our part in sustaining the capital's rich diversity and social mix.

Our work has never been more important. London is one of the richest and most developed cities in the world and yet in 2018, access to affordable, good quality housing and health and social support is becoming harder for many people. This is not only our view. The Mayor of London, in the draft Housing Strategy for London published in 2017, described London's housing crisis as the "single biggest barrier to prosperity, growth and fairness facing Londoners today".

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 to fulfil their aspirations 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 2018.

EXTERNAL ENVIRONMENT

The grant system now favours the development of shared ownership and intermediate rental housing

Demand for housing in London continues to exceed supply. According to the Mayor the demand is for affordable housing of all types including homes at rents comparable to those developed historically as social housing, for intermediate housing, shared ownership and also for specialist housing for older residents.

Not only is the demand for genuinely affordable housing an issue, there are also growing concerns about the wider housing market and about how social housing is managed. In early 2017 a Government White Paper recognised that the housing market was 'broken' and identified a number of possible improvements. The findings of the consultation on those proposals were published in March 2018. While this consultation was underway the fire at Grenfell Tower in west London in June 2017 highlighted wider social issues around housing for those on below average incomes in the capital. As a result of this the Government announced a separate review of the role and purpose of social housing and published a Green Paper on this subject in August 2018.

Affordable homes and mixed communities

The way in which housing associations contribute to the supply of new homes at below market rents has changed significantly over recent years with grant funding now playing a reduced role. Increasingly the provision of accommodation at below market price levels is dependent upon either the inclusion of obligations for affordable housing as a condition of planning approval for market housing development, or from subsidy generated from providers' own internal sources. Whereas historically, Associations could rely on grants to support development of all types of affordable housing, the economics of the grant system now favour the development of shared ownership and intermediate rental housing, with the grant for rented schemes at lower social housing rents falling short of meeting the economic cost of provision. This is inevitably changing the shape of our development programme.

Welfare reform and changes to public spending

Under proposals announced in 2015, registered providers were required to reduce social housing rents by 1% each year for the four years from April 2016. In October 2017 the Government announced that at the end of this period (for a five-year period from 2020) social housing rents will be allowed to increase by no more that the Consumer Price Index plus 1%.

The restrictions on social housing rent levels were part of a programme of changes to the welfare system which the Government has been making for the past few years. In recognition of some of the negative impacts that the original proposals were having, a number of amendments have been made in the last 12 months to the system of benefits, including Universal Credit. These have included removing the seven-day wait period before allowing a claim and reducing the initial wait period for payment from six weeks to five. The roll out period of Universal Credit to new claimants

The rollout period of Universal Credit to new claimants has been extended and is now expected to be underway in all areas by December 2018

has also been extended beyond September and is now expected to be underway in all areas by December 2018. The Government is also consulting on changes to the overall system relating to supported housing. Taken together these changes have had the effect of reducing the impact of some of the proposals as originally announced.

The previous Government's 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 six years, with social care as one of the three areas most affected. The position on the long term funding of care remains unclear.

Leaving the European Union and the wider economy

The negotiations for leaving the European Union are an ongoing source of uncertainty for the housing sector and the wider economy. Potential impacts for housing include: increased difficulties in recruiting staff from other parts of the European Union, a negative impact on property prices and weaker GDP growth over the next few years. Over the past year there has already been a slowdown in the property market in London for high value properties in the prime locations where Octavia's operations are centred and this is now starting to affect provision of new affordable housing in these areas.

OPERATIONAL ISSUES

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

HOUSING

Top quartile performance

The Board receives detailed performance information each month in a suite of performance indicators that 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. (See figure 1)

Our aim is for performance to be in the top quartile compared to peers. Figure 1 demonstrates that we are achieving this in a number of areas. In particular we have continued to perform well in terms of rent collection and arrears recovery, in spite of some challenges posed by benefit reform.

Our aim is for performance to be in the top quartile compared to peers

During the year we undertook 834 planned works on our properties under the on-going investment programme. In terms of reactive repairs, over 95% of these were completed within our target time. We are continuing to improve how we respond to and manage complaints and in 2017-18 we revised the complaints process, introducing a quick early resolution stage. During the year performance in the turnaround of vacant properties was slower than previously. This was in part due to diverting resources for a period to assist with re-housing families affected by the Grenfell Tower fire and also due to holding some properties back from normal lettings in case they were required for this purpose. Even so the general performance in this area is not as good as it should be and we are currently reviewing the process with the aim of ensuring our performance in this area is in the top quartile in the coming year.

Service outcomes and resident satisfaction

We consider service outcomes in a number of ways. The Board receives a resident involvement feedback report each month, and we undertake satisfaction surveys on a range of services. HouseMark is one of the UK housing sector's largest membership

Figure 1 – performance on Key Performance Indicators

Performance Indicator	2017-18 Outturn	2016-17 Outturn	London HouseMark comparison
Rent arrears as % of rent due	4.2%	4.1%	Top quartile
Rent collection as % of rent due	100.7%	99.7%	Top quartile
Void loss as % of rent due	0.7%	0.5%	Lower median
% satisfied with completed repairs	95%	96%	Top quartile
% of gas appliances with current certificate	100%	100%	Top quartile
Average call answering in seconds	14	12	Top quartile
% complaints responded to in target time	95%	95%	Upper median
% fire safety assessments completed	100%	100%	Top quartile
Staff turnover	17%	18.5%	Top quartile

organisations and all London Associations take part in HouseMark's STAR general needs (and care and support) tenant satisfaction survey every three years. Our 2017 STAR survey findings were encouraging, with satisfaction with the overall service improved to 83%. The survey placed us in the top quartile for London Associations on all except one of the satisfaction indicators. (See figure 2)

We have an internal project underway aimed at improving leaseholder satisfaction. As part of this we are closely monitoring service charge costs on schemes where we are not the freeholder and do not control the service costs. We are formally challenging these costs on one such scheme where homeowners have had a substantial increase. We have

also reviewed our approach to the collection of funds for future works. This should lead to smaller payments being required from homeowners when the works take place.

Figure 2 – STAR survey topline scores

STAR satisfaction survey	STAR 2017	STAR 2014	+ / -	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?	88%	86%	+2%	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 charge 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 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 areas of operation. 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 that if let on the open market our general needs portfolio would produce an annual income of £95m. The rents (inclusive of service charges) 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 40% on the capital grants received in respect of this housing.

During the year, average rents charged on our social rented properties decreased slightly from £124.36 per week to £123.31 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 re-lets 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.

At the end of the year there was a total of 248 homes where rents are set under this new affordable rent system. While it is possible to charge up to 80% of market rents under the new system, the Board remains 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 UK where capital values are high and the supply of affordable housing falls a long way short of demand. The portfolio of

5,000 homes has been assembled over many years and is a vital and irreplaceable social asset.

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. Around half of our homes are street properties built in the Victorian era, many in conservation areas and therefore need and justify significant ongoing investment. Our planned works cost per property was £2,356 in 2017-18. Whilst this is higher than many other London Associations, the strategy of investment is integral to our overall approach and provided for in our overall financial projections.

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

While our basic intention is to acquire or develop and hold properties for the long term, our strategy does allow for disposal or redevelopment of individual units, in accordance with agreed criteria, when these become available. The triggers for a review include properties which are outside

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83%

OF TENANTS ARE SATISFIED WITH OUR SERVICES

84%

ARE SATISFIED WITH THE QUALITY OF THEIR HOME

(HOUSEMARK STAR SURVEY)

our core areas, where the costs of bringing the property up to current standard exceed £50,000, where the property has a 'hard to let' history, where properties are in Local Authority blocks (ex RTB's), or where we own flats in a block where we have a minority leasehold interest.

When we do dispose of high value void properties, we aim to use the monies generated to finance schemes in the borough of the disposed property.

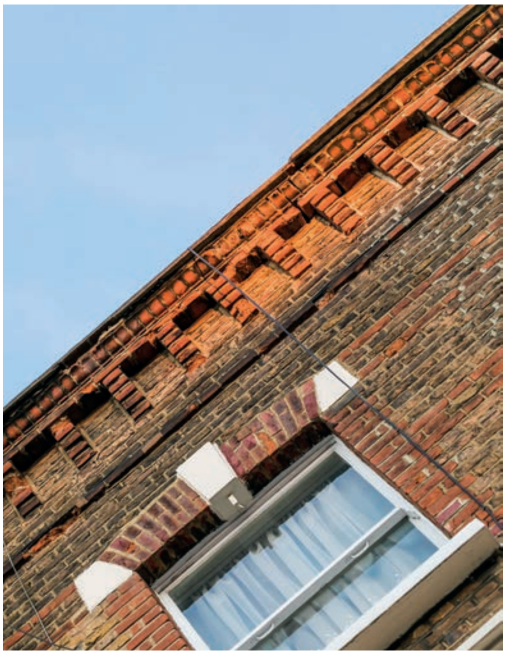
The organisation aims to ensure that all homes reach an EPC 'C' energy efficiency standard by 2023

In the last year we disposed of one property in line with our policy. The surplus from that property disposal and the surplus from first or second and subsequent tranche shared ownership sales and outright sales was £5.2m collectively. The surpluses help us to deliver our ambition to grow our social and affordable rented housing.

Environmental impact and safety

During the year Octavia was recognised as 'Sustainable Homes Provider of the Year' in the SHIFT Sustainability Awards. The award was given in recognition of Octavia's overall approach to reducing environmental impact and improving the energy efficiency of our homes. The Board has set an objective for all our homes to achieve an Energy Performance Certificate (EPC) 'C' rating with an average 30% CO_2 reduction by 2023.

In 2017-18, 172 homes benefitted in some way from energy efficiency measures, including 44 units where we have installed external wall insulation to the rear of properties, and 128 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 70 at 31 March 2018. A home gains an EPC 'C' rating when its SAP score is between 69 and 80. Our ambitious target to achieve a 'C' rating across



all of our homes by 2023 goes further than the target set by HouseMark. The improvement in the average SAP score across all our homes in 2017-18 is evidence of progress made towards achieving this.

2010–2018 SAP RATING OF OUR STOCK IMPROVED FROM

64 TO **70**

YEAR HIGHLIGHT
BRIDGEWATER HOUSE

An attractive development of 36 extra care homes set within a gated community next to the river Thames in Isleworth, Hounslow.

The one and two bedroom apartments provide assisted living support for people aged over 50.

32 of the homes are for affordable rent and four have been sold under shared ownership.

We have a programme of fire safety inspections across our portfolio of properties and completed all inspections in the 2017-18 programme. We had 100% current gas safety certificates at the end of March 2018.

Renewal of repairs contracts

We continue to work with our partners Mears (who are responsible for day to day and cyclical repairs) and Village Heating Ltd (who are responsible for gas and electrical work). Together we have improved resident satisfaction with the service. Over the last four years we have reduced costs through a 'price per property' payment model and comparison with our HouseMark peers evidences that our repair performance has improved.

Resident satisfaction with repairs and maintenance, as well as with the quality of their home, were both in the top quartile in the 2017 STAR survey.

Our current ten year contracts with each of these companies are now reaching their conclusion and we are in the process of re-tendering to improve service quality and achieve the best value for money outcome.

Better lives

Our mission is to provide 'Good Homes, Better Lives'. We aim to have a positive impact on the lives of the people we house and those in our local communities.

Our care portfolio includes 419 homes, classified either as housing for older people or Supported Housing units. We manage seven extra care schemes providing independent living for older people with the provision of 24-hour care and support. All seven schemes met the standards required of them at their latest Care Quality Commission inspections. At the end of the year all our scheme services were rated as Good, with one recognised for outstanding responsiveness. We are also contracted to provide extra care housing services for the Royal Borough of Kensington and Chelsea (RBKC). In 2017 Octavia won the 'Care Employer of the Year Award' in the Great British Care Awards. The national award recognises best practice within both home care and care home sectors.

In addition to our extra care schemes, our care and support services provide essential support to elderly and other residents to assist them to continue to live in their homes and help alleviate social isolation. Over the course of the year:

- Our floating support service helped 197 older people in Westminster and RBKC.

- We completed 288 adaptations to help Octavia residents to continue living independently. 100% of residents said they were satisfied with completed adaptations.

- We provided regular meals, a weekly programme of activities and social events based in our care schemes for older people in Hounslow, Westminster and RBKC.

- We opened Bridgewater House, our latest 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 completed 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

YEAR HIGHLIGHT

THE REED

The Reed is Octavia's flagship community hub in North Kensington. It hosts a day centre for older people and a digital media youth club run by the Octavia Foundation. The Reed also hosts activities run by a local charity which promotes active lives for older people.

The building is integrated with Octavia's Jane Lidderdale House, a scheme providing 13 one bedroom flats for older people.

Family Foundation. This new space offers opportunities for both older and younger people to socialise, develop interests and improve well-being.

In 2017 Octavia was awarded 'Care Employer of the Year' in the Great British Care Awards

The Octavia Foundation

Through the Octavia Foundation we ran a variety of projects that helped to build local community life. In the last year:

- The employment and training programme supported 184 residents into 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.

442

OLDER OR ISOLATED ADULTS SUPPORTED THROUGH BEFRIENDING

162

ATTENDED OUR YOUNG PEOPLE'S PROJECTS

Our small grants programme provided grants of up to £5,000 to groups and charities supporting local people

- Our young people's projects helped 162 children and teenagers to build confidence, learn life skills, promote healthy living, and learn creative media skills.

- The outreach and befriending service supported 442 older or isolated adults who were experiencing loneliness and social isolation.

- The debt and welfare benefits advice service (delivered through Citizens Advice) provided support to more than 220 residents to help them manage debts, maximise income, and cope with welfare reform.

- 84 residents were assisted with welfare or education grants, providing essential household items and help to pursue education. A further 21 families, assisted with housing after the Grenfell Tower fire, also received charitable grants with the support of the Friends of Octavia.

- Our handyperson service provides free help to elderly and disabled tenants with small jobs around the home that fall outside a landlord's legal responsibility. Last year 484 residents used the service.

During the year we also launched a small grants programme providing grants of up to £5,000 each for local groups and charities supporting residents and others living in Westminster and Kensington and Chelsea. The fund provided £88,000 of grants to 18 organisations, covering a broad range of community activities including youth and sports projects and family support groups.

The funding for our community activities comes from income generated from a small commercial portfolio and the surpluses generated from a portfolio of 21 charity shops across the capital. During the year the shops generated a trading surplus of £0.5m. The shops benefit from an inner London location and were supported by more than 200 volunteers in 2017-18. We are also grateful to our large donors, including Gant UK, JCM London, Duchamp London, DAKS and Harrods, who provided substantial support during this financial year.

STRATEGIC REPORT

GROWTH AND DEVELOPMENT

In response to the pressing demand for new homes we have an ambitious approach to new development. In 2017 we set out to increase the programme so that we are able to sustainably develop 200 new homes a year across a range of tenures in central and west London. Achievement of this particular goal, while maintaining a financially prudent approach, is heavily dependent on a range of external factors including access to a supply of land, the grant system and the planning framework.

In 2017-18 we completed 166 homes: 101 for social and affordable rent, five for intermediate rent, 33 for shared ownership and 27 for outright sale. The schemes completed during the year included the acquisition of six large family houses in North Kensington, funded by a charitable donation, to re-house families affected by the Grenfell Tower fire. Other developments completed during the year included the acquisition of an extra care facility of 36 homes developed by St James at Isleworth, 36 homes in Brent (Sarena House), the completion of a further 38 homes at Gladstone Village in Cricklewood and projects at Chadwick Street and the former Harrow Road police station, both in Westminster.

We currently have 146 homes under development, which we expect to complete in 2018/19 and another 129 homes, which are either in contract or under agreed terms for completion after March 2019.

88% of our staff would recommend Octavia as a good place to work

As of 31 March 2018, the outstanding development programme agreed by us with the Greater London Authority will require a further investment of £29.3m to complete. Social Housing Grant allocation of £2.1m is expected to be received following practical completions. The net investment of £27.2m in new social housing development was more than covered by the secured and available borrowing facilities at 31 March 2018 of £17.2m and the existing free cash and deposit balances of £18.6m. In addition, subsequent to the year end, security charging for a further £23m of banking facilities was completed. Shared ownership sales from on-site developments (estimated at £11m) will be used to repay revolving loan facilities. To support our continuing investments in social housing, we expect to increase borrowing and gearing levels over the next few years and we have been arranging new loans and reviewing capital structures.

INTERNAL ORGANISATION

Our approach as an employer

The staff survey completed during the year continued to demonstrate the high levels of staff engagement we have seen previously. The latest results show that 88% of staff would recommend Octavia as a good place to work.

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, focused on embracing change and compassionate care.

During the year we published our first Gender Pay Gap report. This shows a significant gap between the mean average salary of male and female staff (28%). Octavia operates an equal pay policy and this result is largely due to the low numbers of male staff employed in the organisation's Care operations. The Board has established a working group to develop options for addressing the issue, which will report in late 2018.

Remuneration

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

- assist in recruiting and retaining staff;
- reward responsibility and performance at an appropriate rate in relation to the sector and the market; and
- provide terms and conditions that meet statutory obligations and better these where appropriate.

Salaries are based on independent advice on the market and reviewed every three years. All members of staff are eligible for a performance award scheme and all staff are paid at or above the London Living Wage. The salaries of the directors are now set by the Group and by the Board for the Chief Executive. Octavia's policy is to offer fees to non-executive Board members. These are set in line with the guidance on fees given previously

YEAR HIGHLIGHT
GLADSTONE VILLAGE

A high-spec mixed tenure development of 38 flats and houses next to Gladstone Park in NW3.

The development on a former Thames Water depot includes houses and flats for affordable rent, affordable shared ownership and private sale.

by the Regulator of Social Housing. Details of the remuneration paid 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 our processes more efficient. This includes continued work on the customer relationship management (CRM) system, which is used to record all contacts with residents and mobile working. We have focused on improvements to our systems for voids, income processing and supporting the Customer Contact Team, and on improving resilience and information security.

We are implementing a three-year strategy for IT development that includes:

- improving digital services and communications with residents, including a new resident portal;
- developing our approach to the management of our property and our Care portfolio with enhanced IT; and
- further support for staff when mobile working.

Health and safety

The Board is responsible for ensuring that Octavia fulfils its legal and moral responsibilities 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 Executive Committee meets quarterly and has delegated authority from the Directors Group to oversee Octavia's strategic response to health and safety and review progress across all areas of activity, including actions to minimise risks.

Our in-house 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.

In 2017 we established that the type of cladding used on one of our buildings where we are the freeholder had failed the combustion tests carried out by the Building Research Establishment (BRE) on behalf of the Ministry of Housing, Communities and Local Government (MHCLG). We are now working with the contractors and the London Fire Brigade to address this issue and ensuring residents are safeguarded while we do so. Changes to the building (including re-cladding) will need to take into account findings from the Independent Review of Building Regulations and Fire Safety, which was published in May 2018. Work has been completed on a second development that previously had a small amount of ACM cladding.

FINANCIAL MATTERS

Financial review

The Group's financial performance over the last five years is summarised in the following tables, 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. The Group's results

for the year to 31 March 2018 include two significant non-repeating items: a one-off charitable donation of £10m and interest breakage costs totalling £8m, which will allow us to reduce our interest charges in future. (See figure 3)

Our underlying financial strength comes from our 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 2018 by Jones Lang LaSalle. (See figure 4)

This independent desktop valuation indicates that the average Vacant Possession value for our General Needs properties remains broadly unchanged from March 2017 at approximately £550,000 per unit. The valuation shows that whilst values of our central London stock have fallen slightly in the past year, those for the more suburban stock continued to rise. The Existing Use Values for Social Housing (EUV-SH) of our stock remains broadly unchanged from 2017.

The financial plan adopted by the Board in June 2018 envisages

Figure 3

Year	2017/18 £m	2016/17 £m	2015/16 £m	2014/15 £m	2013/14* £m
Turnover**	55.5	44.8	50.0	39.4	58.5
Cost of Sales	(7.5)	(1.6)	(6.2)	(4.9)	(23.9)
Operating Costs	(36.8)	(33.0)	(32.7)	(26.8)	(26.5)
Surplus on Shared Ownership staircasing	1.6	1.4	2.0	0.8	0.3
Donations	10.9	-	-	-	-
Operating surplus	**23.7**	**11.6**	**13.1**	**8.5**	**8.4**
Net interest payable	(4.6)	(4.8)	(5.0)	(4.5)	(3.6)
Interest breakage cost	(8.0)	-	(2.3)	(1.3)	-
Gain on business combination	-	2.6	28.5	-	-
Surplus on asset disposals	0.4	0.2	2.2	2.3	0.8
Revaluation of Investments	-	2.5	-	-	-
Surplus for the year	**11.5**	**12.1**	**36.5**	**5.0**	**5.6**
Borrowings – gross	190	168	164	138	139
Borrowings – net	174	154	148	121	103

Not on FRS102 basis* * Excluding Donations*

Figure 4

Year	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Open Market Value with Vacant Possession	2,400	2,337	2,288	1,973	1,785
Market Value subject to existing Tenancies	1,127	1,095	999	949	859
Existing Use Value for Social Housing	501	466	461	416	382
Estimated annual market rent of General Needs social rented portfolio	95	85	89	87	81
Actual annual rent roll of General Needs social rented portfolio	25	25	24	22	21

spending some £26m on property upkeep and health and safety requirements over the next five years. This is in line with independent estimates received from property and construction consultants Ridge and Partners as being the investment required to ensure the full upkeep of the buildings, together with the first five years of a ten-year energy efficiency improvement programme.

In addition to the housing property portfolio, the March 2018 Group balance sheet includes a portfolio of commercial properties, which were

valued on an Open Market basis in March 2017 at £11.1m by FPD Savills. These properties are almost all located in buildings associated with our social housing schemes. Investment in the commercial portfolio has been funded by our reserves and in line with our Investment Policy its income is used to further our social purpose.

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 activities and investments are financed either by accumulated surpluses, grants or through borrowings. Given the long-term nature of the investments in social housing, our borrowings also tend to be long term.

In the year to 31 March 2018, two Revolving Credit Facilities with a total value of £70m were put in place, taking total Group facilities at that point to £238 million. During the year gross borrowings increased from £168m to £190m as new loans were drawn to finance capital investment. A further £17m of fully secured borrowing facilities were in place at the year end, which were available to draw immediately, and the security charging work for a further £23m of facilities was completed shortly thereafter.

The Treasury Strategy is reviewed annually by the Board. The current loan facilities will enable us to complete all of the development schemes we have contracted for, as well as those schemes agreed in principle.

Details of interest rate fixing by maturity at 31 March 2018 are given in figure 5.

In March 2018 the fixed interest rates on £27m of long term debt were re-negotiated and re-fixed at lower rates at a cost of £8m. This change will reduce our ongoing interest costs by some £1m per annum for much of the next decade.

At the year-end 43% of the rented housing stock had been used to secure current facilities. The Board considers that the unutilised security will enable it to increase borrowings to fund additional development in order to reach a target of 200 new homes

Figure 5

Rate fixing period	Target	At 31 March 2018	At 31 March 2017	At 31 March 2016
Fixed for more than 10 years	At least 50%	45%	61%	65%
Fixed for more than 1 year but less than 10 years	Between 0% and 50%	15%	16%	14%
Variable /Less than one year	Less than 25%	40%	23%	21%

a year. To enable the Group to do this we are considering the implications of further long term borrowings through the bond markets. In anticipation of this the Board has approved a short term increase in the proportion of floating rate debt outside the normal policy limits which apply.

The Board monitors compliance with loan covenants quarterly. At 31 March 2018 the position in respect of the two main sets of covenants was as follows:

- Interest cover 208% (lowest permitted level 105%)
- Gearing 59% (highest permitted level 65%)

Net indebtedness for the Group at 31 March 2018 stood at £171m, of which £28m was funding the construction of properties under development, with a further £13m funding completed outright sale and shared ownership properties unsold at that date and a further £8m held in work in progress. The balance of borrowing (£122m) funds completed social housing properties and represents an average debt of around £26,000 per home.

Value for Money (VFM)

During the year the Regulator of Social Housing (RSH) made revisions to the regulatory requirements which mean that comprehensive statements on VFM are no longer mandatory. Instead the RSH requires all providers of social housing to publish details of seven Value for Money indicators calculated using the definitions used by HouseMark. (See figure 6.)

The VFM indicators for Operating Margin, EBITDA-MRI and Return on Capital Employed for 2017/18 have been improved by the receipt during the year of a £10m charitable donation – without the impact of this donation they would have been similar to those in the previous years.

Figure 6

	Group 17/18	Group 16/17	Peers Median 17/18
Metric 1 – Reinvestment	7.7%	4.0%	Not Available
Metric 2 – New Supply delivered (Social Housing Units)	3.1%	0.8%	1.6%
Metric 3 – Gearing	35.4%	33.8%	38.2%
Metric 4 – EBITDA MRI interest cover	475%	279%	172%
Metric 5 – Headline Social Housing cost per unit	£5,750	£5,510	Not Available
Metric 6 – Operating Margin (social housing lettings only)	39.2%	31.4%	Not Available
Metric 6 – Operating Margin (overall)	35.7%	22.8%	27.7%
Metric 7 – Return on Capital Employed	4.7%	3.0%	Not Available

YEAR HIGHLIGHT
CARE EMPLOYER OF THE YEAR

Octavia was announced the top Care employer in the UK finals of the Great British Care Awards.

The judges praised Octavia's 'approach to staff wellbeing, empowering and enabling Octavia to take a holistic approach to all'.

Re-investment has increased following a decision by the Board to increase development activity and as a result investing the £10m charitable donation received.

The level of new supply delivered is in line with Board aspirations at the time the developments were started and the increase over the previous year arose due to the low level of completions in 16/17 following a large number in 15/16.

Interest cover has reduced to 208% (2017- 339%) but this remains above the median for similar companies.

In terms of achieving good value we continue to target reductions in unit costs for day to day repairs. We are also improving ways of working in carrying out cyclical works and continuing with the rolling programme of re-procuring overhead costs. Our aim is to keep any growth in management costs below the rate of inflation.

In planning ahead, the key areas that we are working on to improve 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.

As nearly all of our homes are in areas that have high property values with rents charged at substantially below market rates the "social dividend" we create through this approach is significant. This means that on a purely commercial basis Octavia receives a low return overall on its assets - the gross rental yield of £28m represents a 1% per annum return on the replacement value of its social housing assets of £2.4bn and a rather higher 10% on net historic cost.

Going concern

In preparing these statements the Board considered the issue of "going concern". The Board noted that the projected cash flow from operations and sales, taken together with undrawn and secured loan facilities, significantly exceeds the projected cash requirements for operating expenditure and capital investment for at least the next eighteen months. The Board has also recognised that the business planning projections that have been prepared indicate that Octavia will be operating comfortably within its loan covenant restrictions for that period. As set out above, we will need to raise additional new finance if we are to achieve our development ambitions, although it is Octavia's policy not to enter into contractual obligations for development until the full necessary financing has been put in place. Based on the information set out above the Board considers that it is appropriate to adopt the going concern basis in preparing this annual report and accounts.

OTHER FINANCIAL MATTERS

Impairment

The Board has concluded that no provisions for impairment are 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 used the valuations provided by an independent organisation, TRL

GENERAL NEEDS PORTFOLIO

£95m

ESTIMATED MARKET RENTAL VALUE

£25m

ACTUAL RENTS CHARGED (INCLUDING SERVICE CHARGES)

DIFFERENCE = SOCIAL DIVIDEND

Exchange, to give the value of derivatives at the balance sheet date. TRL Exchange is the organisation through which the relevant 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.

CORPORATE GOVERNANCE OVERVIEW

Octavia, has three active subsidiaries:

a) Octavia Living Limited, which undertakes commercial activities;

b) Octavia Foundation, which is a registered charity and provides community support to people in central and west London, including Octavia residents; and

c) Ducane Housing Association Limited, which develops and manages intermediate housing primarily for key workers, postgraduates and students.

The Group is governed by a Board (see page 1), which comprises 10 non-executives (of whom two are residents) plus the Chief Executive. Octavia has adopted and complies with the most recent National Housing Federation Code of Governance. The day to day operational responsibility for Octavia is delegated to an executive team including the Chief Executive and Directors of Housing, Asset Management, Development and Finance.

In the 12 months to March 2018 the Board completed a review of the governance arrangements, which included externally facilitated appraisals of all members, the establishment of a stronger unitary Board (with oversight of all major strategies and policies) and the establishment of five specialist committees (including the ongoing Audit Committee). In the next 12 months the Board anticipates further simplifying the structure through transferring the engagements of Ducane Housing to Octavia Housing. An Octavia main Board member is on the board of each of its subsidiaries, in all but one case as Chair.

On 1 November 2017 Raj Upadhyaya resigned from the Board – the Board thanks Raj for his work during his period of service. Visakha Sri Chandrasekera joined the Board in April 2018 as the non-executive member with a particular focus on development issues.

As a registered provider of social housing Octavia was visited under the Regulator's programme of in-depth assessments in mid 2017. It is currently Grade 1 for both Financial Viability and Governance.

RISK, UNCERTAINTY AND CONTROLS

The Board has overall responsibility for establishing and maintaining a system of internal controls and for reviewing its adequacy and effectiveness. The system covers all aspects of the Group'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 the organisation'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 a 30-year Long Term Financial Plan model. These are regularly updated and reviewed by the Board and are 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 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 executive Project Panel and for larger projects, by the Board.

The Board recognises its control responsibilities with regard to fraud. Our 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 the investigation of fraud (whether suspected, attempted or actual); and
- the disciplinary procedures which may follow the discovery of a fraud or attempted fraud and reporting actions (including to the Regulator 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 clear 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 required reporting to the Regulator of Social Housing.

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 (i) financial risk and (ii) 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 two years. We have recognised this in 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. During the year the Government indicated that it will permit the increase of social housing rents for the five years from 2020 and this has been included in our financial projections. Should the Government change this position and require further reductions in rents, we would need to review our plans.

- Inflation: Over the long term, our income (primarily rents) and operating costs tended to move in a linked fashion with inflation. However, over the past few years constraints on pay to employees have meant that income has increased by more than costs. In the opinion of the Board, employee and maintenance related costs are now expected to increase more rapidly than revenues. Additionally there are inflation linked risks to Care income, where rates are agreed and fixed for several years ahead.

- Health and Safety Regulations: In 2017, the government commissioned an independent review of building regulations relating to fire safety, the findings of which were published in May 2018. The Group owns one block which will require re-cladding. The Group is intending to seek recovery of all costs from the developer who constructed the scheme in 2013 under a Design and Build contract, or from the Government funding programme announced in May 2018.

- Liquidity risk: The Treasury management policy (part of the Treasury Strategy) sets out minimum levels of liquidity both in terms of cash and short term money market deposits that should be maintained and also levels of secured and available bank facilities. Short term money market deposits are only made with institutions that meet Board-approved 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 our tenants and Octavia. The risk that rental income will become

more difficult to collect in future seems almost certain to materialise given the changes in welfare benefits. We are monitoring closely the impact of benefit changes and have been investing in staff and systems to ensure that we are in the best position to support residents and deal with any issues as they develop.

- Sales risks: Octavia's development programme includes a number of schemes which assume either shared ownership or outright sales. The levels of exposure to sales income are 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 earlier in 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 an upgrade to 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: Octavia aims to comply with all legal and regulatory requirements and has put in place procedures and controls to monitor compliance.

- IT issues: We are developing our use of technology for the effective delivery of services. A separate section in this report provides details of this.

Compliance with relevant law and regulations

As required by the Regulator of Social Housing, the Board has conducted a review of the level of compliance with relevant law and regulations over the period to July 2018. The Board has agreed 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.

The General Data Protection Regulation (GDPR) was introduced on 25 May 2018. Octavia has taken steps to address GDPR requirements across the Group. We can confirm that further work is underway to ensure

full compliance. The Association has appointed a Data Protection Officer to advise on and assist with changes to systems and procedures to strengthen compliance.

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 2018 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 require disclosure in these 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.

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 the management of 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 principal contracts for delivery with the aim of further

improving the quality and further improving the value for money of what we do.

- Our approach to property management, with skilled specialist staff and onsite estates officers, has achieved high rates of resident satisfaction. 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 with 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 with responsibilities for 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 which promote our aim 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 the Burgess Fields scheme where we now provide Care in a scheme owned by the Royal Borough of Kensington and Chelsea. We will look to further grow the portfolio of care schemes over the next few years, as and when suitable opportunities in our area of operation arise. Our focus is on ensuring that the quality of the service we provide is of a high standard and so our approach has been to limit development to a single additional scheme at a time.

- 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 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.

The Board remains open to new opportunities. It fully recognises that there are significant challenges ahead but is also mindful of the substantial need for more and better housing. Going forward, the Board is strongly committed to maintaining Octavia's social purpose and values.

Sandeep Katwala
Chairman

22 August 2018

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 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.

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 are the responsibility of the Board members. The Board members' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Opinion

We have audited the financial statements of Octavia Housing ("the Association") and its subsidiaries ("the Group") for the year ended 31 March 2018 which comprise the Consolidated and Association statement of comprehensive income, the Consolidated and Association Balance Sheets, the Consolidated and Association statement of changes in Reserves, the Consolidated and Association statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the Association's affairs as at 31 March 2018 and of the Group's and the Association's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance 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.

Basis for opinion

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

Conclusions relating to going concern

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

- the Board members use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Board members have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Association's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

Other information

The Board is responsible for the other information. Other information comprises the information included in the Report of the Board and Consolidated Financial Statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

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 by the Co-operative or Community Benefit Societies Act 2014 or the Housing and Regeneration Act 2008 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
- 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.

Responsibilities of the board

As explained more fully in the Board members responsibilities statement set out on page 34, the Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Board members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of our report

This report is made solely to the members of the Association, as a body, in accordance with the Housing and Regeneration Act 2008 and 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 members as a body, for our audit work, for this report, or for the opinions we have formed.

BDO LLP, Statutory Auditor
Gatwick, West Sussex
United Kingdom

Date 23 August 2018

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

ACCOUNTS
FOR THE YEAR
ENDED 31/3/18

CONSOLIDATED AND ASSOCIATION STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 March

	Note	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
Turnover	4	**66,438**	44,768	**55,948**	41,907
Cost of sales	4	**(7,504)**	(1,548)	**(2,880)**	(1,538)
Operating costs	4	**(36,792)**	(33,002)	**(33,940)**	(31,454)
Surplus on disposal of shared ownership	4,11	**1,570**	1,358	**1,556**	1,358
Operating surplus	4,7	**23,712**	11,576	**20,684**	10,273
Movement in the fair value of investment properties	16	**-**	2,498	**-**	2,498
Surplus on disposal of fixed assets	11	**358**	263	**514**	263
Other interest receivable and similar income	12	**138**	45	**768**	673
Interest and financing costs	13	**(12,735)**	(4,758)	**(12,776)**	(4,902)
Gain on Business combination		**-**	2,558	**-**	-
Movement in fair value of financial instruments	25	**-**	(40)	**-**	(40)
Surplus before and after taxation		**11,473**	12,142	**9,190**	8,765
Movement in fair value of hedged financial instrument	25	**347**	(442)	**347**	(442)
Total comprehensive income for year		**11,820**	11,700	**9,537**	8,323

All amounts are derived from continuing operations.

Turnover for the Group and Association includes a £10m restricted donation as described in Note 5.

The notes on pages 45 to 86 form part of these financial statements

CONSOLIDATED AND ASSOCIATION BALANCE SHEETS

At 31 March

	Note	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
Fixed assets					
Tangible fixed assets – housing properties	14	**479,051**	447,024	**437,917**	405,536
Tangible fixed assets - other	15	**11,452**	9,986	**11,038**	9,360
Investment properties	16	**11,050**	11,050	**11,050**	11,050
Investments - other	17	**1,964**	1,929	**10**	10
		503,517	469,989	**460,015**	425,956
Current assets					
Stock including Properties for sale	18	**20,776**	18,897	**9,365**	5,098
Debtors – receivable within one year	19	**4,290**	4,199	**4,361**	4,076
Debtors – receivable after one year	19	**524**	522	**11,692**	14,617
Investments		**102**	102	**102**	102
Cash and cash equivalents		**18,538**	14,248	**16,675**	11,961
		44,230	37,968	**42,195**	35,854
Creditors: amounts falling due within one year	20	**(33,697)**	(21,873)	**(32,205)**	(19,569)
Net current assets		**10,533**	16,095	**9,990**	16,285
Total assets less current liabilities		**514,050**	486,084	**470,005**	442,241
Creditors: amounts falling due after more than one year	21	**(374,337)**	(358,191)	**(367,744)**	(349,517)
Net assets		**139,713**	127,893	**102,261**	92,724
Capital and reserves					
Called up share capital	27	-	-	-	-
Cash flow hedge reserve		**(3,916)**	(4,263)	**(3,916)**	(4,263)
Restricted reserve		**10,016**	-	**10,016**	-
Income and expenditure reserve		**133,613**	132,156	**96,161**	96,987
		139,713	127,893	**102,261**	92,724

The Financial Statements were approved by the Board of Directors and authorised for issue on the 22 August 2018.

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

The notes on pages 45 to 86 form part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN RESERVES

For the year ended 31 March

	Cash flow hedge reserve £'000	Restricted reserves £'000	Income and expenditure reserve £'000	Total £'000
Balance at 1 April 2016	(3,821)	-	120,014	116,193
Surplus for the year	-	-	12,142	12,142
Movement in fair value of hedged financial instrument	(442)	-	-	(442)
Balance at 31 March 2017	(4,263)	-	132,156	127,893
Surplus for the year	-	10,016	1,457	11,473
Movement in fair value of hedged financial instrument	347	-	-	347
Balance at 31 March 2018	**(3,916)**	**10,016**	**133,613**	**139,713**

ASSOCIATION STATEMENT OF CHANGES IN RESERVES

For the year ended 31 March

	Cash flow hedge reserve £'000	Restricted reserves £'000	Income and expenditure reserve £'000	Total £'000
Balance at 1 April 2016	(3,821)	-	88,222	84,401
Surplus for the year	-	-	8,765	8,765
Movement in fair value of hedged financial instrument	(442)	-	-	(442)
Balance at 31 March 2017	(4,263)	-	96,987	92,724
Surplus/ (deficit) for the year	-	10,016	(826)	9,190
Movement in fair value of hedged financial instrument	347	-	-	347
Balance at 31 March 2018	**(3,916)**	**10,016**	**96,161**	**102,261**

The notes on pages 45 to 86 form part of these financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March

	Note	2018 £'000	2017 £'000
Cash flows from operating activities			
Surplus for the financial year		**11,473**	12,142
Adjustments for:			
Gain on business combination		**-**	(2,498)
Accelerated depreciation on component		**581**	-
Depreciation of fixed assets - housing properties	14	**6,173**	6,283
Depreciation of fixed assets - other	15	**813**	562
Amortised grant	5	**(2,248)**	(1,950)
Net fair value gains recognised in income		**-**	(2,498)
Interest payable and finance costs	13	**12,735**	4,758
Interest receivable	12	**(138)**	(45)
Surplus on the sale of fixed assets - housing properties	11	**(2,084)**	(1,621)
Loss on the sale of other fixed assets	11	**156**	-
Increase in value of investments		**(35)**	-
(Increase) / decrease in trade and other debtors		**(93)**	8,008
Increase in stocks		**(1,879)**	(7,799)
(Decrease) in pension creditor		**(256)**	(138)
Increase/ (decrease) in grant creditors		**-**	(1,806)
Sales of fixed assets - housing properties		**4,470**	3,250
(Decrease) / increase in trade creditors		**(802)**	2,577
Net cash generated from operating activities		**28,866**	19,225
Cash flows from investing activities			
Purchase of fixed assets – housing properties	14	**(31,688)**	(20,207)
Purchases of fixed assets - other	15	**(2,435)**	(1,333)
Cash acquired with subsidiary		**-**	64
Movement in Short term deposits	14	**-**	198
Receipt of grant		**1,042**	1,261
Interest received	12	**138**	45
Net cash outflow from investing activities		**(32,943)**	(19,972)
Cash flows from financing activities			
Interest and breakage paid	13	**(13,103)**	(4,859)
Finance costs		**(741)**	
New loans - bank	24	**33,500**	8,300
Repayment of loans - bank	24	**(11,262)**	(4,911)
Repayment of loans - other	24	**(27)**	-
Net cash generated by (used in) financing activities		**8,367**	(1,470)
Net Increase / (decrease) in cash and cash equivalents		**4,290**	(2,217)
Cash and cash equivalents at beginning of year		**14,248**	**16,465**
Cash and cash equivalents at end of year		**18,538**	14,248

The notes on pages 45 to 86 form part of these financial statements

ASSOCIATION STATEMENT OF CASH FLOWS

For the year ended 31 March

	Note	2018 £'000	2017 £'000
Cash flows from operating activities			
Surplus for the financial year		**9,190**	**8,765**
Adjustments for:			
Accelerated depreciation	14	**544**	306
Depreciation of fixed assets - housing properties	14	**5,619**	5,508
Depreciation of fixed assets - other	15	**754**	496
Amortised grant	5	**(2,248)**	(1,989)
Net fair value gains recognised in income		**-**	(2,498)
Interest payable and finance costs	13	**12,766**	4,902
Interest receivable	12	**(768)**	(673)
Surplus on the sale of fixed assets - housing properties	11	**(2,070)**	(1,621)
Decrease in trade and other debtors		**2,640**	2,765
Increase in stocks		**(4,267)**	(2,658)
(Decrease) in pension creditor		**(233)**	(120)
(Decrease) / increase in trade creditors		**(69)**	340
Proceeds of sales of fixed assets - housing properties		**4,470**	10,573
Net cash generated from operating activities		**26,328**	24,096
Cash flows from investing activities			
Purchase of fixed assets – housing properties	14	**(31,466)**	(20,132)
Short term deposits		**-**	1
Purchases of fixed assets - other	15	**(2,432)**	(1,332)
Receipt of grant	14	**1,042**	198
Interest received	12	**768**	673
Net cash outflows from investing activities		**(32,088)**	(20,592)
Cash flows from financing activities			
Interest and breakage costs paid	13	**(13,256)**	(5,003)
Finance costs		**(484)**	-
New loans - bank	24	**33,500**	8,300
Repayment of loans - bank	24	**(9,259)**	(4,028)
Repayment of loans - other	24	**(27)**	-
Net cash generated by / (used in) financing activities		**10,474**	(731)
Net increase in cash and cash equivalents		**4,714**	2,773
Cash and cash equivalents at beginning of year		**11,961**	9,188
Cash and cash equivalents at end of year		**16,675**	11,961

The notes on pages 45 to 86 form part of these 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 Regulator of Social Housing as a social housing provider. Details of its registered office are set out on page 1.

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 Co-operative 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 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: inter-company transactions and balances between Group organisations are therefore eliminated in full. In accordance with the transitional exemption available in FRS 102, the Group chose 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.

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

2 ACCOUNTING POLICIES (CONTINUED)

- Sales of other residential property developed for sale
- Service charges receivable
- Revenue charges for supported housing as they fall due per the contract
- Proceeds from the sale of land and property
- Sales in charity shops
- Charitable donations from third parties

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 fees from a number of London Boroughs in connection with the provision of supported housing. The income relating to 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 fee 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.

Charitable donations received from third parties

Charitable donations received from third parties are recognised as income once any conditions have been fulfilled.

Value Added Tax

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

Finance costs

Finance costs are charged to the 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. The costs of breaking fixed interest rate arrangements are charged as an expense at the date the contract is broken.

2 ACCOUNTING POLICIES (CONTINUED)

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.

The Group also participates in a second defined benefit scheme, the Local Government Pension Scheme (LGPS), in respect of members who were TUPE'd across during the transfer of the management of Burgess Fields care scheme by the Royal Borough of Kensington and Chelsea.

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 include 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 under construction. 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 (years)
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

Service chargeable components - short life - include warden call system, CCTV, hoist, door entry systems etc.

Service chargeable components - long life - include fire systems, TV aerials, communal heating, passenger lifts etc.

Externals include steps and handrail, paths etc.

2 ACCOUNTING POLICIES (CONTINUED)

Depreciation is not charged on housing assets in the year of completion but in subsequent years, including the year of disposal.

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.

Shared ownership properties and staircasing

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

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

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.

Any impairment in the value of such properties is charged to the Statement of Comprehensive Income.

2 ACCOUNTING POLICIES (CONTINUED)

Allocation of costs for mixed tenure developments

Costs are allocated to the appropriate tenure by calculating the element in relation to the land, using the present value of the expected income streams.

Tangible fixed assets – Other

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

Depreciation of other tangible fixed assets

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

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.

2 ACCOUNTING POLICIES (CONTINUED)

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 Greater London Authority (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, is disclosed in the balance sheet under "creditors due after more than one year". The remainder is disclosed under "Creditors due within one year".

Investment properties

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

Investments in Subsidiaries

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

Impairment of fixed assets

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

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

2 ACCOUNTING POLICIES (CONTINUED)

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.

Provisions for constructive obligations

Where the Group makes commitments which can be viewed as constructive obligations to incur expenditure and which can be reliably quantifiable, provisions are created at the time the commitment is made and charged as an expense in the Statement of Comprehensive Income.

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 using the effective interest rate.

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 consist 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.

2 ACCOUNTING POLICIES (CONTINUED)

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 stand-alone swap 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.

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 or 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.

3 JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

- 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, as the outcome of the 2017 scheme revaluation has not yet been formally finalised.

- 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 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 assessment of fair value of interest rate swap agreements

- The categorisation of financial instruments as basic or other

Other key sources of estimation uncertainty

- Contingent liabilities (see note 28)

  Octavia has made certain commitments to replace the cladding at one residential block but the replacement proposals are still being formulated following the consultation paper issued by the UK government in June 2018. As a result the costs of meeting this obligation and the potential claims against others in relation to this are uncertain.

- 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.

3 JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

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 (see note 16)

  Investment properties are valued by the directors annually and supported by an independent valuation every three years. 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 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 2018	Turnover 2018 £'000	Costs of sales 2018 £'000	Operating costs 2018 £'000	Surplus on sale of shared ownership properties 2018 £'000	Operating surplus/(deficit) 2018 £'000
Social housing lettings (Note 5)	**37,553**	**-**	**(28,917)**	**-**	**8,636**
Other Social Housing Activities					
First tranche low cost home ownership sales	**3,135**	**(1,524)**	**-**	**-**	**1,611**
Supporting people	**98**	**-**	**(175)**	**-**	**(77)**
Donation from third parties	**10,000**	**-**	**-**	**-**	**10,000**
Student Accommodation	**1,790**	**-**	**(1,237)**	**-**	**553**
Other	**55**	**-**	**(1,774)**	**1,570**	**(149)**
	52,631	**(1,524)**	**(32,103)**	**1,570**	**19,004**
Activities other than Social Housing Activities					
Market rents	**41**	**-**	**(5)**	**-**	**36**
Rents on investment properties	**837**	**-**	**(291)**	**-**	**546**
Outright Sales	**7,486**	**(5,980)**	**-**	**-**	**1,506**
Donation from third parties	**900**	**-**	**-**	**-**	**900**
Other	**4,543**	**-**	**(4,393)**	**-**	**150**
	13,807	**(5,980)**	**(4,689)**	**-**	**3,138**
	66,438	**(7,504)**	**(36,792)**	**1,570**	**23,712**

4 PARTICULARS OF TURNOVER, COST OF SALES, OPERATING COST AND OPERATING SURPLUS (CONTINUED)

Group 2017	Turnover	Costs of sales	Operating costs	Surplus on sale of shared ownership properties	Operating surplus/ (deficit)
	2017	2017	2017	2017	2017
	£'000	£'000	£'000	£'000	£'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)	1,358	420
	40,671	(1,538)	(29,329)	1,358	11,162
Properties developed for market sale	-	-	-		-
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)	1,358	11,576

£10m was received from a charitable trust in the year, which was restricted in its use to the acquisition of properties with four bedrooms or more in North Kensington. The terms of the donation require that properties are initially to be let to larger households resident in Grenfell Tower on 14 June 2017 and that any surpluses are reinvested for the ongoing maintenance of those properties.

Operating costs have increased above the rate of inflation for a number of reasons including the first year of inclusion of the operating costs of the Octavia Foundation, significant increases in service charge costs levied by managing agents for third party landlords, the additional costs of providing fire wardens and carrying out additional works to improve fire safety and the first year of operation of a new extra care sheltered scheme in Hounslow.

4 PARTICULARS OF TURNOVER, COST OF SALES, OPERATING COST AND OPERATING SURPLUS (CONTINUED)

Association 2018	Turnover 2018 £'000	Costs of sales 2018 £'000	Operating costs 2018 £'000	Surplus on sale of shared ownership properties 2018 £'000	Operating surplus/ (deficit) 2018 £'000
Social housing lettings (Note 5)	**36,677**	**-**	**(28,350)**	**-**	**8,327**
Other Social Housing Activities					
First tranche low cost home ownership sales	**3,135**	**(2,100)**	**-**	**-**	**1,035**
Supporting people	**98**	**-**	**(175)**	**-**	**(77)**
Donation from third parties	**10,000**	**-**	**-**	**-**	**10,000**
Other	**55**	**-**	**(1,715)**	**1,556**	**(104)**
	49,965	**(2,100)**	**(30,240)**	**1,556**	**19,181**
Activities other than Social Housing Activities					
Market rents	**41**	**-**	**(5)**	**-**	**36**
Rents on investment properties	**837**	**-**	**(291)**	**-**	**546**
Outright sales	**700**	**(780)**	**-**	**-**	**(80)**
Donation from third parties	**900**	**-**	**-**	**-**	**900**
Other	**3,505**	**-**	**(3,404)**	**-**	**101**
	5,983	**(780)**	**(3,700)**	**-**	**1,503**
	55,948	**(2,880)**	**(33,940)**	**1,556**	**20,684**

Association 2017	Turnover 2017 £'000	Costs of sales 2017 £'000	Operating costs 2017 £'000	Surplus on sale of shared ownership properties 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)	1,358	471
	37,971	(1,538)	(27,831)	1,358	9,960
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)	1,358	10,273

5 INCOME AND EXPENDITURE FROM SOCIAL HOUSING LETTINGS

Group	General needs £'000	Keyworker £'000	Supported housing £'000	Low cost home ownership £'000	Total 2018 £'000	Total 2017 £'000
Income						
Rents net of identifiable service charges	**23,362**	**1,374**	**1,688**	**2,024**	**28,448**	28,274
Service charge income	**2,108**	**60**	**848**	**1,077**	**4,093**	3,191
Amortised government grants	**1,887**	**-**	**261**	**100**	**2,248**	1,950
Net rental income*	**27,357**	**1,434**	**2,797**	**3,201**	**34,789**	33,415
Fee income for care and support	**-**	**-**	**2,764**	**-**	**2,764**	2,512
Turnover from social housing lettings	**27,357**	**1,434**	**5,561**	**3,201**	**37,553**	35,927
Expenditure						
Management	**3,868**	**18**	**713**	**231**	**4,830**	5,539
Service charge costs	**3,104**	**69**	**747**	**1,433**	**5,353**	3,174
Routine maintenance	**4,419**	**115**	**108**	**5**	**4,647**	5,519
Planned maintenance	**3,892**	**6**	**10**	**-**	**3,908**	3,274
Major repairs expenditure	**511**	**2**	**-**	**-**	**513**	381
Bad debts	**76**	**5**	**-**	**-**	**81**	140
Depreciation of housing properties:						
- annual charge	**5,650**	**355**	**168**	**-**	**6,173**	5,754
- accelerated on disposal of components	**544**	**37**	**-**	**-**	**581**	306
Other costs	**-**	**-**	**2,831**	**-**	**2,831**	3,223
Operating expenditure on social housing lettings	**22,064**	**607**	**4,577**	**1,669**	**28,917**	27,310
Operating surplus on social housing lettings	**5,293**	**827**	**984**	**1,532**	**8,636**	8,617
* Net rental income is stated net of void losses of	**214**	**140**	**-**	**-**	**354**	(238)

5 INCOME AND EXPENDITURE FROM SOCIAL HOUSING LETTINGS (CONTINUED)

Association	General needs £'000	Supported housing £'000	Low cost home ownership £'000	Total 2018 £'000	Total 2017 £'000
Income					
Rents net of identifiable service charges	**23,920**	**1,688**	**2,024**	**27,632**	27,262
Service charge income	**2,108**	**848**	**1,077**	**4,033**	3,130
Amortised government grants	**1,887**	**261**	**100**	**2,248**	1,989
Net rental income*	**27,915**	**2,797**	**3,201**	**33,913**	32,381
Fee income for care and support	**-**	**2,764**	**-**	**2,764**	2,512
Turnover from social housing lettings	**27,915**	**5,561**	**3,201**	**36,677**	34,893
Expenditure					
Management	**3,866**	**712**	**231**	**4,809**	5,426
Service charge costs	**3,105**	**747**	**1,433**	**5,285**	3,098
Routine maintenance	**4,658**	**108**	**5**	**4,771**	5,439
Planned maintenance	**3,892**	**10**	**-**	**3,902**	3,273
Major repairs expenditure	**513**	**-**	**-**	**513**	381
Bad debts	**76**	**-**	**-**	**76**	134
Depreciation of housing properties:					
- annual charge	**5,451**	**168**	**-**	**5,619**	5,508
- accelerated on disposal of components	**544**	**-**	**-**	**544**	306
Other costs	**-**	**2,831**	**-**	**2,831**	3,202
Operating expenditure on social housing lettings	**22,105**	**4,576**	**1,669**	**28,350**	26,767
Operating surplus on social housing lettings	**5,810**	**985**	**1,532**	**8,327**	8,126
* Net rental income is stated net of void losses of	**200**	**140**	**-**	**340**	(224)

6 UNITS OF HOUSING STOCK

	Group 2018 Number	Group 2017 Number	Association 2018 Number	Association 2017 Number
General needs housing:				
- Social	**3,460**	3,402	**3,321**	3,313
- Affordable	**245**	202	**248**	202
Low cost home ownership	**416**	383	**407**	383
Supported housing	**279**	247	**279**	247
Keyworker accommodation	**72**	67	**48**	43
Student accommodation	**122**	154	**-**	-
Housing for older people	**140**	128	**140**	128
Total social housing units	**4,734**	4,583	**4,443**	4,316
Leaseholder management	**272**	237	**272**	237
Market rent	**1**	6	**1**	6
Total owned	**5,007**	4,826	**4,716**	4,559
Accommodation managed for others	**6**	6	**6**	6
Units managed by other Associations	**(114)**	(114)	**(90)**	(90)
Total managed accommodation	**4,899**	4,718	**4,632**	4,475
Units under construction	**146**	182	**146**	158

7 OPERATING SURPLUS

	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
This is arrived at after charging				
Depreciation of housing properties:				
- annual charge (note 14)	**6,173**	5,977	**5,619**	5,508
- accelerated depreciation on replaced components	**581**	306	**544**	306
Total depreciation of housing properties	**6,754**	6,283	**6,163**	5,814
Depreciation of other tangible fixed assets (note 15)	**813**	561	**754**	496
Operating lease charges – land & building	**841**	796	**841**	796
Auditors' remuneration (excluding VAT):				
- fees payable to the group's auditor for the audit of the group's annual accounts	**61**	45	**43**	39

8 EMPLOYEES

	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
Staff costs (including Executive Management Team) consist of:				
Wages and salaries	**10,688**	9,535	**9,568**	8,957
Social security costs	**1,027**	905	**916**	848
Cost of SHPS defined benefit scheme	**75**	82	**38**	51
Cost of defined contribution scheme	**490**	404	**448**	390
	12,280	10,926	**10,970**	10,246

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 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
Administration	**36**	43	**34**	40
Charity Shops	**50**	49	**50**	49
Marketing and Sales	**4**	4	**-**	-
Development	**9**	9	**9**	9
Foundation	**19**	-	**-**	-
Housing, Support and Care	**226**	215	**215**	206
	344	320	**308**	304

19 staff from The Octavia Foundation joined the Group on 31 March 2017; as they joined on the last day of the year they were not included in the average employee figures for 2017.

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 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
Executive directors' emoluments	**639**	625	**559**	548
Amounts paid to non-executive directors	**61**	58	**61**	58
Contributions to Directors' pension schemes	**50**	66	**42**	45
	750	749	**662**	651

9 DIRECTORS' AND KEY MANAGEMENT PERSONNEL REMUNERATION (CONTINUED)

No Board members received any expense claims for more than £50 in 2017/18.

The total amount payable to the Chief Executive, who was also the highest paid director, in respect of emoluments was £140,245 (2017 - £138,791). There were no pension contributions in 2018 (2017 - £3,617).

Three other directors were members of the SHPS defined contribution pension scheme as at 31 March 2018 (2017 - 3), and three of the directors accrued benefits under the Group's defined benefit pension scheme during the year (2017 - 3).

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

	Group 2018 Number	Group 2017 Number	Association 2018 Number	Association 2017 Number
£60,000 - £69,999	3	9	3	8
£70,000 - £79,999	13	8	11	8
£80,000 - £89,999	2	1	1	-
£90,000 - £99,999	1	1	1	1
£100,000 - £109,999	-	-	-	-
£110,000 - £119,999	1	1	1	1
£120,000 - £129,999	2	2	2	2
£130,000 - £139,999	-	-	-	-
£140,000 - £149,999	1	1	1	1

10 BOARD MEMBER FEES, BOARD AND COMMITTEE MEMBERSHIPS

Non-executive Board members	Remuneration	Group Board	Finance Committee	Corporate Services Committee	Audit Committee	Services Committee	Estate Committee
Sandeep Katwala	11,577	√	√	√	*-√	√	√
Gwendoline Godfrey	4,500	√		√			
Simon Porter	6,500	√	√		√		
Malcolm Holloway	4,500	√	√		√		
Annie Lathaen	4,500	√				√	
Stephen Smith	4,500	√				√	
Debbie Sorkin	6,500	√				√	
Visakha Sri Chandrasekera	-	√					√
Rosalind Stevens	4,500	√		√			
Angus Taylor	4,500	√					√
Rajan Upadhyaya	3,792	√					

* Non-Voting

11 SURPLUS ON DISPOSAL OF FIXED ASSETS

Group	Shared ownership 2018 £'000	Other housing properties 2018 £'000	Other fixed assets 2018 £'000	Total 2018 £'000	Total 2017 £'000
Housing Properties:					
Disposal proceeds	**3,890**	**580**	**-**	**4,470**	3,250
Cost of disposals	**(2,245)**	**(58)**	**(156)**	**(2,459)**	(1,579)
Selling costs	**(16)**	**(8)**	**-**	**(24)**	(17)
Grant recycled	**(59)**	**-**	**-**	**(59)**	(33)
Surplus on disposal of fixed assets	**1,570**	**514**	**(156)**	**1,928**	1,621

Association	Shared ownership 2018 £'000	Other housing properties 2018 £'000	Other fixed assets 2018 £'000	Total 2018 £'000	Total 2017 £'000
Housing Properties:					
Disposal proceeds	**3,890**	**580**	**-**	**4,470**	10,573
Cost of disposals	**(2,259)**	**(58)**	**-**	**(2,317)**	(8,895)
Selling costs	**(16)**	**(8)**	**-**	**(24)**	(24)
Grant recycled	**(59)**	**-**	**-**	**(59)**	(33)
Surplus on disposal of fixed assets	**1,556**	**514**	**-**	**2,070**	1,621

12 INTEREST RECEIVABLE AND INCOME FROM INVESTMENTS

	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
Interest receivable from Group undertakings	-	-	747	642
Interest receivable and similar income from third parties	138	45	21	31
	138	45	768	673

13 INTEREST PAYABLE AND SIMILAR CHARGES

	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
Interest payable on bank loans and overdrafts	**4,911**	4,875	**4,952**	4,856
Interest payable on other loans	**536**	628	**561**	628
Cost of breaking fixed interest rates	**7,967**	-	**7,967**	-
Recycled capital grant fund	**25**	8	**-**	8
Interest capitalised on construction of housing properties	**(704)**	(753)	**(704)**	(590)
	12,735	4,758	**12,776**	4,902
Other financing costs through other comprehensive income				
(Gain)/loss on fair value of hedged derivative instruments	**(347)**	442	**(347)**	442
	12,388	5,200	**12,429**	5,344

14 TANGIBLE FIXED ASSETS - HOUSING PROPERTIES

Group	General needs completed £'000	Student and keyworkers £'000	General needs under construction £'000	Shared ownership completed £'000	Shared ownership under construction £'000	Total £'000
Cost:						
At 1 April 2017	382,104	35,806	18,839	56,177	5,599	498,525
Additions:						
- acquisition of properties	9,800	-	-	-	-	9,800
- construction costs	-	-	14,059	-	14,072	28,131
- replaced components	2,509	132	-	-	-	2,641
- energy improvements	512	-	-	-	-	512
Completed schemes	19,221	-	(19,221)	5,478	(5,478)	-
Change of tenure	(616)	-	-	616	-	-
Disposals:						
- properties	(75)	-	-	(2,250)	-	(2,325)
- replaced components	(967)	(52)	-	-	-	(1,019)
At 31 March 2018	412,488	35,886	13,677	60,021	14,193	536,265
Depreciation:						
At 1 April 2017	50,999	459	-	-	-	51,458
Charge for the year	5,706	467	-	-	-	6,173
Eliminated on disposals:						
- replaced components	(423)	(15)	-	-	-	(438)
- properties	(17)	-	-	-	-	(17)
At 31 March 2018	56,265	911	-	-	-	57,176
Impairment:						
At 1 April 2017	-	-	-	43	-	43
Released in the year	-	-	-	(5)	-	(5)
At 31 March 2018	-	-	-	38	-	38
Net book value at 31 March 2018	**356,223**	**34,975**	**13,677**	**59,983**	**14,193**	**479,051**
Net book value at 31 March 2017	331,105	35,347	18,839	56,134	5,599	447,024

14 TANGIBLE FIXED ASSETS - HOUSING PROPERTIES (CONTINUED)

Association	General needs completed £'000	General needs under construction £'000	Shared ownership completed £'000	Shared ownership under construction £'000	Total £'000
Cost:					
At 1 April 2017	376,056	18,839	56,273	5,599	456,767
Additions:					
- acquisition of properties	9,800	-	-	-	9,800
- construction costs	-	14,193	-	13,847	28,040
- replaced components	2,509	-	-	-	2,509
- energy Improvements	512	-	-	-	512
Completed schemes	19,356	(19,356)	5,253	(5,253)	-
Change of tenure	(616)	-	616	-	-
Disposals:					-
- properties	(75)	-	(2,264)	-	(2,339)
- replaced components	(967)	-	-	-	(967)
At 31 March 2018	406,575	13,676	59,878	14,193	494,322
Depreciation:					
At 1 April 2017	50,820	-	-	-	50,820
Charge for the year	5,619	-	-	-	5,619
Eliminated on disposals:					
- replaced components	(423)	-	-	-	(423)
- properties	(17)	-	-	-	(17)
At 31 March 2018	55,999	-	-	-	55,999
Impairment:					
At 1 April 2017	368	-	43	-	411
Released in the year	-	-	(5)	-	(5)
At 31 March 2018	368	-	38	-	406
Net book value at 31 March 2018	**350,208**	**13,676**	**59,840**	**14,193**	**437,917**
Net book value at 31 March 2017	324,868	18,839	56,230	5,599	405,536

14 TANGIBLE FIXED ASSETS - HOUSING PROPERTIES (CONTINUED)

	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
The net book value of housing properties may be further analysed as:				
Freehold	365,511	350,258	324,377	308,770
Long leasehold	110,671	93,782	110,671	93,782
Short leasehold	2,869	2,984	2,869	2,984
	479,051	447,024	437,917	405,536
Interest capitalisation				
Interest capitalisation in the year	704	753	704	590
Cumulative interest capitalised	5,254	4,550	5,254	4,550
Rate used for capitalisation	3.25%	3.50%	3.25%	3.50%
Major repairs to properties and replaced components				
Expenditure to existing properties capitalised	3,153	3,775	3,021	3,752
Expenditure to income and expenditure account	513	381	513	381
	3,666	4,156	3,534	4,133
Total Social Housing Grant received or receivable to date is as follows:				
Capital Grants:				
- deferred capital grant (note 22)	187,569	186,933	187,569	186,933
- amortised to the Statement of Comprehensive Income	28,025	25,777	28,025	25,777
Recycled capital grant fund (note 23)	998	2,814	998	2,814
Ducane HA capital grant (amortised)	7,299	7,299	-	-
	223,891	222,823	216,592	215,524

Impairment

During the current year, the Group and Association have recognised no impairment loss. (2017 - £Nil) in respect of general needs housing stock.

Properties charged as security

As at 31 March 2018 2,049 (2017:1,869) properties with a book value of £129.3m (2017:£124m) were charged as security for loans made to Octavia Housing.

As at 31 March 2018 159 properties with a book value of £25.2m were charged as security for loans made to Ducane Housing Association.

14 TANGIBLE FIXED ASSETS - HOUSING PROPERTIES (CONTINUED)

Valuation

Octavia Housing commissions a desk top valuation each year of its completed 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:

	2018 £'m	2017 £'m
Open Market Value with Vacant Possession	2,400	2,337
Market Value subject to existing Tenancies	1,127	1,095
Existing Use Value for Social Housing	501	466
Estimated Annual Market Rent of General Needs social rented portfolio	95	85
Actual annual rent roll of General Needs social rented portfolio	26	25

15 OTHER TANGIBLE FIXED ASSETS

Group	Freehold buildings £'000	Motor vehicles £'000	Fixtures, fittings and equipment £'000	Total £'000
Cost or Valuation				
At 1 April 2017	9,700	94	4,466	14,260
Additions	1,736	-	699	2,435
Disposals	-	-	(455)	(455)
At 31 March 2018	11,436	94	4,710	16,240
Depreciation				
At 1 April 2017	(957)	(94)	(3,223)	(4,274)
Charge for the year	(366)	-	(447)	(813)
Disposals	-	-	299	299
At 31 March 2018	(1,323)	(94)	(3,371)	(4,788)
Net book value				
At 31 March 2018	**10,113**	**-**	**1,339**	**11,452**
At 31 March 2017	8,743	-	1,243	9,986

15 OTHER TANGIBLE FIXED ASSETS (CONTINUED)

Association	Freehold buildings £'000	Motor vehicles £'000	Fixtures, fittings and equipment £'000	Total £'000
Cost or Valuation				
At 1 April 2017	9,303	94	4,171	13,568
Additions	1,736	-	696	2,432
At 31 March 2018	11,039	94	4,867	16,000
Depreciation				
At 1 April 2017	(951)	(94)	(3,163)	(4,208)
Charge for the year	(360)	-	(394)	(754)
At 31 March 2018	(1,311)	(94)	(3,557)	(4,962)
Net book value				
At 31 March 2018	**9,728**	**-**	**1,310**	**11,038**
At 31 March 2017	8,352	-	1,008	9,360

16 INVESTMENT PROPERTIES

Group and Association	2018 £'000	2017 £'000
Valuation		
At 1 April	**11,050**	8,552
Revaluation	**-**	2,498
At 31 March	**11,050**	11,050

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.

16 INVESTMENT PROPERTIES (CONTINUED)

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

Group and Association	2018 £'000	2017 £'000
Historic cost	**5,953**	5,953
Accumulated depreciation	**(1,909)**	(1,849)
	4,044	4,104

There is no existence of any amounts or any restrictions on the realisability of investment property or the remittance of income and proceeds of disposal.

There are no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

17 INVESTMENTS

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

Association	Country of incorporation or registration	Proportion of voting rights/ ordinary share capital held	Nature of entity	2018 and 2017 Investment carrying value £'000
Ducane Housing Association Limited	England	100%	Registered Provider	-
Octavia Hill Limited	England	100%	Dormant Company	-
Octavia Development Services Limited	England	100%	Dormant	-
Octavia Foundation	England	100%	Registered Charity	-
Octavia Living Limited	England	100%	Trading company	10
Ducane Commercial Services Limited	England	100%	Dormant	-
				10

Additionally the Octavia Foundation had an investment in a fund managed by CCLA which was valued at £1,964,000 at 31 March 2018 (2017: £1,929,000).

18 STOCK INCLUDING PROPERTIES FOR SALE

Group	First tranche shared ownership properties 2018 £'000	Outright market sales 2018 £'000	Total 2018 £'000	Total 2017 £'000
Housing work in progress	6,625	1,027	7,652	16,227
Completed housing properties for sale	2,740	10,384	13,124	2,670
	9,365	**11,411**	**20,776**	**18,897**

Properties developed for sale include capitalised interest of £1,275k (2017: £1,555k).

Association	First tranche shared ownership properties 2018 £'000	Outright market sales 2018 £'000	Total 2018 £'000	Total 2017 £'000
Housing work in progress	**6,625**	-	**6,625**	2,428
Completed housing properties for sale	**2,740**	-	**2,740**	2,670
	9,365	-	**9,365**	5,098

Properties developed for shared ownership sale include capitalised interest of £181k (2017: £79k).

19 DEBTORS

	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
Due within one year				
Rent and service charge arrears	**1,382**	1,338	**1,367**	1,313
Less: Provision for doubtful debts	**(659)**	(544)	**(656)**	(536)
	723	794	**711**	777
Amounts owed by Group undertakings	**-**	-	**207**	109
Other debtors	**2,621**	2,792	**2,523**	2,624
Prepayments and accrued income	**946**	613	**920**	566
	4,290	4,199	**4,361**	4,076
Due after one year				
Amounts owed by Group undertakings	**-**	-	**11,168**	14,095
Amounts held by lenders as security for borrowings	**524**	522	**524**	522
	524	522	**11,692**	14,617
	4,814	4,721	**16,053**	18,693

Amounts owed by Group undertakings include £11.2m in relation to a loan to Octavia Living Limited from Octavia Housing. In March 2018 the maturity of this loan was extended to September 2020. The loan was given at arm's length at an interest rate of 4.65% with a non-utilisation fee of 1.65%.

The remaining amount of £524k 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 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
Capital creditors	**12,863**	4,172	**12,863**	4,172
Loans and borrowings (note 24)	**7,317**	2,658	**7,065**	2,229
Accruals and deferred income (incl Holiday pay)	**5,093**	3,983	**4,209**	3,551
Deferred capital grant (note 22)	**2,367**	2,089	**2,270**	2,088
Other creditors	**1,098**	761	**1,083**	722
Trade creditors	**1,487**	2,458	**1,419**	1,264
Rent and service charges received in advance	**1,340**	1,688	**1,200**	1,417
Accrued interest	**880**	807	**880**	807
Sinking funds	**678**	684	**678**	684
Taxation and social security	**319**	284	**308**	275
SHPS pension deficit funding liability	**255**	257	**230**	233
Recycled capital grant fund (note 23)	**-**	1,132	**-**	1,132
Donation received from the Reed Family Foundation for buildings under construction	**-**	900	**-**	900
Amounts owed to Group undertakings and related parties	**-**	-	**-**	95
	33,697	21,873	**32,205**	19,569

21 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
Loans and borrowings (note 24)	**182,594**	165,519	**176,021**	156,986
Interest rate swap – cash flow hedge	**3,956**	4,303	**3,956**	4,303
Deferred capital grant (note 22)	**185,202**	184,845	**185,299**	184,845
Recycled capital grant fund (note 23)	**998**	1,683	**998**	1,683
SHPS pension deficit funding liability	**1,587**	1,841	**1,470**	1,700
	374,337	358,191	**367,744**	349,517

22 DEFERRED CAPITAL GRANT

	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
At 1 April	**186,933**	189,008	**186,933**	189,008
Grants received during the year	**1,042**	198	**1,042**	198
Grants transferred from/(to) RCGF	**1,842**	(226)	**1,842**	(226)
Released to income during the year	**(2,248)**	(2,047)	**(2,248)**	(2,047)
At 31 March	**187,569**	186,933	**187,569**	186,933

Deferred capital grant of £2,367,000 (2017: £2,089,000) is due within one year, the amount due after one year is £185,202,000 (2017: £184,845,000).

23 RECYCLED CAPITAL GRANT FUND

Group and Association Funds pertaining to activities within areas covered by	GLA 2018 £'000	GLA 2017 £'000
At 1 April	**2,815**	2,547
Inputs to fund:		
Grant recycled from deferred capital grants	**759**	474
Grant recycled from Statement of Comprehensive Income	**59**	33
Interest accrued	**25**	9
Recycling of grant:		
New build	**(2,660)**	(248)
At 31 March	**998**	2,815
Amounts 3 years or older where repayment may be required	**-**	403

Withdrawals from the recycled capital grant fund were used for new build development. The recycled capital grant fund due within 1 year is £nil (2017: £1,132,000), the amount due after one year is £998,000 (2017: £1,683,000).

24 LOANS AND BORROWING

Maturity of debt:

Group	Capital markets 2018 £'000	Bank loans 2018 £'000	Other loans 2018 £'000	Total 2018 £'000
In one year or less, or on demand	**74**	**7,243**	**-**	**7,317**
In more than one year but not more than two years	**47**	**2,576**	**-**	**2,623**
In more than two years but not more than five years	**147**	**32,327**	**-**	**32,474**
More than five years - by instalment	**390**	**129,106**	**-**	**129,496**
More than five years - by bullet	**18,000**	**-**	**-**	**18,000**
	18,658	**171,252**	**-**	**189,910**

Association	Capital markets 2018 £'000	Bank loans 2018 £'000	Other loans 2018 £'000	Total 2018 £'000
In one year or less, or on demand	**74**	**6,991**	**-**	**7,065**
In more than one year but not more than two years	**47**	**2,324**	**-**	**2,371**
In more than two years but not more than five years	**147**	**30,015**	**-**	**30,162**
More than five years - by instalment	**390**	**125,098**	**-**	**125,488**
More than five years - by bullet	**18,000**	**-**	**-**	**18,000**
	18,658	**164,428**	**-**	**183,086**

24 LOANS AND BORROWING (CONTINUED)

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 - by instalment	436	123,224	23	123,683
More than five years - by bullet	18,000	-	-	18,000
	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 - by instalment	436	121,636	23	122,095
More than five years - by bullet	18,000	-	-	18,000
	18,681	140,511	23	159,215

During the year the Association has drawn £20m from its increased and extended facility with Handlesbanken, the final £3.5m of its Nationwide Building Society loan and £3m from the new facility with Lloyds Bank which is available to both the Association and Ducane.

Loans are secured by specific charges on the housing properties of the Group and cash deposited in sinking funds managed by Affordable Housing Finance plc. 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 2018 the Association had undrawn, secured and available loan facilities of £17.2m (2017: £18.5m) and a further £9.8m was secured and available on the 10 April 2018. At 31 March 2018, Ducane had undrawn, secured and available loan facilities of £6.9m and, following the charging of additional properties on the 4 April 2018, a further £13.1m of undrawn, secured and available loan facilities became available.

The Group loan finance costs capitalised at 31 March 2018 amounted to £1,402,000 (2017: £901,000).

25 FINANCIAL INSTRUMENTS

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

	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
Financial assets				
Financial assets measured at historic cost				
- debtors	**4,290**	4,721	**16,053**	18,693
- short term deposits	**102**	102	**102**	102
- cash and cash equivalents	**18,538**	14,248	**16,675**	11,961
Total financial assets	**22,930**	19,071	**32,830**	30,756
Financial liabilities				
Financial liabilities measured at amortised cost				
- loans payable	**189,910**	168,197	**183,086**	159,215
Financial liabilities measured at historic cost				
- trade creditors	**1,487**	2,458	**1,419**	1,264
- other creditors	**21,186**	10,948	**20,251**	10,444
Derivative financial instruments designated as hedges of variable interest rate risk	**3,956**	4,303	**3,956**	4,303
Total financial liabilities	**216,539**	185,906	**208,712**	175,226

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.

25 FINANCIAL INSTRUMENTS (CONTINUED)

The derivatives are accounted for as a hedge of variable rate interest rate risks, in accordance with FRS 102 and had a negative fair value of £3,956k (2017: £4,303k) 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 a credit of £347k (2017 was a charge: £442k) with almost all entire charge being recognised in Other Comprehensive Income as the swap is a 99% effective hedge, as follows:

	Association and Group 2018 £'000	Association and Group 2017 £'000
Negative Fair value at 1 April	**(4,343)**	(3,861)
Change in fair value charged to statement of Comprehensive Income	**-**	(40)
Change in fair value charged to cash flow hedge reserve	**347**	(442)
Negative Fair value at 31 March	**(3,996)**	(4,343)

26 PENSIONS

Several pension schemes are operated by the Group:

Defined benefit pension scheme

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

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

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

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

26 PENSIONS (CONTINUED)

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.

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% 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% each year on 1 April)

Reconciliation of Opening and Closing liability for the year ended 31 March 2018

		Group			Association	
	SHPS £'000	Growth plan £'000	Total £'000	SHPS £'000	Growth plan £'000	Total £'000
Liability at start of period	2,035	64	2,099	1,869	64	1,933
Unwinding the discount factor (interest expense)	26	1	27	24	1	25
Deficit contribution paid	(250)	(7)	(257)	(226)	(7)	(233)
Remeasurements - impact of any changes in assumptions	(26)	(1)	(27)	(25)	(1)	(26)
	1,785	57	1,842	1,642	57	1,699

The group and Association also participate 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

26 PENSIONS (CONTINUED)

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.

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 20.5% with a minimum employee contribution of 5.5%.

As at March 2018 there were eight active members of the Scheme employed by the Association. The charge to the Association for the year was £36,694.

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 2017 £	Issued £	At 31 March 2018 £
44 Class "A" £1	43	1	44
7 Class "C" £5	35	-	35
As at 31 March	78	1	79

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

Re-cladding

In June 2017 it was identified that one block of flats, for which the Association was the developer and is currently the freeholder, had Aluminium Composite Material (ACM) Cladding. Following discussions around the safety of this type of material a decision has been taken to replace the cladding. Residents have been advised that that they will not be asked to pay for the costs of this. Plans have been prepared for this work and fire testing arranged for the new proposed cladding system in Autumn 2018. These plans are potentially subject to further revision in the light of the Government's consultation paper issued in June 2018 and as a result the final cost of these works cannot be estimated reliably at this stage. Octavia is expecting that it will recover all, or substantially all, of these costs from either the contractor or through a recently announced Government scheme to provide reimbursement. In view of the uncertainties involved no provision has been made in respect of these costs.

The Association has identified limited amounts of ACM on two other blocks: total estimated costs for works on these two schemes (one of which has now been completed) is less than £50,000.

Other

The Group receives grant from Homes England and from the Greater London Authority, which is used to fund the acquisition and development of housing properties and their components. Grant of £35.3m (2017:£33.1m) for the Group and £28m (2017:£25.8m) for the Association received in respect of housing properties held at 31 March 2018 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 Association had minimum lease payments under non-cancellable operating leases as set out below:

	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
Amounts payable as a lessee				
Not later than 1 year	**542**	670	**542**	669
Later than 1 year and not later than 5 years	**1,474**	1,817	**1,473**	1,816
Later than 5 years	**134**	256	**134**	256
Total	**2,150**	2,743	**2,149**	2,741
Amounts receivable as a lessor				
Not later than 1 year	**428**	455	**428**	455
Later than 1 year and not later than 5 years	**1,358**	1,519	**1,358**	1,519
Later than 5 years	**2,680**	2,947	**2,680**	2,947
Total	**4,466**	4,921	**4,466**	4,921

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.

The Group and the Association had minimum lease payments under non-cancellable operating leases with respect to shared ownership properties as set out above:

In addition to minimum lease receivables set out above, the Association and Group have entered into tenancy agreements and shared ownership leases as a registered provider of social housing. The minimum amounts receivable under these arrangements cannot be reliably estimated.

The terms of the tenancies generally allow tenants to give one month's notice, the annualised rent roll is £23.4m at 31 March 2018 (2017: £24.7m).

The terms of the shared ownership leases allow rents to be increased by RPI +0.5% and leaseholders to acquire up to 100% of the share of the property retained by the Association at market value at short notice. The vacant possession values of the retained element of shared ownership leases owned by the Association at 31 March 2018 amounted to £127m (2017: £115.3m) and the annual rental being charged at that date was £2m (2017: £1.8m).

30 CAPITAL COMMITMENTS

	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
Commitments contracted but not provided for:				
Construction	**29,340**	17,507	**29,287**	17,507
Commitments approved by the Board but not contracted for:				
Construction	**18,902**	51,942	**18,902**	51,942
Maintenance	**4,988**	5,114	**4,630**	5,090
	53,230	74,563	**52,819**	74,539

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

	Group 2018 £'000	Group 2017 £'000	Association 2018 £'000	Association 2017 £'000
Social Housing Grant	**2,094**	2,622	**2,094**	2,622
Borrowings from existing secured facilities	**16,221**	9,185	**16,168**	9,185
Sales of properties	**11,025**	5,700	**11,025**	5,700
	29,340	17,507	**29,287**	17,507

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:	2018 £'000	2017 £'000
Intra-Group Management fees (see below)		
Kensal Enterprises Limited	**-**	1
Octavia Development Services Limited	**-**	1
Ducane Housing Association	**60**	60
Octavia Hill Limited	**-**	-
Octavia Living Limited	**30**	20
	90	82
Interest		
Octavia Living Limited	747	642
Total	**837**	724

Payable by the Association to subsidiaries		
Octavia Living Limited		
Stage payments for developments in progress	**111**	1,112
Sales Commissions and Programme Management income	143	141
	254	1,253
Octavia Development Services Limited		
Purchase of Land & Buildings	1	52
Total	**255**	1,305

31 RELATED PARTY DISCLOSURES (CONTINUED)

Intra-Group management fee and Gift Aid

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

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

Octavia Housing made a donation of £420,000 (2017: £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. The Octavia Foundation became a subsidiary of Octavia Housing on 31 March 2017. Octavia Housing also donated services (this includes Human Resources, IT and Finance support) to the value of £36,000 in 2017/18 (2016/17: £36,000).

Octavia Living Limited made a charitable donation to Octavia Housing of £369 (2017: £Nil) and it is expected that a qualifying charitable donation will be made in 2018/19. Ducane Commercial Services Limited made a charitable donation to Octavia Housing of £35,348 (2017: £Nil). Ducane Housing Association recharged Octavia Living with respect to development services provided to the value of £22,320 (2017: £24,240).

Intra-group loans

Entity granting loan	By reference to Entity receiving loan	At 1 April 2017 £'000	Movement £'000	At 31 March 2018 £'000
Octavia Housing	Octavia Living Limited	13,984	(2,816)	11,168

This intra-Group loan is currently for a maximum amount of £11.7m, repayable on 30 September 2020, bearing interest currently 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.

31 RELATED PARTY DISCLOSURES (CONTINUED)

Balances outstanding from the subsidiaries

Payable to/(from) Association by subsidiaries:	2018 £'000	2017 £'000
Kensal Enterprises Limited	**-**	44
Octavia Development Services Limited	**(1)**	(95)
Octavia Hill Limited	**-**	-
Octavia Living Limited	**11,168**	13,984
Octavia Foundation	**70**	65
Ducane Commercial Services Limited	**57**	5
Ducane Housing Association Limited	**79**	111
	11,373	14,114

There were two Board members who were tenants of Octavia Housing during the year - neither of them had any arrears at 31 March 2018 (2017:£nil). Details of their remuneration are given in note 10 above. Neither of them enjoy any other special arrangements.

It is expected that Octavia Living will gift aid all taxable profits of £975,000 to its parent undertaking.

Octavia
Emily House
202-208 Kensal Road
London W10 5BN

T 020 8354 5500
E info@octavia.org.uk
www.octavia.org.uk