OCTAVIA

GOOD HOMES BETTER LIVES

ANNUAL REPORT AND FINANCIAL STATEMENTS 2018–2019

CONTENTS

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	

Executive management

Grahame Hindes	*Chief Executive*
Noel Brosnan	*Director of Asset Management*
Mark Gayfer	*Finance Director (Resigned November 2018)*
Lynsey Bradshaw	*Finance Director (Appointed November 2018)*
Sarah Mbatha	*Director of Housing, Care and Communities*
David Woods	*Development Director*
Reena Mukherji	*Director of the Octavia Foundation*

Secretary and 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

External 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 ANNUAL ACCOUNTS

This has been a year during which we have:

- built more affordable homes;
- reached more people through our community work;
- raised £150m through a private placement to support our desire to build more affordable homes; and
- successfully implemented our new governance structure.

More detail about these activities is set out in the report and the statements that follow.

The regulatory, political and economic environment in which we operate continues to be challenging and the uncertainty caused by the lack of clarity around Brexit has consequences which affect our work. Planning for this uncertainty is not straightforward and we continue to maintain a cautious approach. Our focus remains on maintaining and improving the quality of the service we provide to our residents and ensuring that we have a sound financial base.

This has been a year in which we have been implementing our plans for succession in the senior team. We have been fortunate in having a stable senior team for many years. In July Grahame Hindes, who has been Chief Executive for the last 18 years, retires. Grahame has made an outstanding contribution to the organisation and will be sorely missed. We are, however, delighted that Sandra Skeete, who has substantial experience in the sector, will be joining us as Chief Executive in September.

During the year we also said a sad farewell to Mark Gayfer, our Finance Director from early 2011. This role has been assumed by Lynsey Bradshaw. Finally, at Board level we will be sad to lose Gwen Godfrey, who stepped in as Acting Chair for part of this year while I was away due to ill health, but who has now reached her maximum term of office. Over the next few months we will also be making further appointments as other Board members complete their maximum terms.

Given these changes the Board has been concentrating on ensuring that we continue to maintain the high standards expected of the organisation. Our strategic priorities of delivering a high-quality service, supporting our local communities and building more homes, remain the centre of our attention and to further each of these we are looking closely at how best to use new technology to improve the quality of the services we deliver.

We are grateful for the outstanding support and goodwill shown by our supporters and friends. Whilst we have new faces and new ways of working, the core of what we aim to do remains as it has for over 150 years – in Octavia Hill's words this is to make:

> *"individual life noble, homes happy and family life good".*

Sandeep Katwala

REPORT OF THE BOARD

(INCLUDING STRATEGIC REPORT)

In 1893 Octavia Hill wrote to a friend that *"All our work together is to make individual life noble, homes happy and family life good"*. It is this belief that continues to underpin the work of Octavia. We are a not-for-profit organisation providing thousands of people with good-quality affordable homes in central and west London and we believe, in the same way that our founder did, in the power of well-planned, well-managed housing to change lives.

We aim to build happier lives and resilient communities by focusing on people as individuals, providing them with a range of services and the opportunity to support themselves. We spend our surplus income on improving the homes we manage, building more for the future and supporting our local communities.

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 2019.

External context

For many years the demand for good quality affordable homes in inner and west London has far exceeded the available supply. This means that the work of Octavia, preserving and extending our existing stock and supplementing our housing provision with a range of community supporting activities, is as important today as it has been at any stage in our history.

In addition to a desperate demand for additional low-cost rented housing, there is also a need for more affordable housing with care provided as integral to the scheme and for shared ownership accommodation. However, the development context is one in which there is intense competition for land in the areas where we operate. Even with the current uncertain economic environment, the central government grant available to support more low cost housing often falls significantly short of that required, which means that some form of internally generated subsidy is needed if we are to make new schemes viable for the long term. These factors constrain what we are able to achieve.

In the 12 months to March 2019, the development work of Octavia has been affected by the uncertainty caused by the political debate on changes to the UK's membership of the European Union. This has affected Octavia in several ways. The property sales market has slowed down, with higher value properties most affected by the cooling conditions. This has resulted in many developers, particularly those preparing sites in inner London, delaying their plans. This, in turn, has a consequential impact on our work, in that it disrupts the flow of affordable housing that comes with those high value schemes.

WE AIM TO BE A GOOD LANDLORD, DEVELOPING MORE HOMES AND PROVIDING STRONG SUPPORT TO LOCAL COMMUNITIES

The political focus on leaving the EU has meant that several other policy issues key to our work have made less progress than we had anticipated. There has been little

movement on the Government's long term approach to social care, which continues to be affected by a lack of sufficient funding. Similarly, leasehold reform, which has been much debated, has not progressed during the year and issues around fire safety, where the first report prepared by Dame Judith Hackitt recognised the need for greater clarity in some areas, has not yet produced detailed proposals.

Over the year, our experience has been that a reduction in local authority funding means authorities are increasingly focussing their services on their statutory obligations. This in turn leaves an increasing gap in service provision to be picked up by third sector organisations. At the same time, the process of transferring claimants from the old benefits system onto Universal Credit is starting to accelerate in the areas in which we operate, with a significant rise in the number of cases in the last few months of 2018-19. At the end of the financial year we had 303 residents in receipt of Universal Credit, compared with 145 residents in 2017-18. To date we have been able to support residents on an individual basis as they transfer but that is likely to prove more difficult as the pace of change increases.

Grant support for new development continues to be available, albeit less than we require to be able to develop low cost rented housing in the volumes that are needed, and we were pleased that during the year the Connected Partnership (a partnership between Octavia, Shepherds Bush Housing Group and Origin Housing), which Octavia leads, was approved as a Strategic Development Partner with the Greater London Authority (GLA). This new status, which until we were selected had been reserved for much larger organisations, gives greater flexibility in the way that available grant funding can be used.

In the housing world there has been a continued fragmentation of different types of providers, with many of the largest associations increasingly focussed on their commercial activities to support their development plans. At the same time the number of 'for-profit' providers of affordable housing has increased and the GLA has given additional support to local authorities to enable them to develop homes on land which they own.

In the aftermath of the fire at Grenfell Tower, there has been an initiative announced by the National Housing Federation to ensure that all housing associations recognise the importance of resident opinion. We strongly agree with this approach and have joined this initiative to support the proposed regulatory changes that would make such involvement mandatory.

In summary, there is a continued and growing requirement for the services that Octavia provides. Pressures on public funding expand that service demand and mean that the management of revenues and costs, alongside greater commercial activity, is increasingly necessary to support our overall ambition to do more.

Our business model

Octavia's approach is based around preserving and extending a geographically coherent portfolio of properties in central and west London. With this asset base we are able to provide homes in support of mixed communities and the majority of our homes are let at rents that are within reach of those on below average incomes. In addition to the main stock of socially rented homes, we also own and manage other homes which were specifically developed for Intermediate Rent, shared ownership and homes in which care and support is provided.

We aim to be an effective property manager with experienced staff, which includes an extensive grounds and communal services team looking after the upkeep of our properties. We recognise that we have an important role in helping to build and sustain viable communities, including various forms of support for individuals and a wider support for other collective community activity.

Our approach is focussed on three main themes. These are:

- To be a good landlord, providing services that are effective and fair to residents. We aim to be in the top quartile in terms of performance results when compared with similar landlords.
- To develop more homes. Each year we have an ambition to develop a further 200 homes. Given the areas we work in this is a difficult task – it represents a growth rate of about 4%. Each new proposal needs to be assessed in terms of what is prudent for long-term finances.
- To be a strong supporter of local communities, working with local partners on a range of initiatives.

Progress on each of these themes is described in the sections that follow, along with more information about the internal priorities of the Group.

Figure 1 – Key Performance Indicators

Performance Indicator	2018-19	2017-18	London HouseMark comparison
Rent arrears as % of rent due	3.93%	4.2%	Top quartile
Rent collection as % of rent due	100.6%	100.7%	Median
Void loss as % of rent due	0.5%	0.7%	Upper median
Average standard void re-let time in days	22	31	Top quartile
Number of ASB cases per 1000 properties	17	17	Top quartile
% of residents satisfied with last repair	93%	95%	Upper median
% of gas appliances with current certificate	100%	100%	Top quartile
Average call answering in seconds	17	14	Top quartile
% of staff turnover	11%	17%	Top quartile

Being a good landlord

The first of our three aims is to be a good landlord from a resident perspective. We aim to do that in a number of ways, through the rents we charge, a long-term investment in the property portfolio and from the way we manage our homes.

The Directors review detailed performance information each month against a comprehensive suite of performance indicators. Figure 1 above provides a summary of performance for some key factors compared with the previous year and against other London-based associations as reported by HouseMark.

In summary, we have continued to perform well on rent arrears recovery, despite the challenges of benefit reform; we have improved on our re-letting of void properties and overall, 93% of residents are satisfied with their last repair. These are all key services and important drivers of overall satisfaction with our service.

There is, however, more we can do to improve further. One significant area we have identified as needing improvement is in the provision of service charge information, particularly for leaseholders and shared owners. For several years we have had lower resident satisfaction from leaseholders than for those living in general needs rented housing. This is a situation that we share with many other similar housing providers. However, we see no reason why leaseholders should not be as satisfied as other residents so we are working towards this as a priority. (See Figure 2)

During the year, working with our Services Scrutiny Panel and external consultants, we completed a review of resident involvement arrangements. As an outcome, we adopted a new approach which offers a range of engagement options to ensure that anyone who wants to get involved can do so, whether through a digital policy group, at

FIGURE 2: STAR TENANT SATISFACTION SURVEY

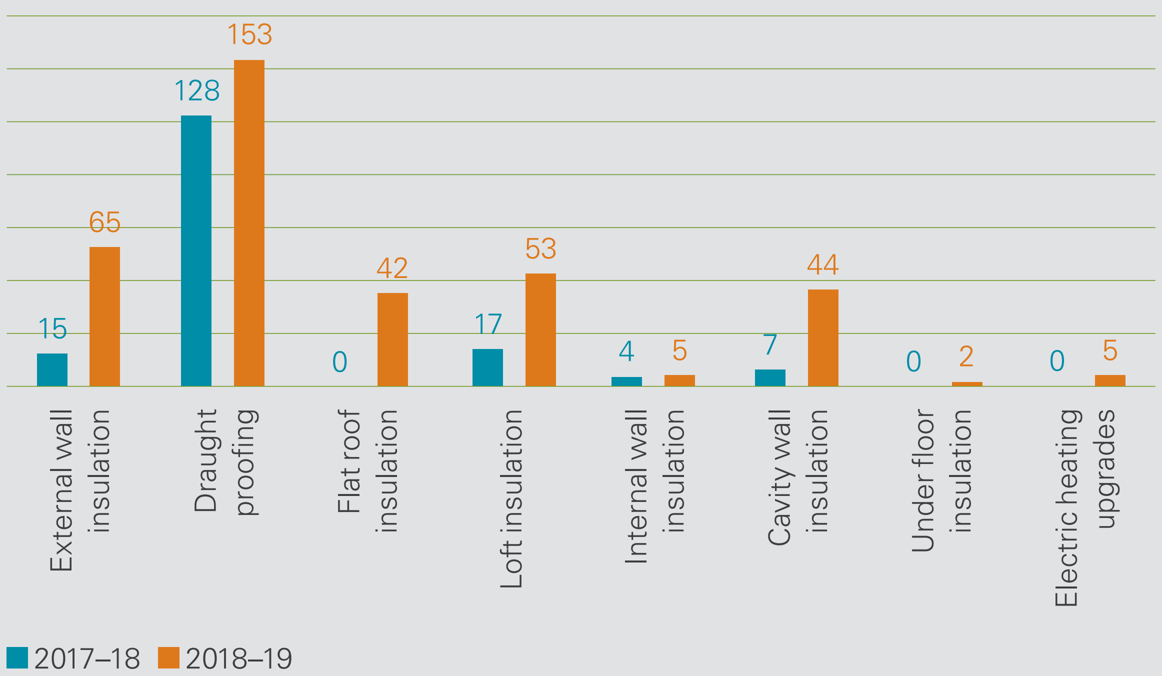
All figures in Top Quartile or Upper Median in London HouseMark comparison local events, or as a member of a customer pool providing us with regular feedback. We have established a new cross-tenure group ('Your Voice'), with the purpose of ensuring that we have a clear process for residents to be heard and their views considered in our decision-making at different levels of the organisation. Our strategy is to be responsive to feedback, so that we react quickly when residents tell us they are not satisfied and put right any concerns.

Occasionaly when things do go wrong, the majority of complaints about services (91%) were successfully resolved locally by managers. Six were escalated to our independent complaints panel. Only one of these, brought due to delayed completion of repairs, was upheld. Three of the panel cases were escalated to the Housing Ombudsman by residents, but in all cases the Housing Ombudsman found that Octavia had acted reasonably. Our operational teams hold regular complaints case reviews, both internally and with contractors, in order to learn and make service improvements.

Rent arrears

At the end of March 2019, we had 94 households affected by the under-occupation restrictions on housing benefit (down 10 from 2018) and 22 by the overall benefit cap (up from 4 the year before). We have managed the impact of Universal Credit on rent arrears in a number of ways, including; increasing personal contact and targeting visits by our Financial Inclusion Officer to households assessed as 'high risk' in respect of coping with welfare reform, maximising the use of the debt advice service through a preferential arrangement with the local Citizens Advice, and working with households to apply for Discretionary Housing Payments. Our work is having a positive effect. Rent arrears overall were 3.93% at year end and within our internal target.

FIGURE 3: ENERGY WORKS TO HOMES



Repairs

As part of our wider repairs service, we continue to work with Mears (who are responsible for day to day and cyclical repairs) and Village Heating Ltd (gas and electrical work) to provide services to residents. In the Spring of 2019 we completed a competitive tender process for the provision of repairs services for the next ten years (with a possible break in the contract at year five). The contract was run according to the EU procurement requirements and was again awarded to Mears. Several changes were made to the arrangements with the intention of further developing the service, particularly with the enhanced use of mobile technology and gaining further savings through better management of the supply chain over the next few years.

In the next 12 months we will be procuring a new contract for mechanical and electrical (M&E) services to cover planned servicing and repairs and renewals. The amount of M&E equipment in the homes we manage has been increasing steadily over the past few years, particularly in new buildings. In 2018-19 we replaced 180 boilers, 188 kitchens and bathrooms and decorated over 230 homes. This regular programme of investment is designed to maintain homes to a good standard. Where appropriate, cyclical works include environmental improvements and, where allowed by local authority planners, the replacement of single glazed windows with low maintenance double glazed units. This year we increased the number of these further works, carrying out 211 insulation improvements, fitting 153 homes with new draught proofing and undertaking five electric heating upgrades. (See Figure 3)

We are planning to continue this programme over the next few years. We also plan to continue to invest in measures to improve comfort and security. In November 2018

the Board approved an Environmental Sustainability Strategy and in December we were awarded the SHIFT Gold standard by Sustainable Homes, in recognition of the work we have been undertaking to improve the energy performance of our homes. We continue to see an improvement in the average Standard Assessment Procedure (SAP) rating of our stock, to 71 at the end of March 2019, which is above average for the sector and part of a long-term approach to achieve a minimum Energy Performance Rating (EPC) of C for all homes by 2023.

Given the difficulties of replacing social housing in the areas in which we operate, our objective is to ensure all our homes are maintained to a good standard over the long term. We are planning to continue our rolling stock condition survey programme in 2019-20.

Health and safety issues are paramount and we have been working with contractors on the detailed planning work necessary to reclad the single building that we own which has Aluminium Composite Material (ACM) on the exterior. This has proved a challenging and time-consuming task and we are grateful to the Greater London Authority (GLA) for agreeing to meet nearly the full costs of the recladding project. The Board will continue to monitor and implement the recommendations of the various Government reviews currently underway to improve building safety.

Care and support

Over the last 15 years we have developed seven extra care facilities, alongside a range of care and support services for older and vulnerable people aimed at helping them retain their independence.

Working with local health commissioners and local authorities, we support over 200 people living in our specialist extra care schemes, and a further 90 people in day care, to have a better quality of life and where possible, have reduced unnecessary nursing home and hospital admissions.

We have continued to receive positive ratings from the independent regulator, the Care Quality Commission, for all our care schemes. Our latest scheme, Bridgewater House in Hounslow, received a 'Good' rating by the Care Quality Commission in its first year after opening. We had a single scheme at the end of the year that has a care rating of 'requiring improvement'. This is the first such rating we have received and we have taken it seriously. We have put in place a detailed action plan to restore the position.

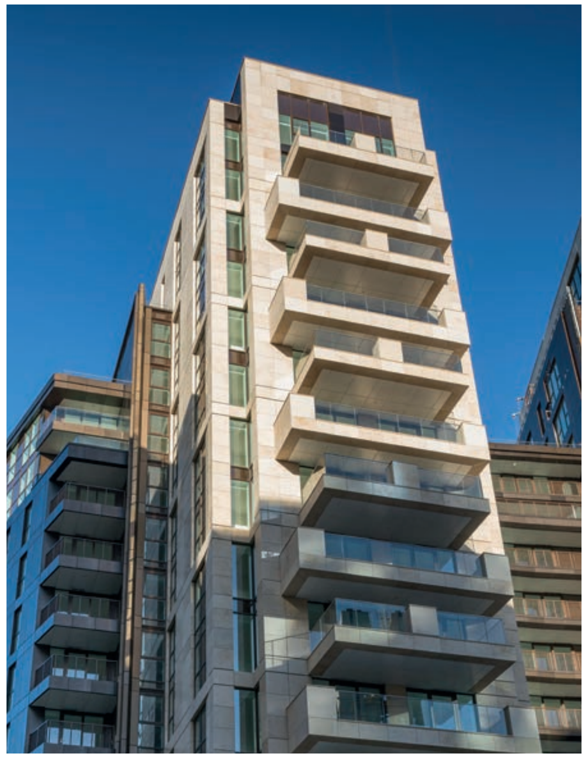
Over the last 12 months we have continued to pay care staff at or above the London Living Wage, recruited new care and support workers and maintained staff retention rates at 89%. During the year we have been developing the skills of our staff. In one partnership with St Christopher's Hospice we have been able to upskill in end of life care. We have also introduced a new approach to falls management, which has helped residents recover from non-injury falls without unnecessary interventions from medical professionals.

Our support and adaptation service provided 206 new major and minor adaptations and 166 repairs to existing properties to enable residents to live independently at home, at a total cost of over £345,000, of which Octavia contributed more than £63,000. The team supported 200 residents, who live in non-specialist accommodation with a care or support need, to sustain their tenancy.

Providing more homes

In the year to 31 March 2019 we completed the development of a total of 123 new homes, including Witley Wharf in Southall (11 homes for Affordable Rent and 46 for shared ownership) and North Wharf Gardens in Paddington (37 for Affordable Rent, 14 for Intermediate Rent and 13 for shared ownership). We also completed works to the

©Retina Images



last two of six large family properties, which we acquired in 2017-18 through a charitable donation, to be let to families affected by the fire at Grenfell Tower. The first four were completed in 2017-18.

The general slowdown in the property market has led to some developers being less concerned with adhering to previously agreed time tables. This means some schemes, which we had anticipated completing in the year, have moved into 2019-20. At the end of the year we were in contract for 123 homes at seven schemes. (see Figure 4)

We had acquired land for a further 38 homes in Hounslow and Chiswick and we had, at the year end, contractual terms agreed but not signed, on a further 158 homes in Westminster, Hounslow and Wandsworth. (see Figure 5)

Figure 4 – Homes under construction at 31 March 2019

Development	Affordable/ Social Rent	Intermediate Rent	Shared ownership	Total
Watkins House, Harrow	-	-	20	20
North Wharf Road, Paddington	12	-	4	16
New Oxford Street, central London	13	8	-	21
Witley Wharf, Southall	2	-	2	4
Fernshaw Road, Chelsea	3	-	-	3
Carlyon Road, Alperton	9	-	19	28
Nantly House, Hounslow	19	-	12	31
Total	58	8	57	123

Figure 5 – Developments where contracts were agreed in principle (but not signed) on 31 March 2019

Development	Affordable/ Social Rent	Intermediate Rent	Shared ownership	Total
Lillie Road, Hammersmith	-	-	8	8
Queen Anne's Gate, Westminster	8	4	-	12
Hathaway House, Westminster	-	-	19	19
Two Bridges, Hounslow (supported housing)	11	-	8	19
Garratt Lane, Wandsworth	17	2	56	75
Marylebone Square, Westminster	-	25	-	25
Total	36	31	91	158

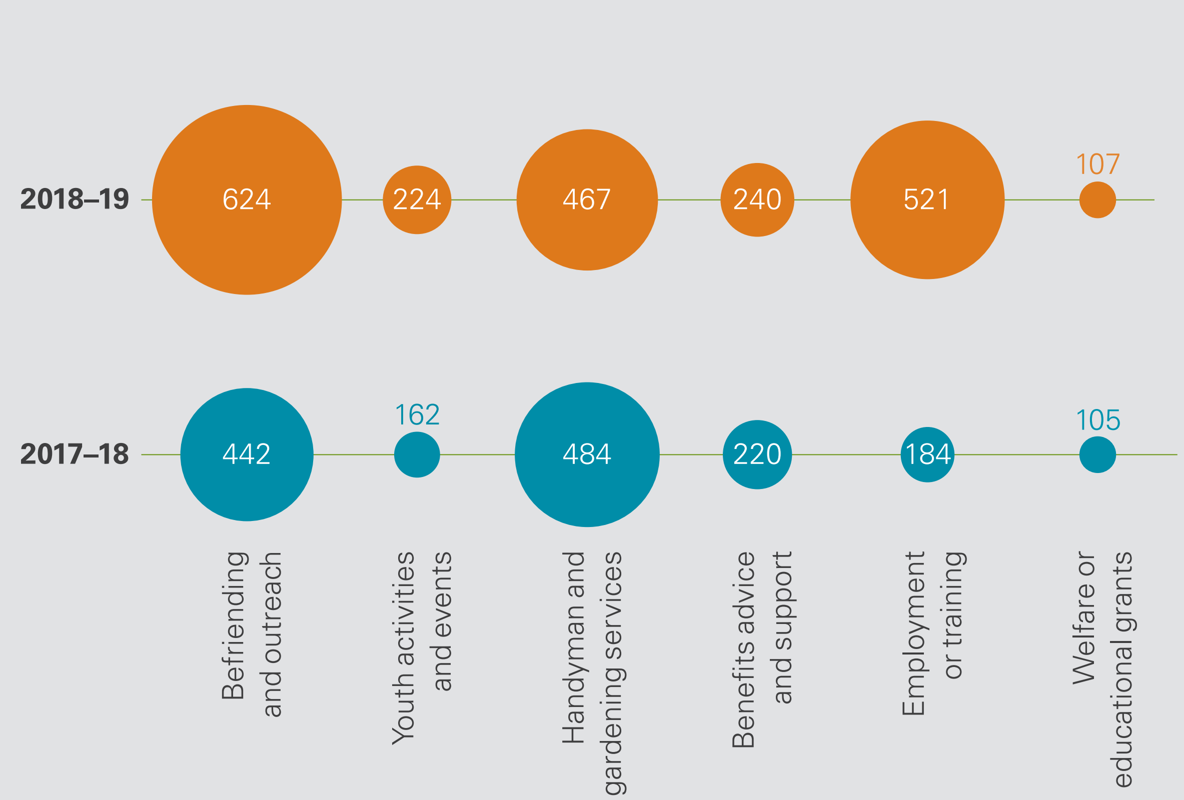
In November 2018, through the Connected Partnership of Octavia, Origin Housing and Shepherds Bush Housing Group, we were made a strategic development partner with the GLA. Under the terms of the agreement reached with the GLA, the partnership has committed to providing 1,408 homes, either developed or in development by 2021, in return for grant funding of £57 million. Octavia's share of the partnership is the delivery of 474 homes, and at 31 March 2019 we had already started developing 223 of these. During the year we were also chosen to be a development partner with the London boroughs of Hounslow and Hammersmith & Fulham.

The economics of providing new social rented housing is such that cross subsidy from property sales is required for some schemes. This means that for each development, the Board has to evaluate the optimum balance between the numbers of rented and shared ownership homes provided.

In total, during 2018-19, Octavia sold 41 properties on a shared ownership basis and completed 17 transactions that enabled existing shared owners to increase their equity stake.

At the end of the year, 12 shared ownership homes and three outright sale homes were unsold. The shared ownership units are expected to be reserved in the first half of the current financial year. The three outright sales are four bedroom houses and while they have proved more challenging to sell, two are currently reserved and we are actively pursuing marketing strategies for the final home.

FIGURE 6: THE NUMBER OF LOCAL PEOPLE SUPPORTED BY THE FOUNDATION



Supporting communities

The Octavia Foundation, a charity that provides non-housing support and opportunities for local people, has been established for many years and focuses on four main areas:

- care and support for older people;
- work with young people;
- help with training and employment for people of all ages; and
- assistance with money and debt management for people of all ages.

The year marked the first phase of Octavia's 'Better Lives Community Strategy', which aims to increase the breadth and depth of our community activities and has a target for Octavia to reach 5,000 people a year, through our community support projects, by 2021.

This year the strategy has delivered increased community benefit in two key areas:

- Support for older and isolated people, through developing new projects delivering group befriending and social activities.
- Help for people seeking jobs and training, by supporting a number of events and training sessions for those wishing to start their own businesses, alongside delivering direct support for those seeking employment.

Included in the strategy is Octavia's 'Better Lives Community Fund', which distributed more than £100,000 in small grants to 27 local charities during the year, mainly to organisations which either provide activities for young people or services that target loneliness and social isolation among older people.

In 2018-19 we increased the number of people we assisted, both Octavia residents and non-residents, through a wide range of projects which included; the provision of advice on welfare benefits and debt, befriending support for vulnerable and isolated residents, employment and training projects and activities for young people through creative arts activities (including film-making), and lunch clubs and support with gardening and small repairs for elderly and disabled residents. (see Figure 6)

The Board is very grateful to the Friends of Octavia who funded our welfare and

educational grants and we thank them for their continued support for our work.

The Foundation is supported by income from the Octavia charity shops, income from a portfolio of commercial properties, and external funding from a range of charitable and statutory sources. In 2018-19 the charity shops generated a turnover of £2.9m, a 1.6% increase on last year. During the year we opened two new shops, in Victoria and Kentish Town, taking our total number of shops to 20.

We rely heavily on our volunteers to run our shops and community projects and we are grateful for their support. A total of 406 volunteers worked with us during 2018-19, 259 with the charity shops, 115 with befriending, 18 with employment and training and 14 young adult volunteers helped us with our youth projects.

Financial summary and Value for Money

The Octavia Group's financial performance over the last five years is illustrated in Figure 7.

Surpluses in 2016 and 2017 reflect the impact of the Octavia Foundation and Ducane Housing joining the Group, and the surplus in 2018 reflects a £10m donation received to provide six homes for families affected by the Grenfell fire. This year's surplus of £6.5m does not include any of these unusual items.

The Group's underlying financial strength arises from the quality of its portfolio of social housing, which has been built up over the last 150 years in areas which have come to be among the most highly valued in the country. This is reflected in an independent desktop valuation of the completed housing property portfolio at 31 March 2019 by Jones Lang LaSalle. (see Figure 8)

This independent valuation indicates an average Vacant Possession value for each of our General Needs properties of approximately £485,000 (down from £550,000 in 2018), which is broadly in line with 2017 levels, reflecting a peak in the property market in 2018.

The property portfolio requires significant levels of reinvestment each year for both maintenance purposes and to respond to the requirements of health and safety

Figure 7 – Octavia Group financial performance

	2018/19 £m	2017/18 £m	2016/17 £m	2015/16 £m	2014/15 £m
Turnover (excluding donations)	58.7	55.5	44.8	50.0	39.4
Cost of sales	(10.0)	(7.5)	(1.6)	(6.2)	(4.9)
Operating Costs	(38.8)	(36.8)	(33.0)	(32.7)	(26.8)
Other items	2.8	12.9	1.6	4.2	3.1
Operating surplus	**12.7**	**24.1**	**11.8**	**15.3**	**10.8**
Net interest payable	(5.7)	(4.6)	(4.8)	(5.0)	(4.5)
Interest breakage costs	(0.5)	(8.0)	-	(2.3)	(1.3)
Gain on business combination	-	-	2.6	28.5	-
Revaluation of investments	-	-	2.5	-	-
Surplus for the year	**6.5**	**11.5**	**12.1**	**36.5**	**5.0**
Borrowings	211	190	168	164	138
Housing owned/managed (number of homes)	5,087	5,013	4,832	4,791	4,374

Figure 8 – Housing portfolio valuation

	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Open Market Value with Vacant Possession	2,347	2,400	2,337	2,288	1,973
Market Value subject to existing Tenancies	1,200	1,127	1,095	999	949
Existing Use Value for Social Housing	541	501	466	461	416
Estimated annual market rent of General Needs social rented portfolio	91	95	85	89	87
Actual annual rent roll of General Needs social rented portfolio	24	25	25	24	22

BEING A GOOD LANDLORD – ENERGY EFFICIENCY

In the 12 months to March 2019, Octavia more than doubled the number of energy efficiency works carried out to homes compared with the same period in 2017-18.

In December 2018, we were awarded the SHIFT Gold standard by Sustainable Homes in recognition of our commitment to improving energy efficiency.

legislation. The current financial plan adopted by the Board in 2019 envisages spending just under £19m on such issues over the next four years. This includes a programme that will bring all homes up to a good energy efficiency standard by 2023.

In addition to the housing property portfolio, Octavia has commercial properties shown in the balance sheet at a valuation of £11.1m based on an Open Market Value in March 2017 by FPD Savills. These properties are mainly an integral part of Octavia's social housing schemes and have been funded through Octavia's reserves.

Rent levels and social value

In the opinion of the Board, it is central to the work of the Association that we continue to provide homes in high value areas in central London at rents that are affordable to people on lower than average incomes. We have set our rents at levels that enable this to be achieved. As a result, there is a significant difference between the market rents that theoretically could be charged for our property portfolio and the rents charged. Jones Lang LaSalle estimate the market rental on our General Needs portfolio to be £91m per annum as against the rents actually charged in the financial year of £24m. The difference of £67m represents the social dividend which the local community and government receives from the historic investment in Octavia's properties. During the year average rents charged on social housing properties decreased from £123.31 per week to £122.51 per week.

Our average rents continue to be below the government formula rents for equivalent social housing properties. During this period another 48 new homes were completed for Affordable Rent, to make a total of 407 homes where rents are set under this new system. The affordable rents under the new system could have been charged

OCTAVIA'S BETTER LIVES COMMUNITY STRATEGY HAS A TARGET TO SUPPORT 5,000 PEOPLE A YEAR BY 2021

at up to 80% of market rents but, given the Board's concern to ensure that rented property remains affordable to those in low paid employment, we estimate that our affordable rents represent less than 40% of market rent levels. This has reduced since 2015, in line with the Government's one per cent rent reduction.

For existing social tenants, the Board aims to keep the rents at a level consistent with maintaining and developing our housing stock for general needs properties.

Accordingly, our current rent policy is based on the Government's formula rent regime. Octavia has had the benefit of a total of £226m of grant from central Government which is invested in its current stock.

The Board continues to believe that all the rents charged by Octavia represent extremely good value for money for tenants. Results from the last STAR survey and other resident feedback indicates that this view is shared by our tenants. (see Figure 2)

Value for Money

From April 2018 the Regulator of Social Housing (RSH) required registered providers to report against a prescribed set of Value for Money metrics to improve transparency and support comparability across the sector. This requirement also means that comprehensive self-assessment statements on Value for Money are no longer mandatory. Registered providers should publish, as part of their statutory accounts, their performance

against the seven prescribed metrics. They should also publish how their performance compares with that of their peers and their own targets. We have considered the seven metrics in the context of our strategic objectives. We have also considered three additional metrics reflecting our work in supporting communities and the diverse range of needs fulfilled by our homes. (See Figure 9)

Compared with last year, our social housing cost per home has increased, primarily due to costs incurred on fire safety works and our continued commitment to improving the energy efficiency of our homes. We have also incurred some significant one-off costs during the year for restructuring our borrowing portfolio and for changes in the leadership team. This is also reflected in our margins, and in particular because we have not benefitted from the same level of donations we received in 2018.

In comparison with our peers, our margins and social housing cost per unit reflect the higher repair costs we incur on our heritage properties in the high-value areas we operate in. We continue to invest in new and existing homes, delivering more new supply for our scale than our peers. We also continue to invest in communities and

Figure 9

Strategic Objectives/ Metrics	Group 18/19	Group 17/18	Peers Median 17/18
Being a Good Landlord			
Metric 5 Headline Social Housing cost per unit	£6,740	£5,890	£6,240
Metric 6a Operating Margin (social housing lettings)	22.0%	23.0%	27.9%
Metric 6b Operating Margin (overall)	17.0%	33.3%	26.0%
Metric 4a EBITDA MRI interest cover (RSH definition)	126.5%	181.9%	164.5%
Metric 4b EBITDA MRI interest cover (Octavia definition)	164.6%	196.4%	-
See also figure 1 for further performance indicators			
Building More Homes			
Metric 1 Reinvestment	6.8%	8.6%	6.4%
Metric 2 New Supply delivered (social housing units)	2.5%	3.2%	1.0%
Metric 3 Gearing (RSH definition)	38.1%	35.8%	36.5%
Metric 7 Return on Capital Employed	2.3%	4.6%	2.7%
Supporting Communities			
Metric 8 Supported Housing % of total homes	5.9%	6.1%	5.8%
Metric 9 Housing for Older People % of total homes	3.0%	3.1%	2.0%
Metric 10 Communities spend % of total spend	2.7%	2.8%	N/A

Figure 10

Strategic Objectives / Metrics	Group 18/19	Group 19/20	Group 20/21	Group 21/22
Being a Good Landlord				
Metric 5 Headline Social Housing cost per unit	£6,740	£6,240	£6,260	£6,170
Metric 6a Operating Margin (social housing lettings)	22.0%	23.0%	23.6%	25.2%
Metric 6b Operating Margin (overall)	17.0%	16.7%	20.7%	22.7%
Metric 4a EBITDA MRI interest rate cover	126.5%	118.5%	132.8%	135.0%
Building More Homes				
Metric 1 Reinvestment	6.8%	10.7%	10.9%	8.7%
Metric 2 New Supply delivered (social housing units)	2.5%	2.8%	3.1%	3.7%
Metric 3 Gearing	38.1%	37.3%	41.3%	43.1%
Metric 7 Return on Capital Employed	2.3%	2.3%	2.2%	2.5%
Supporting Communities				
Metric 8 Supported Housing % of total homes	5.9%	5.6%	5.4%	5.2%
Metric 9 Housing for Older People % of total homes	3.0%	2.8%	2.7%	2.6%
Metric 10 Communities spend % of total spend	2.7%	2.8%	2.6%	2.6%

housing that meets a range of needs, with a higher proportion of our portfolio dedicated to supported housing and housing for older people than that of our peers.

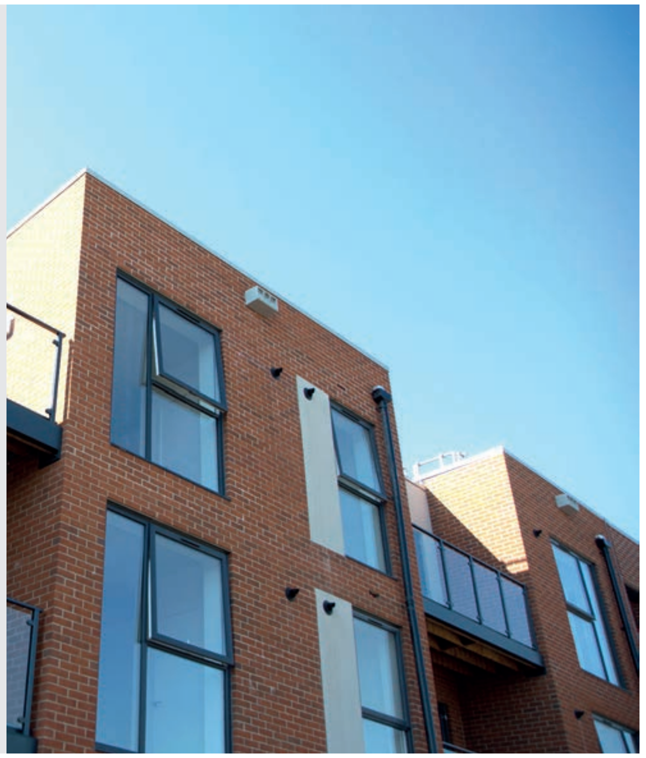
Based on our most recent 30-year business plan, we intend to further focus on Value for Money throughout the Group. As set out in Figure 10, we intend to increase our reinvestment in new and existing stock to a peak of 10.9% in 2021. We will also focus on improving our margins and social housing cost per unit through a programme of efficiencies in processes and the use of technology across a number of areas. We remain committed to communities and care and support activities, and continue to seek innovation, collaboration and new sources of fundraising in these areas. (See Figure 10)

Our approach to Value for Money is to embed it throughout the organisation and consider Value for Money in everything we do. The Board reviews a comprehensive set of performance indicators and management accounts throughout the year, which identify areas of effectiveness and efficiency, together with areas of balance between quality of output and resources expended. This is particularly relevant to our heritage stock, where the cost to maintain and carry out energy efficiency works to an appropriate standard can be higher than average. Our commitment to mixed communities means that the Board accepts a lower return on such assets to further Octavia's charitable objectives.

PROVIDING MORE HOMES

Octavia is committed to providing good quality, affordable homes in inner London. Among 123 new homes developed during the year, 51 were for affordable and intermediate rent in Westminster.

During the year we started construction on another 36 affordable and intermediate rent homes in Westminster and Kensington and Chelsea.



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 2019, the Association undertook a major restructuring of its borrowing portfolio, putting in place additional resources for future projects and to reduce the interest rate risk. These changes take total Group facilities at that point to £338m including £100m of bond financing during the year, and £50m of bond financing to be drawn in March 2020 (£30m) and March 2021 (£20m). During the year gross borrowings increased from £190m to £211m as new loans were drawn to finance capital investment. In addition, £75m 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 £52m of facilities is currently in progress.

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.

The Board monitors compliance with loan covenants quarterly. At 31 March 2019 the position in respect of the two main sets of covenants was as follows:

- Interest cover 165% (lowest permitted level 110%).
- Gearing 48% (highest permitted level 80%).

Details of interest rate fixing by maturity at 31 March 2019 are given in Figure 11.

Due to the bond refinancing during the year our proportion of fixed rate debt has increased, thereby reducing our exposure to rises in interest rates.

At the year end, 54% of our properties 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 the target of 200 new homes a year.

Effects of material estimates and judgements on performance

Impairment - despite the impact of the Government's requirement for 1% reductions in social rents for four years, following this year's annual impairment review, no provisions for impairment against our housing property carrying amounts were found to be necessary. This is set out in more detail in the attached financial statements.

Allocation of costs at mixed tenure developments – at mixed tenure developments the apportionment of scheme costs across units can be calculated in a number of ways. The Finance Committee has approved a move to a square metre basis and this has been applied to any scheme that has been completed during the year.

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

Defined benefit pension scheme – the Social Housing Pension Scheme (SHPS) is a defined benefit multi-employer pension scheme, administered by TPT Retirement Solutions (formerly The Pensions Trust) (TPT). TPT have been able to provide sufficient information in relation to our share of SHPS for the period ended 31 March 2019, which means that exemptions from defined benefit accounting are no longer applicable. This has resulted in a net defined benefit liability being reported in the Balance Sheet, with corresponding movements through the Statement of Comprehensive Income. The valuation of the scheme assets and liabilities have been carried out by qualified actuaries. The actuarial assumptions used in these valuations, underpinning the SHPS defined benefit liabilities, are likely to change in

Figure 11

Rate fixing period	Target	At March 2019	At March 2018
Fixed for more than 10 years	At least 50%	79%	45%
Fixed for more than 1 year but less than 10 years	Between 25% and 50%	7%	15%
Variable/ less than one year	Less than 25%	14%	40%

future years causing changes in the amounts recognised in future financial statements. Further detail can be found in the attached financial statements.

Governance and operational summary

Legal structure
Octavia is registered as a Co-operative and Community Benefit Society with the Financial Conduct Authority and as a Private Registered Provider of social housing with the Regulator of Social Housing (RSH). As an exempt charity, Octavia enjoys the benefits of full charitable status.

Octavia has four subsidiaries:

a) Octavia Living Limited, which develops homes for outright sale on housing developments led by Octavia. It also markets and manages property sales for Octavia and provides related commercial advice.
b) Octavia Development Services Limited, which develops social housing for Octavia on a design and build basis. This is currently dormant.
c) Octavia Foundation, a registered charity which provides community support in central and west London, often to Octavia residents.
d) Octavia Hill Limited, a registered subsidiary which is currently dormant.

Ducane Housing Association, which joined the Group on 31 March 2016, completed a full transfer of engagements on 29 March 2019 and is now part of the Association.

Corporate governance
Octavia is governed by a Board which currently comprises 10 non executives (two of whom are residents) plus the Chief Executive. These are listed on page 1 in this report. Each non-executive Board member holds one fully paid share. Octavia has adopted the current National Housing Federation Code of Governance. We fully comply with the Code, subject to one exception, where on legal advice the Board approved an extension to the tenure in office beyond nine years for our Vice-Chair, to facilitate her appointment as acting Chair for a maximum period of four months.

The day to day operational responsibility for Octavia is delegated to a Directors Group that comprises the Chief Executive and Directors of Housing, Care and Communities, Asset Management, Development and Finance, together with the Director of the Octavia Foundation.

The Board is supported by five group committees, all of which include Board members as well as other independent members. These are:

- Estates Committee – property related issues;
- Services Committee – housing and care service matters together with oversight of the Octavia Foundation;
- Corporate Services Committee – IT, HR Governance and other internal operational matters;
- Finance Committee – finance and treasury matters; and
- Audit and Risk Committee – external reporting, audit and risk matters.

An Octavia Group Board member is on the Board of each of its subsidiaries.

Visakha Sri Chandrasekera joined the Board in April 2018 as a non-executive member.

Grahame Hindes retired, after 18 years of service, on 22 July 2019.

Following the In Depth Regulatory Assessment by the RSH during 2017, and a follow up stability review in 2018, Octavia continues to be grade one (the top grade) for both governance and financial viability. The Board is not aware of any reason that might affect these ratings.

Staffing and remuneration
Octavia's people strategy focuses on creating an inclusive organisation where people demonstrate our values and look for opportunities to improve the services we provide.

We recruit to our values and engage with staff directly and through our elected staff forum, which includes representation from all levels of the organisation, to ensure that staff are consulted on policies and procedures that affect them.

We offer a range of staff benefits including flexible working and during the year we continued to invest in learning and development through staff and management development programmes.

The latest staff survey results show that 87% of staff would recommend Octavia to friends as a good place to work. Other indicators in 2018-19 include a staff sickness absence average of 5.34 days, which is below the sector average, and a reduction in staff turnover to 11% (from 17% in 2017-18); despite competition for difficult to fill roles in the sector and a low unemployment rate.

Octavia's approach to remuneration helps us to recruit and retain staff and reward performance in line with the not-for profit sector. All Octavia staff are paid more than the London Living Wage level of £10.20 per hour. The remuneration of Directors is agreed by the Corporate Services Committee and, for the Chief Executive, by the Board. Octavia's policy is to offer fees to Board members. These are periodically reviewed and externally benchmarked. The level of fees was reviewed and found to be in line with similar associations and so there were no changes. Details of the remuneration paid to, and the activities of, individual Board members are given in these financial statements.

Over the year Octavia continued grow and streamline the staff structure to improve service delivery; harmonising staff terms across the Group. We actively promoted employee wellbeing and mental health across the organisation and were finalists in the Reward and Employee Benefits Association Wellbeing Awards.

Health and safety

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

Health and safety risks are regularly reviewed by the Directors Group, the Corporate Services Committee and the Board. Our Health and Safety Committee meets quarterly and has delegated authority from the Directors Group to oversee all health and safety issues.

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

In previous years we have had to act on several health and safety issues arising from latent defects in several residential buildings completed over the last seven years. Working with our insurers, these health and safety issues have largely been resolved. We are engaged on works to replace ACM cladding on one building and, together with the original contractor, we are working on a second tall building (which does not have ACM cladding) where other potentially necessary works have been identified.

Data and technology

We have a comprehensive set of IT systems in place for the administration of the Group's various activities. During this period we have been working on a series of projects designed to further improve efficiency, extend mobile working through the use of IT, improve resilience in the face of a business continuity event and strengthen information security. The implementation of a Microsoft Dynamics Customer Relationship Management (CRM)

system, which can be used with mobile devices to record all relevant contacts with residents, has continued to progress and is in widespread use throughout the organisation. During the year we started work on a mobile device App for residents. This will launch in 2019 and we plan to further develop it over the next few years as part of a strategy that will make services available online wherever possible.

To ensure the organisation is making the best use of the latest developments in business assisting technology to enhance services, the Board commissioned an independent review of technology usage: partly to look at how we can use technology to enhance services delivered to residents and to improve efficiency in how we work. This is being used to inform planning for the next few years of IT development. A priority is to further develop our adoption of the CRM IT system so it increasingly becomes the core for all our information systems.

We have continued to make progress in upgrading our approach to data security. We have invested substantially in our journey towards full compliance with the requirements of the General Data Protection Regulation (GDPR) and will continue to do so over the next 12 months, as we seek to build on an approach of "compliance by design" to reduce the possibilities of breaches of the data regulations. This approach is aided by our appointment of a Data Protection Officer to advise on and assist with, changes to systems and procedures.

Looking forward

The next few years promise a number of opportunities for Octavia but they also present some challenges.

The opportunities include:

- building on the existing momentum for improving and developing services to residents and other customers, whether in terms of mainstream housing services, related support services (such as financial and employment advice) or through additional care and support;
- new development potential following the recent slowdown in the property market in London, as opportunities that were less available when the market was more active, emerge;
- the potential to improve our operating efficiency through better use of technology; and
- responding to a growing demand for a wide range of community support, particularly around the issue of social isolation, where Octavia can have a significant impact.

The challenges include:

- responding to changes in legislation that have led to reductions in rental income over recent years and further caps on governmental tenant benefits;
- adapting the organisation to support residents as welfare reform takes effect. Part of the challenge here is to maintain a rent policy which remains affordable to our prospective tenants in the high value, but popular, areas in which we operate; and
- ensuring the Association continues to invest in the long-term maintenance and upkeep of an increasingly complex portfolio of properties.

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

Risks and uncertainties

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

Financial risks

- Inflation: Our income (primarily rents) and operating costs tend to move in a linked fashion with inflation, however sometimes they become delinked. We have just been through a period where revenues have increased by more than costs but now employee and maintenance related costs are increasing more rapidly and we are taking steps to manage this issue. Additionally, there are inflation linked risks to Care income, where rates are agreed and fixed for several years ahead.
- Liquidity risk: Our Treasury Management Policy sets out minimum levels of liquidity, both in terms of cash and short-term money market deposits that should be maintained. It also sets out minimum levels of secured and available bank facilities. Short-term money market deposits are only made with institutions that meet certain credit rating standards.
- Interest rate risk: This is monitored and controlled through the treasury strategy described elsewhere in this report.
- Welfare reforms: The changes to date have had a minimal impact on our overall finances but we are monitoring the position carefully as it may well be a long-term issue for the Association. We are investing in staff and systems to ensure that we are in the best position to deal with issues as they develop.
- Sales risks: With only very limited levels of government grant available for developing new social housing, housing associations are making up part of this funding shortfall through shared ownership and outright sales on new housing developments. Our levels of exposure to sales income is regularly monitored and actions are taken to mitigate the risks, where appropriate.
- Project or cost overrun: Individual developments are controlled through individual assigned managers with pre-set budgets which are monitored monthly. Any significant cost overruns are reported to the Board.
- Leaving the EU: Economic uncertainty caused by a lack of clarity around the UK's future trading position with Europe, means that anticipating the value of future developments is difficult. We are mitigating this through careful management of the sales programme.

Financial risks are modelled in the business plan and 30-year Long Term Financial Plan and are subject to sensitivity analysis and stress testing.

Reputational risks

- Health and safety issues: We continue to place a high priority on resident, staff and contractor safety. A separate section of this report sets out our approach to this risk.
- Business continuity: We have developed plans to deal with all aspects of potential threats to business continuity. During the year we completed upgrading our IT systems to further improve their resilience to potential risks and tested our plans shortly after the year end.
- Staff issues: Our human resources policies and practices are well defined. Staff turnover is monitored and is currently below the sector average.
- IT issues: We are increasingly reliant on technology for the effective delivery of services. We have in place controls and systems to ensure information is available in a variety of circumstances. The Board plans to further review the technology strategy during 2019-20.

SUPPORTING COMMUNITIES – BUILDING BETTER LIVES

We greatly increased the numbers of local people reached through our community support projects in 2018-19, compared with 2017-18.

More than 600 older or isolated people benefited from befriending and outreach, and more than 500 adults were supported with access to employment or training.

Assessment of the effectiveness of internal controls

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

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

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

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

- the adoption of a business plan and 30-year Long Term Financial Plan model, which is regularly updated, reviewed by the Board, and stress tested;

- a comprehensive budgeting process, the production and review of monthly management accounts and key performance indicators for all areas of operational activity, including quarterly external reporting;
- the review and approval of the Governance Handbook and Financial Regulations of the organisation and a clear set of delegated authorities detailing responsibilities for expenditure and authorisation of payments;
- the incorporation of key risks into a Risk Map and the consideration of this and significant risks on individual projects by the Board;
- a programme of internal audit work which is linked to the Risk Map and is reported regularly to the Audit and Risk Committee and annually to the Board. The Audit and Risk Committee also regularly monitors the implementation of external and internal audit recommendations;
- 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 Group Estates Committee, Projects Panel, Directors Group and the Board.

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

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

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

Compliance with the RSH's Governance and Financial Viability Standard

The Board has considered whether the activities of the Group in the year to 31 March 2019 complied in all material respects with the RSH's Governance and Viability Standard and has concluded that they did.

Regulatory compliance

As required by regulations issued by the RSH, a review has been conducted on the level of compliance by Octavia since 1 April 2018 with relevant laws and regulations.

The Board has concluded that, in all material respects, Octavia has complied with relevant law and regulations throughout the year and to date. There have, however, been a small number of minor infractions which have occurred. In each case these have been reported to the Board and action has been taken to minimise the likelihood of similar events occurring in future.

Going concern

As set out in the financial statements, an assessment has been carried out by the Board into how far Octavia can be considered to remain a going concern. The Board has noted that the projected cash flow from operations and sales, taken together with undrawn and secured loan facilities, significantly exceed the projected cash requirements for operating expenditure and capital investment for at least the next eighteen months. The Board has also noted that business planning projections indicate that Octavia should be operating comfortably within its loan covenant restrictions for that period. Accordingly, it continues to consider that it is appropriate to adopt the going concern basis in preparing this annual report and accounts.

External review and audit

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 2019 and up to the date of the approval of these financial statements, there have been no regulatory concerns which have led any regulatory authority to intervene in the affairs of Octavia, nor are there significant problems in relation to failures of internal controls that required disclosure in the financial statements.

Auditors

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

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

Sandeep Katwala
Chairman
Statement approved by the Board on 22 July 2019

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 (SORP): Accounting by Registered Social Housing Providers 2018 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 2019. 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 SORP: Accounting by Registered Social Housing Providers 2018.

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF OCTAVIA HOUSING

Opinion

We have audited the financial statements of Octavia Housing ("the Association") and its subsidiaries ("the Group") for the year ended 31 March 2019 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 2019 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 2019.

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 Chair's statement, the Report of the Board (including the Strategic Report) and the statement of the Board's responsibilities. In doing so, we 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 and 35, 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

BDO LLP, Statutory Auditor
Gatwick, West Sussex
United Kingdom

20 August 2019

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

ACCOUNTS

FOR THE YEAR ENDED 31/3/19
FINANCIAL STATEMENTS

For the year ended 31 March 2019

	Note	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
Turnover	4	**58,705**	66,438	**49,183**	55,948
Cost of sales	4	**(9,948)**	(7,504)	**(4,537)**	(2,880)
Operating costs	4	**(38,803)**	(36,792)	**(35,640)**	(33,940)
Surplus on property disposals	11	**2,800**	1,928	**2,800**	2,070
Operating surplus	4,7	**12,754**	24,070	**11,806**	21,198
Interest receivable and similar income	12	**272**	138	**417**	768
Interest and financing costs	13	**(6,498)**	(12,735)	**(6,069)**	(12,776)
Surplus for the year		**6,528**	11,473	**6,154**	9,190
Movement in fair value of hedged financial instrument	25	**(264)**	347	**(264)**	347
Initial recognition of multi-employer defined benefit scheme	26	**(875)**	-	**(875)**	-
Actuarial losses on defined benefit pension plans	26	**(641)**	-	**(641)**	-
Total comprehensive income for year		**4,748**	11,820	**4,374**	9,537

All amounts are derived from continuing operations.

In 2018, turnover for the Group and Association included a £10m restricted donation.

The notes on pages 45 to 91 form part of these financial statements.

At 31 March 2019

	Note	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
Fixed assets					
Tangible fixed assets – housing properties	14	**502,992**	479,051	**491,303**	437,917
Tangible fixed assets – other	15	**11,881**	11,452	**11,881**	11,038
Investment properties	16	**11,050**	11,050	**11,050**	11,050
Investments – other	17	**2,113**	1,964	**10**	10
		528,036	503,517	**514,244**	460,015
Current assets					
Stock including Properties for sale	18	**12,177**	20,776	**7,705**	9,365
Debtors – receivable within one year	19	**5,614**	4,290	**5,677**	4,361
Debtors – receivable after one year	19	**524**	524	**4,600**	11,692
Investments		**103**	102	**103**	102
Cash and cash equivalents		**19,085**	18,538	**19,014**	16,675
		37,503	44,230	**37,099**	42,195
Creditors: amounts falling due within one year	20	**(18,488)**	(33,697)	**(17,660)**	(32,205)
Net current assets		**19,015**	10,533	**19,439**	9,990
Total assets less current liabilities		**547,051**	514,050	**533,683**	470,005
Creditors: amounts falling due after more than one year	21	**(399,430)**	(374,337)	**(404,793)**	(367,744)
Pension – defined benefit liability	26	**(3,160)**	-	**(3,160)**	-
Net assets		**144,461**	139,713	**125,730**	102,261
Capital and reserves					
Called up share capital	27	-	-	-	-
Cash flow hedge reserve		**(4,180)**	(3,916)	**(4,180)**	(3,916)
Restricted reserve		**9,930**	10,016	**9,930**	10,016
Income and expenditure reserve		**138,711**	133,613	**119,980**	96,161
		144,461	139,713	**125,730**	102,261

The Financial Statements were approved by the Board of Directors and authorised for issue on 22 July 2019.

S Katwala Chairman **S Porter** Treasurer **C Hughes** Secretary

The notes on pages 45 to 91 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN RESERVES

For the year ended 31 March 2019

	Cash flow hedge reserve £'000	Restricted reserves £'000	Income and expenditure reserve £'000	Total £'000
Balance at 1 April 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
Surplus for the year	-	-	6,528	6,528
Movement in fair value of hedged financial instrument	(264)	-	-	(264)
Transfer between restricted and unrestricted reserves	-	(86)	86	-
Initial recognition of multi-employer defined benefit scheme	-	-	(875)	(875)
Actuarial losses on defined benefit pension plans	-	-	(641)	(641)
Balance at 31 March 2019	**(4,180)**	**9,930**	**138,711**	**144,461**

ASSOCIATION STATEMENT OF CHANGES IN RESERVES

For the year ended 31 March 2019

	Cash flow hedge reserve £'000	Restricted reserves £'000	Income and expenditure reserve £'000	Total £'000
Balance at 1 April 2017	(4,263)	-	96,987	92,724
Surplus 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
Surplus for the year	-	-	6,154	6,154
Gain on business combination (note 32)	-	-	19,095	19,095
Movement in fair value of hedged financial instrument	(264)	-	-	(264)
Transfer between restricted and unrestricted reserves	-	(86)	86	-
Initial recognition of multi-employer defined benefit scheme	-	-	(875)	(875)
Actuarial losses on defined benefit pension plans	-	-	(641)	(641)
Balance at 31 March 2019	**(4,180)**	**9,930**	**119,980**	**125,730**

The notes on pages 45 to 91 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2019

Cash flows from operating activities	Note	2019 £'000	2018 £'000
Surplus for the financial year		**6,528**	11,473
Adjustments for:			
Accelerated depreciation on components	14	**640**	581
Depreciation of fixed assets - housing properties	14	**6,515**	6,173
Depreciation of fixed assets - other	15	**769**	813
Amortised grant	22	**(2,582)**	(2,248)
Interest payable and finance costs	13	**6,498**	12,735
Interest receivable	12	**(272)**	(138)
Movement in value of investments		**(150)**	(35)
Movement in trade and other debtors		**(1,324)**	(93)
Movement in stocks		**8,599**	(1,879)
Movement in pension creditor		**(133)**	(256)
Movement in trade creditors		**(422)**	(802)
Sales of fixed assets - cost element included in operating surplus		**2,065**	2,542
Net cash generated from operating activities		**26,731**	28,866
Cash flows from investing activities			
Purchase of fixed assets – housing properties	14	**(41,010)**	(31,688)
Purchases of fixed assets - other	15	**(1,198)**	(2,435)
Receipt of grant		**1,883**	1,042
Interest received	12	**272**	138
Net cash outflow from investing activities		**(40,053)**	(32,943)
Cash flows from financing activities			
Interest and breakage paid	13	**(6,301)**	(13,103)
Finance costs		**(610)**	(741)
New loans - bank	24	**39,000**	33,500
New loans - other	24	**100,000**	-
Repayment of loans - bank	24	**(118,060)**	(11,262)
Repayment of loans - other	24	**(160)**	(27)
Net cash generated by financing activities		**13,869**	8,367
Net increase in cash and cash equivalents		**547**	4,290
Cash and cash equivalents at beginning of year		**18,538**	14,248
Cash and cash equivalents at end of year		**19,085**	18,538

The notes on pages 45 to 91 form part of these financial statements.

ASSOCIATION STATEMENT OF CASH FLOWS

For the year ended 31 March 2019

Cash flows from operating activities	Note	2019 £'000	2018 £'000
Surplus for the financial year		**6,154**	9,190
Adjustments for:			
Accelerated depreciation on components	14	**569**	544
Depreciation of fixed assets - housing properties	14	**5,956**	5,619
Depreciation of fixed assets - other	15	**877**	754
Amortised grant	5	**(2,582)**	(2,248)
Interest payable and finance costs	13	**6,069**	12,766
Interest receivable	12	**(417)**	(768)
Movement in trade and other debtors		**5,849**	2,640
Movement in stocks		**1,660**	(4,267)
Movement in pension creditor		**9**	(233)
Movement in trade creditors		**(716)**	(69)
Sales of fixed assets - cost element included in operating surplus		**2,065**	2,400
Net cash generated from operating activities		**25,493**	26,328
Cash flows from investing activities			
Purchase of fixed assets – housing properties	14	**(40,899)**	(31,466)
Short term deposits		**(1)**	-
Purchases of fixed assets - other	15	**(1,309)**	(2,432)
Cash acquired on business combination	32	**542**	-
Receipt of grant	14	**1,883**	1,042
Interest received	12	**417**	768
Net cash outflows from investing activities		**(39,367)**	(32,088)
Cash flows from financing activities			
Interest and breakage costs paid	13	**(5,953)**	(13,256)
Finance costs		**(840)**	(484)
New loans - bank	24	**44,000**	33,500
New loans - other	24	**100,000**	-
Repayment of loans - bank	24	**(120,834)**	(9,259)
Repayment of loans - other	24	**(160)**	(27)
Net cash generated by financing activities		**16,213**	10,474
Net increase in cash and cash equivalents		**2,339**	4,714
Cash and cash equivalents at beginning of year		**16,675**	11,961
Cash and cash equivalents at end of year		**19,014**	16,675

The notes on pages 45 to 91 form part of these financial statements.

1 LEGAL STATUS

Octavia Housing ("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 the Association includes the Cooperative and Community Benefit Societies Act 2014 (and related group accounts regulations), the Housing and Regeneration Act 2008, FRS102 (The Financial Reporting Standard applicable in the UK and Republic of Ireland), the Statement of Recommended Practice (SORP) for Registered Social Housing Providers 2018 and the Accounting Direction for Private Registered Providers of Social Housing 2019.

The Association is a Public Benefit Entity and has used the relevant sections of FRS 102 in the preparation of these accounts. The Group has early adopted the amendments to FRS102 (issued December 2017 -Triennial review)

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.

In the preparation of these financial statements, the requirements set out in: "Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland: Multi-employer defined benefit plans" have been adopted early. This has resulted in changes to the accounting policy for the SHPS multi-employer scheme from the start of the reporting period. This means that accounting for SHPS has not been consistently applied as compared to reporting in prior years. Further information on the impact of early adopting these requirements is set out in note 26.

The following principal accounting policies have been applied:

Basis of consolidation

The consolidated financial statements present the results of the Association and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between Group organisations are therefore eliminated in full. In accordance with the transitional exemption available in FRS 102, the Group 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. The transfer of Ducane Housing Association into Octavia has been accounted for using the book value of assets and liabilities on the date of transfer. The excess of assets over liabilities has been recognised as a movement in reserves.

2 ACCOUNTING POLICIES (CONTINUED)

Income

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

- Rental income receivable (after deducting lost rent from void properties available for letting), including letting of commercial properties.
- First tranche sales of Low Cost Home Ownership housing properties developed for sale
- Sales of other residential property developed for sale
- Service charges receivable
- Revenue 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.

2 ACCOUNTING POLICIES (CONTINUED)

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.

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. For financial years ending on or after 31 March 2019, the way in which the defined benefit pension obligation in SHPS is stated in the accounts has changed. Previously there had been insufficient information available for an employer in SHPS to account for its obligations on a defined benefit basis (i.e. stating assets and obligations). As a result, and as required by FRS 102, the scheme was accounted for as a defined contribution scheme with a liability recognised for agreed contributions towards past service deficits. For financial years ending on or after 31 March 2019, sufficient information is available for an employer in SHPS to account for its obligations on a defined benefit basis.

The information provided during the year gives the liability at 31 March 2018 however, as this information only became available in the current year and after the financial statements for the prior year had been authorised for issue, the change in accounting has been recorded on the first day of the current year, with no restatement of comparatives, in accordance with the requirements set out in: "Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland: Multi-employer defined benefit plans". Whilst comparative figures have not been restated the information provided about the liability at 1 April 2018 has been included in the pension note as it provides useful information to a reader of the accounts. The true comparative information is represented by the SHPS deficit reduction creditor as set out in the comparatives to the creditors' notes.

The liability recognised for the present value of the deficit agreement has been derecognised and the net pension deficit at 31 March 2018 has been recognised through other comprehensive income in the year.

2 ACCOUNTING POLICIES (CONTINUED)

Under defined benefit accounting the Scheme assets are measured at fair value. Scheme liabilities are measured on an actuarial basis using the projected unit credit method and are discounted at appropriate high quality corporate bond rates. The net surplus or deficit is presented separately from other net assets on the Statement of Financial Position. The current service cost and costs from settlements and curtailments are charged to operating surplus. Past service costs are recognised in the current reporting period. Interest is calculated on the net defined benefit liability. Re-measurements are reported in other comprehensive income. 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. For financial years ending on or after 31 March 2019, the way in which the defined benefit pension obligation in SHPS is stated in the accounts has changed. Previously there had been insufficient information available for an employer in SHPS to account for its obligations on a defined benefit basis (i.e. stating assets and obligations). As a result, and as required by FRS 102, the scheme was accounted for as a defined contribution scheme with a liability recognised for agreed contributions towards past service deficits. For financial years ending on or after 31 March 2019, sufficient information is available for an employer in SHPS to account for its obligations on a defined benefit basis.

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

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

2 ACCOUNTING POLICIES (CONTINUED)

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.

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

2 ACCOUNTING POLICIES (CONTINUED)

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

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

Externals include steps and handrails, paths etc.

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.

2 ACCOUNTING POLICIES (CONTINUED)

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.

Allocation of costs for mixed tenure developments

For existing schemes, 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.

For new schemes, since 1 April 2018, costs are allocated proportionally based upon the size of the property (i.e. size in sq metre).

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.

2 ACCOUNTING POLICIES (CONTINUED)

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 2018. 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 2018, the useful economic life of the housing property structure has been selected as the basis for grant recognition.

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

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

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

Recycled Capital Grant Fund (RCGF)

On the occurrence of certain relevant events, primarily the sale of dwellings, the 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

2 ACCOUNTING POLICIES (CONTINUED)

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 when assessing for impairment, in accordance with the requirements of FRS102 and SORP 2018.

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.

2 ACCOUNTING POLICIES (CONTINUED)

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.

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.

2 ACCOUNTING POLICIES (CONTINUED)

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, key judgements have been made in respect of the following:

- Whether there are indicators of impairment of the Group's tangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and, where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit. The measurement basis to determine the recoverable amount of assets has been assessed against EUV-SH or depreciated replacement cost.
- The anticipated costs to complete on a development scheme have been based on anticipated construction cost, the effective rate of interest on loans during the construction period, legal costs and other costs. Based on the costs to complete, the recoverability of the cost of properties developed for outright sale and/or land held for sale is determined. This judgement is also based on the best estimate of sales value, based on economic conditions within the area of development.
- The 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 and expects to receive all, or substantially all, of the cost from either the contractor or the Government scheme for reimbursement. There is one further residential block where the requirement to replace cladding, and therefore the costs of meeting this obligation and the potential claims against others in relation to this, remains uncertain.

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

- Tangible fixed assets (see note 14 and 15)

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

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

- Investment Properties (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.

- Defined benefit pension scheme (see note 26)

The valuation of defined benefit pension schemes has been carried out by qualified actuaries based upon assumptions, such as rates of inflation, mortality, discount rate and anticipated future salary increases. Whilst key assumptions used in the valuation are based upon published information, variations in these assumptions have the ability to significantly influence the value of the liability recorded and the annual defined expense.

4 PARTICULARS OF TURNOVER, COST OF SALES, OPERATING COST AND OPERATING SURPLUS

Group Year ended 31 March 2019	Turnover £'000	Costs of sales £'000	Operating costs £'000	Surplus on property disposal £'000	Operating surplus/ (deficit) £'000
Social housing lettings (Note 5)	**39,659**	**-**	**(30,916)**	**-**	**8,743**
Other social housing activities					
First tranche low cost home ownership sales	**4,194**	**(3,006)**	**-**	**-**	**1,188**
Supporting people	**98**	**-**	**(313)**	**-**	**(215)**
Student accommodation	**1,735**	**-**	**(1,187)**	**-**	**548**
Other	**52**	**-**	**(1,511)**	**2,800**	**1,341**
	45,738	**(3,006)**	**(33,927)**	**2,800**	**11,605**
Activities other than social housing activities					
Market rents	**3**	**-**	**(3)**	**-**	**-**
Rents on investment properties	**750**	**-**	**(317)**	**-**	**433**
Outright sales	**8,552**	**(6,942)**	**-**	**-**	**1,610**
Other	**3,662**	**-**	**(4,556)**	**-**	**(894)**
	12,967	**(6,942)**	**(4,876)**	**-**	**1,149**
	58,705	**(9,948)**	**(38,803)**	**2,800**	**12,754**

Group Year ended 31 March 2018	Turnover £'000	Costs of sales £'000	Operating costs £'000	Surplus on property disposal £'000	Operating surplus/ (deficit) £'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)	1,928	209
	52,631	(1,524)	(32,103)	1,928	20,932
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)	1,928	24,070

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

Association Year ended 31 March 2019	Turnover £'000	Costs of sales £'000	Operating costs £'000	Surplus on property disposal £'000	Operating surplus/ (deficit) £'000
Social housing lettings (Note 5)	**38,440**	**-**	**(29,933)**	**-**	**8,507**
Other social housing activities					
First tranche low cost home ownership sales	**5,725**	**(4,537)**	**-**	**-**	**1,188**
Supporting people	**98**	**-**	**(313)**	**-**	**(215)**
Other	**52**	**-**	**(1,441)**	**2,800**	**1,411**
	44,315	**(4,537)**	**(31,687)**	**2,800**	**10,891**
Activities other than social housing activities					
Market rents	**3**	**-**	**(3)**	**-**	**-**
Rents on investment properties	**750**	**-**	**(317)**	**-**	**433**
Other	**4,115**	**-**	**(3,633)**	**-**	**482**
	4,868	**-**	**(3,953)**	**-**	**915**
	49,183	**(4,537)**	**(35,640)**	**2,800**	**11,806**

Association Year ended 31 March 2018	Turnover £'000	Costs of sales £'000	Operating costs £'000	Surplus on property disposal £'000	Operating surplus/ (deficit) £'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)	2,070	410
	49,965	(2,100)	(30,240)	2,070	19,695
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)	2,070	21,198

5 INCOME AND EXPENDITURE FROM SOCIAL HOUSING LETTINGS

Group	General needs £'000	Supported housing £'000	Keyworker £'000	Low cost home ownership £'000	Total 2019 £'000	Total 2018 £'000
Income						
Rents net of identifiable service charges	**24,105**	**1,891**	**1,255**	**2,205**	**29,456**	28,448
Service charge income	**2,335**	**967**	**63**	**878**	**4,243**	4,093
Amortised government grants	**2,167**	**214**	**63**	**82**	**2,526**	2,248
Net rental income*	**28,607**	**3,072**	**1,381**	**3,165**	**36,225**	34,789
Government grants taken to income	**-**	**105**	**-**	**-**	**105**	-
Donation from third parties	**-**	**161**	**-**	**-**	**161**	-
Fee income for care and support	**-**	**3,168**	**-**	**-**	**3,168**	2,764
Turnover from social housing lettings	**28,607**	**6,506**	**1,381**	**3,165**	**39,659**	37,553
Expenditure						
Management	**5,159**	**1,031**	**63**	**253**	**6,506**	4,830
Service charge costs	**3,235**	**-**	**61**	**1,054**	**4,350**	5,353
Routine maintenance	**5,880**	**175**	**146**	**16**	**6,217**	4,647
Planned maintenance	**1,997**	**-**	**47**	**-**	**2,044**	3,908
Major repairs expenditure	**244**	**-**	**14**	**-**	**258**	513
Bad debts	**176**	**-**	**-**	**-**	**176**	81
Depreciation of housing properties:						
- annual charge	**5,972**	**223**	**320**	**-**	**6,515**	6,173
- accelerated on disposal of components	**618**	**-**	**22**	**-**	**640**	581
Other costs	**-**	**4,188**	**22**	**-**	**4,210**	2,831
Operating expenditure on social housing lettings	**23,281**	**5,617**	**695**	**1,323**	**30,916**	28,917
Operating surplus on social housing lettings	**5,326**	**889**	**686**	**1,842**	**8,743**	8,636
* Net rental income is stated net of void losses of	**273**	**70**	**42**	**-**	**385**	354

5 INCOME AND EXPENDITURE FROM SOCIAL HOUSING LETTINGS

Association	General needs £'000	Supported housing £'000	Low cost home ownership £'000	Total 2019 £'000	Total 2018 £'000
Income					
Rents net of identifiable service charges	**24,105**	**1,891**	**2,205**	**28,201**	27,632
Service charge income	**2,335**	**967**	**878**	**4,180**	4,033
Amortised government grants	**2,329**	**214**	**82**	**2,625**	2,248
Net rental income*	**28,769**	**3,072**	**3,165**	**35,006**	33,913
Grants	**-**	**105**	**-**	**105**	-
Donation from third parties	**-**	**161**	**-**	**161**	-
Fee income for care and support	**-**	**3,168**	**-**	**3,168**	2,764
Turnover from social housing lettings	**28,769**	**6,506**	**3,165**	**38,440**	36,677
Expenditure					
Management	**5,159**	**1,031**	**253**	**6,443**	4,809
Service charge costs	**3,235**	**-**	**1,054**	**4,289**	5,285
Routine maintenance	**5,880**	**175**	**16**	**6,071**	4,771
Planned maintenance	**1,997**	**-**	**-**	**1,997**	3,902
Major repairs expenditure	**244**	**-**	**-**	**244**	513
Bad debts	**176**	**-**	**-**	**176**	76
Depreciation of housing properties:					
- annual charge	**5,733**	**223**	**-**	**5,956**	5,619
- accelerated on disposal of components	**569**	**-**	**-**	**569**	544
Other costs	**-**	**4,188**	**-**	**4,188**	2,831
Operating expenditure on social housing lettings	**22,993**	**5,617**	**1,323**	**29,933**	28,350
Operating surplus on social housing lettings	**5,776**	**889**	**1,842**	**8,507**	8,327
* Net rental income is stated net of void losses of	**273**	**70**	**-**	**343**	340

6 UNITS OF HOUSING STOCK

	Group 2019 Number	Group 2018 Number	Association 2019 Number	Association 2018 Number
General needs housing:				
- Social	**3,316**	3,466	**3,310**	3,321
- Affordable	**407**	245	**407**	248
Low cost home ownership	**460**	416	**460**	407
Supported housing	**279**	279	**279**	279
Keyworker accommodation	**98**	72	**98**	48
Student accommodation	**125**	122	**125**	-
Housing for older people	**139**	140	**139**	140
Total social housing units	**4,824**	4,740	**4,818**	4,443
Leaseholder management	**263**	272	**263**	272
Market rent	**-**	1	**-**	1
Total owned	**5,087**	5,013	**5,081**	4,716
Accommodation managed for others	**-**	-	**6**	6
Units managed by other associations	**(90)**	(114)	**(90)**	(90)
Total managed accommodation	**4,997**	4,899	**4,997**	4,632
Units under construction	**123**	146	**123**	146

In addition to normal yearly movements, the Association has seen an increase in housing stock numbers following the transfer of engagements of Ducane Housing Association on 29 March 2019. This resulted in 261 properties being transferred to the Association.

7 OPERATING SURPLUS

	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
This is arrived at after charging				
Depreciation of housing properties:				
- annual charge (note 14)	**6,515**	6,173	**5,956**	5,619
- accelerated depreciation on replaced components	**640**	581	**569**	544
Total depreciation of housing properties	**7,155**	6,754	**6,525**	6,163
Depreciation of other tangible fixed assets (note 15)	**769**	813	**877**	754
Operating lease charges – land & building	**853**	841	**853**	841
Auditors' remuneration (excluding VAT):				
- fees payable to the Group's auditor for the audit of the Group's annual accounts	**63**	61	**50**	43

8 EMPLOYEES

	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
Staff costs (including Executive Management Team) consist of:				
Wages and salaries	**11,713**	10,688	**10,645**	9,568
Social security costs	**1,129**	1,027	**1,024**	916
Cost of SHPS defined benefit scheme (see note 26)	**198**	75	**198**	38
Cost of defined contribution scheme	**656**	490	**587**	448
	13,696	12,280	**12,454**	10,970

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 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
Administration	**44**	36	**42**	34
Charity Shops	**52**	50	**52**	50
Marketing and Sales	**4**	4	**-**	-
Development	**10**	9	**10**	9
Foundation	**12**	19	**-**	-
Housing, Support and Care	**230**	226	**219**	215
	352	344	**323**	308

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 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
Executive directors' emoluments	**938**	639	**727**	559
Amounts paid to non-executive directors	**59**	61	**59**	61
Contributions to directors' pension schemes	**59**	50	**47**	42
	1,056	750	**833**	662

9 DIRECTORS' AND KEY MANAGEMENT PERSONNEL REMUNERATION (CONTINUED)

No Board members received any expense claims for more than £50 in 2018/19.

The total amount payable to the Chief Executive, who was also the highest paid director, in respect of emoluments was £143,201 (2018 - £140,245). No pension contributions were made during 2018/19 (2018 £Nil).

Three other directors were members of the SHPS defined contribution pension scheme as at 31 March 2019 (2018 - 3), and 3 of the directors accrued benefits under the Group's defined benefit pension scheme during the year (2018 - 3).

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

	Group 2019 Number	Group 2018 Number	Association 2019 Number	Association 2018 Number
£60,000 - £69,999	**7**	3	**6**	3
£70,000 - £79,999	**14**	13	**13**	11
£80,000 - £89,999	**2**	2	**2**	1
£90,000 - £99,999	**-**	1	**-**	1
£100,000 - £109,999	**2**	-	**2**	-
£110,000 - £119,999	**1**	1	**1**	1
£120,000 - £129,999	**2**	2	**2**	2
£130,000 - £139,999	**-**	-	**-**	-
£140,000 - £149,999	**2**	1	**1**	1

10 BOARD MEMBER FEES, BOARD AND COMMITTEE MEMBERSHIP

Non-executive Board members	Remuneration	Group Board	Finance Committee	Corporate Services Committee	Audit and risk Committee	Services Committee	Estate Committee
Sandeep Katwala	12,000	✓	✓	✓	*✓	✓	✓
Gwendoline Godfrey	4,500	✓		✓			
Simon Porter	6,500	✓	✓		✓		
Malcolm Holloway	6,333	✓	✓		✓		
Annie Lathaen	4,500	✓				✓	
Stephen Smith	4,500	✓				✓	
Debbie Sorkin	6,500	✓				✓	
Visakha Sri Chandrasekera	3,750	✓					✓
Rosalind Stevens	6,333	✓		✓			
Angus Taylor	6,333	✓					✓

* Non-Voting

11 SURPLUS ON PROPERTY DISPOSAL

Group	Shared ownership 2019 £'000	Other housing properties 2019 £'000	Total 2019 £'000	Total 2018 £'000
Disposal proceeds	**2,644**	**2,221**	**4,865**	4,470
Cost of disposals	**(1,307)**	**(666)**	**(1,973)**	(2,459)
Selling costs	**(10)**	**(47)**	**(57)**	(24)
Grant recycled (note 23)	**(33)**	**(2)**	**(35)**	(59)
Surplus on disposal of fixed assets	**1,294**	**1,506**	**2,800**	1,928

Association	Shared ownership 2019 £'000	Other housing properties 2019 £'000	Total 2019 £'000	Total 2018 £'000
Disposal proceeds	**2,644**	**2,221**	**4,865**	4,470
Cost of disposals	**(1,307)**	**(666)**	**(1,973)**	(2,317)
Selling costs	**(10)**	**(47)**	**(57)**	(24)
Grant recycled (note 23)	**(33)**	**(2)**	**(35)**	(59)
Surplus on disposal of fixed assets	**1,294**	**1,506**	**2,800**	2,070

12 INTEREST RECEIVABLE AND INCOME FROM INVESTMENTS

	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
Interest receivable from Group undertakings	**-**	-	**370**	747
Interest receivable and similar income from third parties	**272**	138	**47**	21
	272	138	**417**	768

13 INTEREST PAYABLE AND SIMILAR CHARGES

	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
Interest payable on bank loans and overdrafts	**4,567**	4,884	**4,229**	4,927
Interest payable on other loans	**1,622**	536	**1,622**	536
Loan costs written off on bank loans & overdrafts	**485**	-	**394**	-
Loan costs written off on other loans	**7**	-	**7**	-
Cost of breaking fixed interest rates	**540**	7,967	**540**	7,967
Recycled capital grant fund	**9**	25	**9**	25
Net interest on defined benefit pension liability	**65**	27	**65**	25
Interest capitalised on construction of housing properties	**(797)**	(704)	**(797)**	(704)
	6,498	12,735	**6,069**	12,776
Other financing costs through other comprehensive income:				
Loss/(gain) on fair value of hedged derivative instruments	**264**	(347)	**264**	(347)
	6,762	12,388	**6,333**	12,429

14 TANGIBLE FIXED ASSETS - HOUSING PROPERTIES

Group	Housing properties held for letting - completed £'000	Housing properties held for letting - under construction £'000	Shared ownership - completed £'000	Shared ownership - under construction £'000	Total £'000
Cost:					
At 1 April 2018	448,374	13,677	60,021	14,193	536,265
Additions:					
- construction costs	-	19,232	-	7,611	26,843
- replaced components	2,761	-	-	-	2,761
- fire safety works	1,657	-	-	-	1,657
- energy improvements	1,788	-	-	-	1,788
Completed schemes	16,290	(16,290)	12,902	(12,902)	-
Change of tenure	(611)	-	611	-	-
Disposals:					
- properties	(688)	-	(1,307)	-	(1,995)
- replaced components	(1,244)	-	-	-	(1,244)
At 31 March 2019	**468,327**	**16,619**	**72,227**	**8,902**	**566,075**
Depreciation:					
At 1 April 2018	57,176	-	-	-	57,176
Charge for the year	6,515	-	-	-	6,515
Eliminated on disposals:					
- replaced components	(625)	-	-	-	(625)
- properties	(21)	-	-	-	(21)
At 31 March 2019	**63,045**	**-**	**-**	**-**	**63,045**
Impairment:					
At 1 April 2018	-	-	38	-	38
Released in the year	-	-	-	-	-
At 31 March 2019	-	-	38	-	38
Net book value at 31 March 2019	**405,282**	**16,619**	**72,189**	**8,902**	**502,992**
Net book value at 31 March 2018	391,198	13,677	59,983	14,193	479,051

14 TANGIBLE FIXED ASSETS - HOUSING PROPERTIES (CONTINUED)

Association	Housing properties held for letting - completed £'000	Housing properties held for letting - under construction £'000	Shared ownership - completed £'000	Shared ownership - under construction £'000	Total £'000
Cost:					
At 1 April 2018	406,575	13,676	59,878	14,193	494,322
Additions:					
- construction costs	-	19,232	-	7,611	26,843
- replaced components	2,841	-	-	-	2,841
- fire safety works	1,657	-	-	-	1,657
- energy Improvements	1,788	-	-	-	1,788
Completed schemes	16,290	(16,290)	12,902	(12,902)	-
Change of tenure	(611)	-	611	-	-
Ducane transfer of engagements	28,756	-	-	-	28,756
Disposals:					
- properties	(688)	-	(1,307)	-	(1,995)
- replaced components	(1,173)	-	-	-	(1,173)
At 31 March 2019	**455,435**	**16,618**	**72,084**	**8,902**	**553,039**
Depreciation:					
At 1 April 2018	55,999	-	-	-	55,999
Charge for the year	5,956	-	-	-	5,956
Eliminated on disposals:					
- replaced components	(604)	-	-	-	(604)
- properties	(21)	-	-	-	(21)
At 31 March 2019	**61,330**	**-**	**-**	**-**	**61,330**
Impairment:					
At 1 April 2018	368	-	38	-	406
Released in the year	-	-	-	-	-
At 31 March 2019	368	-	38	-	406
Net book value at 31 March 2019	**393,737**	**16,618**	**72,046**	**8,902**	**491,303**
Net book value at 31 March 2018	350,208	13,676	59,840	14,193	437,917

14 TANGIBLE FIXED ASSETS - HOUSING PROPERTIES (CONTINUED)

	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
The net book value of housing properties may be further analysed as:				
Freehold	**372,360**	365,511	**360,671**	324,377
Long leasehold	**129,079**	110,671	**129,079**	110,671
Short leasehold	**1,553**	2,869	**1,553**	2,869
	502,992	479,051	**491,303**	437,917
Interest capitalisation				
Interest capitalisation in the year	**797**	704	**797**	704
Cumulative interest capitalised	**6,051**	5,254	**6,051**	5,254
Rate used for capitalisation	**3.00%**	3.25%	**3.00%**	3.25%
Major repairs to properties and replaced components				
Expenditure to existing properties capitalised	**6,397**	3,153	**6,286**	3,021
Expenditure to income and expenditure account	**258**	513	**244**	513
	6,655	3,666	**6,530**	3,534
Total Social Housing Grant received or receivable to date is as follows:				
Capital Grants:				
- deferred capital grant (note 22)	**186,523**	187,569	**191,886**	187,569
- amortised to the Statement of Comprehensive Income	**30,572**	28,025	**30,572**	28,025
Recycled capital grant fund (note 23)	**1,389**	998	**1,389**	998
Capital grant not recognised but due on disposal	**7,299**	7,299	**-**	-
	225,783	223,891	**223,847**	216,592

Impairment

During the current year, the Group and Association have recognised no impairment loss. (2018: £nil) in respect of general needs housing stock.

Properties charged as security

As at 31 March 2019 2,767 (2018: 2,049) properties with a book value of £159.9m (2018:£129.3m) were charged as security for loans made to Octavia Housing.

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:

	2019 £'m	2018 £'m
Open Market Value with Vacant Possession	**2,347**	2,400
Market Value subject to existing Tenancies	**1,200**	1,127
Existing Use Value for Social Housing	**541**	501
Estimated Annual Market Rent of General Needs social rented portfolio	**91**	95
Actual annual rent roll of General Needs social rented portfolio	**24**	26

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 2018	11,483	94	4,944	16,521
Additions & other adjustments	(268)	-	1,466	1,198
At 31 March 2019	**11,215**	**94**	**6,410**	**17,719**
Depreciation:				
At 1 April 2018	(1,370)	(94)	(3,605)	(5,069)
Charge for the year	(149)	-	(620)	(769)
At 31 March 2019	**(1,519)**	**(94)**	**(4,225)**	**(5,838)**
Net book value at 31 March 2019	**9,696**	**-**	**2,185**	**11,881**
Net book value at 31 March 2018	10,113	-	1,339	11,452

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 2018	11,039	94	4,867	16,000
Additions	177	-	1,543	1,720
At 31 March 2019	**11,216**	**94**	**6,410**	**17,720**
Depreciation:				
At 1 April 2018	(1,311)	(94)	(3,557)	(4,962)
Charge for the year	(209)	-	(668)	(877)
At 31 March 2019	**(1,520)**	**(94)**	**(4,225)**	**(5,839)**
Net book value at 31 March 2019	**9,696**	**-**	**2,185**	**11,881**
Net book value at 31 March 2018	9,728	-	1,310	11,038

16 INVESTMENT PROPERTIES

Group and Association	2019 £'000	2018 £'000
Valuation:		
At 1 April	**11,050**	11,050
Disposals	**-**	-
Revaluation	**-**	-
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 £11.1m. The Directors consider this to be an appropriate value at 31 March 2019.

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.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

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	2019 £'000	2018 £'000
Historic cost	**5,953**	5,953
Accumulated depreciation	**(2,022)**	(1,909)
	3,931	4,044

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	2019 and 2018 Investment carrying value £'000
Octavia Hill Limited	England	100%	Dormant company	-
Octavia Development Services Limited	England	100%	Dormant company	-
Octavia Foundation	England	100%	Registered charity	-
Octavia Living Limited	England	100%	Trading company	10
				10

Additionally the Octavia Foundation had an investment in a fund managed by CCLA which was valued at £2.1m at 31 March 2019 (2018: £1.9m).

18 STOCK INCLUDING PROPERTIES FOR SALE

Group	First tranche shared ownership properties 2019 £'000	Outright market sales 2019 £'000	Total 2019 £'000	Total 2018 £'000
Housing work in progress	**3,417**	**333**	**3,750**	7,652
Completed housing properties for sale	**4,288**	**4,139**	**8,427**	13,124
	7,705	**4,472**	**12,177**	20,776

Properties developed for sale include capitalised interest of £0.8m (2018: £1.3m).

Association	First tranche shared ownership properties 2019 £'000	Outright market sales 2019 £'000	Total 2019 £'000	Total 2018 £'000
Housing work in progress	**3,417**	**-**	**3,417**	6,625
Completed housing properties for sale	**4,288**	**-**	**4,288**	2,740
	7,705	**-**	**7,705**	9,365

Properties developed for shared ownership sale include capitalised interest of £0.2m (2018: £0.2m).

19 DEBTORS

	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
Due within one year				
Rent and service charge arrears	**1,288**	1,382	**1,288**	1,367
Less: Provision for doubtful debts	**(653)**	(659)	**(653)**	(656)
	635	723	**635**	711
Amounts owed by group undertakings	**-**	-	**210**	207
Other debtors	**3,678**	2,621	**3,531**	2,523
Prepayments and accrued income	**1,301**	946	**1,301**	920
	5,614	4,290	**5,677**	4,361
Due after one year				
Amounts owed by group undertakings	**-**	-	**4,076**	11,168
Amounts held by lenders as security for borrowings	**524**	524	**524**	524
	524	524	**4,600**	11,692
	6,138	4,814	**10,277**	16,053

Amounts owed by group undertakings includes £4.1m in relation to a loan to Octavia Living Ltd from Octavia Housing; the loan is due to mature in 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 debtors due after one year of £0.5m 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 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
Capital creditors	**4,296**	12,863	**4,296**	12,863
Loans and borrowings (note 24)	**339**	7,317	**339**	7,065
Accruals and deferred income (including holiday pay)	**2,368**	5,093	**2,072**	4,209
Deferred capital grant (note 22)	**2,582**	2,367	**2,582**	2,270
Other creditors	**1,509**	1,098	**1,002**	1,083
Trade creditors	**2,666**	1,487	**2,646**	1,419
Rent and service charges received in advance	**1,477**	1,340	**1,477**	1,200
Accrued interest	**1,392**	880	**1,392**	880
Sinking funds	**1,030**	678	**1,030**	678
Taxation and social security	**420**	319	**415**	308
Recycled capital grant fund (note 23)	**391**	-	**391**	-
Pension schemes	**18**	255	**18**	230
	18,488	33,697	**17,660**	32,205

21 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
Loans and borrowings (note 24)	**210,224**	182,594	**210,224**	176,021
Interest rate swap – cash flow hedge	**4,220**	3,956	**4,220**	3,956
Deferred capital grant (note 22)	**183,941**	185,202	**189,304**	185,299
Recycled capital grant fund (note 23)	**998**	998	**998**	998
Pension schemes	**47**	1,587	**47**	1,470
	399,430	374,337	**404,793**	367,744

22 DEFERRED CAPITAL GRANT

	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
At 1 April	**187,569**	186,933	**187,569**	186,933
Grants received during the year	**1,883**	1,042	**1,883**	1,042
Ducane transfer of engagements	**-**	-	**5,363**	-
Grants transferred from/(to) RCGF	**(382)**	1,842	**(382)**	1,842
Released to income during the year	**(2,547)**	(2,248)	**(2,547)**	(2,248)
At 31 March	**186,523**	187,569	**191,886**	187,569

Deferred capital grant of £2.6m (2018 - £2.4m) is due within one year, the amount due after one year is £189.3m (2018 - £185.2m).

23 RECYCLED CAPITAL GRANT

Group and Association Funds pertaining to activities within areas covered by	GLA 2019 £'000	GLA 2018 £'000
At 1 April	**998**	2,815
Inputs to fund:		
Grant recycled from deferred capital grants	**347**	759
Grant recycled from Statement of Comprehensive Income	**35**	59
Interest accrued	**9**	25
Recycling of grant:		
New build	**-**	(2,660)
At 31 March	**1,389**	998
Amounts 3 years, or older, where repayment may be required	-	-

Withdrawals from the recycled capital grant fund were used for new build development. The recycled capital grant fund due within 1 year is £0.4m (2018: £nil), the amount due after one year is £1.0m (2018: £1.0m).

24 LOANS AND BORROWING

Maturity of debt:

Group and Association	Capital markets 2019 £'000	Bank loans 2019 £'000	Total 2019 £'000
In one year or less, or on demand	**10**	**329**	**339**
In more than one year but not more than two years	**8**	**988**	**996**
In more than two years but not more than five years	**29**	**37,871**	**37,900**
More than five years - by instalment	**573**	**53,348**	**53,921**
More than five years - by bullet	**117,407**	**-**	**117,407**
	118,027	**92,536**	**210,563**

Group	Capital markets 2018 £'000	Bank 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	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)

During the year the Association undertook a major refinancing exercise and put in place £150m of long dated fixed interest rate loans.

Octavia also entered into an Amendment and Restatement Agreement with Santander plc and Nationwide Building Society to remove the gearing covenants based on a net worth basis and replaced them with limits based on the valuation of completed housing properties. This resulted in an increase in the loan margin, a partial repayment and cancellation of facilities for Santander plc and the provision of additional security to the Nationwide Building Society.

In addition, extensions to the five-year revolving credit facilities were agreed with Lloyds Bank plc and Handlesbanken plc, extending the facility period back to the full five years originally agreed.

Loan facilities from the Royal Bank of Scotland plc and Dexia Credit Local and the variable interest rate borrowings from Orchardbrook plc were repaid.

Borrowings of Ducane Housing Association of £5m were transferred to the Association as part of the Transfer of Engagements, registered by the Financial Conduct Authority on 29 March 2019.

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 2.295% and 12.435% or at variable rates calculated at a margin over the London Inter Bank Offer Rate.

At 31 March 2019 the Association had undrawn, secured and available loan facilities of £75.2m (2018 Group £37.25m Association £17.25m).

25 FINANCIAL INSTRUMENTS

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

	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
Financial assets				
Financial assets measured at historic cost				
- debtors	**6,138**	4,814	**10,277**	16,053
- short term deposits	**103**	102	**103**	102
- cash and cash equivalents	**19,085**	18,538	**19,014**	16,675
Total financial assets	**25,326**	23,454	**29,394**	32,830
Financial liabilities				
Financial liabilities measured at amortised cost				
- loans payable	**210,563**	189,910	**210,563**	183,086
Financial liabilities measured at historic cost				
- trade creditors	**2,666**	1,487	**2,646**	1,419
- other creditors	**11,033**	21,186	**10,225**	20,251
Derivative financial instruments designated as hedges of variable interest rate risk	**4,220**	3,956	**4,220**	3,956
Total financial liabilities	**228,482**	216,539	**227,654**	208,712

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 similar term as certain underlying variable rate loans and with interest re-pricing dates similar 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 fixing the total interest cost on loans and the interest rates swap at 3.667% per annum.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

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 £4.2m (2018: £3.9m) 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 charge of £0.3m (2018 was a credit: £0.5m) with almost all entire charge being recognised in Other Comprehensive Income as the swap is a 99% effective hedge, as follows:

	Association and Group 2019 £'000	Association and Group 2018 £'000
Negative fair value at 1 April	**(3,996)**	(4,343)
Change in fair value charged to statement of Comprehensive Income	**-**	-
Change in fair value charged to cash flow hedge reserve	**(264)**	347
Negative fair value at 31 March	**(4,260)**	(3,996)

26 PENSIONS

Several pension schemes are operated by the Group:

Social Housing Pension Scheme - defined benefit pension scheme

The Association participates in the Social Housing Pension Scheme (the Scheme), a multi-employer scheme which provides benefits to some 500 non-associated employers. The Scheme is a defined benefit scheme in the UK.

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 last triennial valuation of the scheme for funding purposes was carried out as at 30 September 2017. This valuation revealed a deficit of £1.5bn. A Recovery Plan has been put in place with the aim of removing this deficit by 30 September 2026.

The Scheme is classified as a 'last-man standing arrangement'. Therefore the company is 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.

For financial years ending on or before 28 February 2019, it has not been possible for the company to obtain sufficient information to enable it to account for the Scheme as a defined benefit scheme, therefore the company has accounted for the Scheme as a defined contribution scheme.

26 PENSIONS (CONTINUED)

For financial years ending on or after 31 March 2019, it is possible to obtain sufficient information to enable the company to account for the Scheme as a defined benefit scheme.

For accounting purposes, two actuarial valuations for the scheme were carried out with effective dates of 31 March 2018 and 30 September 2018. The liability figures from each valuation are rolled forward to the relevant accounting dates, if applicable, and are used in conjunction with the company's fair share of the Scheme's total assets to calculate the company's net deficit or surplus at the accounting period start and end dates.

Present values of defined benefit obligation, fair value of assets and defined benefit liability

	31 March 2019 £'000	1 April 2018 £'000
Present value of defined benefit obligation	**13,078**	12,062
Fair value of plan assets	**(9,918)**	(9,402)
Defined benefit liability	**3,160**	2,660

Reconciliation of movements in the defined benefit obligation

	Period ended 31 March 2019 £'000
Defined benefit obligation at 1 April 2018	12,062
Current service cost	125
Expenses	8
Interest expense	303
Contributions by plan participants	54
Actuarial losses / (gains) due to scheme experience	173
Actuarial losses / (gains) due to changes in demographic assumptions	37
Actuarial losses / (gains) due to changes in financial assumptions	734
Benefits paid and expenses	(418)
Defined benefit obligation at end of period	13,078

26 PENSIONS (CONTINUED)

Reconciliation of movements in the fair value of assets

	Period ended 31 March 2019 £'000
Fair value of plan assets at 1 April 2018	**9,402**
Interest income	238
Experience on plan assets (excluding amounts included in interest income) – gain / (loss)	303
Contributions by the employer	339
Contributions by plan participants	54
Benefits paid and expenses	(418)
Fair value of plan assets at end of period	**9,918**

The actual return on the plan assets (including any changes in share of assets) over the period ended 31 March 2019 was £541,000.

Defined benefit costs recognised in the Statement of Comprehensive Income

The following transactions have been recognised in the Statement of Comprehensive Income:

	Period ended 31 March 2019 £'000
Current service cost	125
Expenses	8
Net interest expense	65
Defined benefit costs recognised in Statement of Comprehensive Income	**198**
Experience on plan assets (excluding amounts included in net interest cost) - gain / (loss)	303
Experience gains and losses arising on the plan liabilities - gain / (loss)	(173)
Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation - gain / (loss)	(37)
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation – gain / (loss)	(734)
Total amount recognised in other comprehensive income - gain / (loss)	**(641)**

Applying defined benefit accounting for the first time, has resulted in the following adjustments being required:

- Remove the liability for the present value of the deficit funding agreement
- Recognise the net pension deficit.

26 PENSIONS (CONTINUED)

The following transactions have been reflected through other comprehensive income in the Statement of Comprehensive Income:

	1 April 2018 £'000
Deficit funding agreement liability	1,785
Net pension deficit	(2,660)
Initial recognition of multi-employer defined benefit scheme	**(875)**

Scheme assets

The schemes assets consist of the following:

	31 March 2019 £'000	1 April 2018 £'000
Global Equity	1,669	1,857
Absolute Return	858	1,148
Distressed Opportunities	180	91
Credit Relative Value	182	-
Alternative Risk Premia	572	357
Fund of Hedge Funds	45	310
Emerging Markets Debt	342	379
Risk Sharing	300	87
Insurance-Linked Securities	284	247
Property	223	433
Infrastructure	520	241
Private Debt	133	84
Corporate Bond Fund	463	386
Long Lease Property	146	-
Secured Income	355	348
Liability Driven Investment	3,627	3,425
Net Current Assets	19	9
Total assets	**9,918**	**9,402**

None of the fair values of the assets shown above include any direct investments in the Group's own financial instruments or any property occupied by, or other assets used by, the Group.

26 PENSIONS (CONTINUED)

Basis for estimating Assets and Liabilities

The following assumptions have been used in the pension calculations:

	31 March 2019 % per annum	1 April 2018 % per annum
Discount Rate	2.29	2.54
Inflation (RPI)	3.30	3.20
Inflation (CPI)	2.30	2.20
Salary Growth	3.30	3.20
Allowance for commutation of pension for cash at retirement	75% of maximum allowance	75% of maximum allowance

The mortality assumptions adopted at 31 March 2019 imply the following life expectancies:

	Life expectancy at age 65 (Years)
Male retiring in 2019	21.8
Female retiring in 2019	23.5
Male retiring in 2039	23.2
Female retiring in 2039	24.7

The Growth Plan - defined benefit pension scheme

The Association participates in the Growth Plan, a multi-employer scheme which provides benefits to some 950 non-associated participating employers. The scheme is a defined benefit scheme in the UK. It is not possible for the Association 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 Association is 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 at 30 September 2017. This valuation showed assets of £794.9m, liabilities of £926.4m and a deficit of £131.5m. To eliminate this funding shortfall, the Trustee has asked the participating employers to pay additional contributions to the scheme as follows:

26 PENSIONS (CONTINUED)

Deficit contributions

From 1 April 2019 to 31 January 2025:	£11,243,000 per annum	(payable monthly and increasing by 3% each on 1st April)

Unless a concession has been agreed with the Trustee the term to 31 January 2025 applies.

Note that the scheme's previous valuation was carried out with an effective date of 30 September 2014. This valuation showed assets of £793.4m, liabilities of £969.9m and a deficit of £176.5m. To eliminate this funding shortfall, the Trustee has asked the participating employers to pay additional contributions to the scheme as follows:

Deficit contributions

From 1 April 2016 to 30 September 2025:	£12,945,440 per annum	(payable monthly and increasing by 3% each on 1st April)
From 1 April 2016 to 30 September 2028:	£54,560 per annum	(payable monthly and increasing by 3% each on 1st April)

The recovery plan contributions are allocated to each participating employer in line with their estimated share of the Series 1 and Series 2 scheme liabilities.

Where the scheme is in deficit and where the Association has agreed to a deficit funding arrangement the 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.

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

	31 March 2019 £'000	31 March 2018 £'000
Provision at start of period	57	64
Unwinding of the discount factor (interest expense)	1	1
Deficit contribution paid	(7)	(7)
Remeasurements - impact of any change in assumptions	-	(1)
Remeasurements - amendments to the contribution schedule	(4)	-
Provision at end of period	47	57

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

26 PENSIONS (CONTINUED)

Local Government Pension Scheme (LGPS) – defined benefit pension scheme

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

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

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%.

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 2018 £	Issued	At 31 March 2019 £
45 Class "A" £1	44	1	**45**
7 Class "C" £5	35	-	**35**
As at 31 March	79	1	**80**

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

Recladding / Fire Safety

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. Works are due to commence in July 2019 and the majority of the cost will be recovered either from the contractor or by grant agreed with the Greater London Authority up to the value of £12.3m. As the cost of the works will be materially covered by this grant no additional provision has been made.

The Association has identified one other block with potential cladding issues, this block is not clad with ACM but with another material. We await further confirmation of the scale of any necessary works at this site and as a result the cost of any works that may be necessary cannot be reliably estimated at this stage. The Association is expecting to recover all, or substantially all, of the cost of any works deemed necessary from either the contractor or through the Government scheme to provide reimbursement. In view of the uncertainties involved, no provision has been made in respect of these costs.

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 £37.9m (2018: £35.3m) for the Group and £30.6m (2018: £28.0m) for the Association received in respect of housing properties held at 31 March 2019 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 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 20178 £'000
Amounts payable as a lessee				
Not later than 1 year	**727**	542	**727**	542
Later than 1 year and not later than 5 years	**1,636**	1,474	**1,636**	1,473
Later than 5 years	**605**	134	**605**	134
Total	**2,968**	2,150	**2,968**	2,149
Amounts receivable as a lessor				
Not later than 1 year	**513**	428	**513**	428
Later than 1 year and not later than 5 years	**1,685**	1,358	**1,685**	1,358
Later than 5 years	**2,906**	2,680	**2,906**	2,680
Total	**5,104**	4,466	**5,104**	4,466

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.
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 tenancy agreements generally allow tenants to give one month's notice. The annualised rent roll is £24.1m at 31 March 2019 (2018: £23.4m).

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 2019 amounted to £144.8m (2018: £127.0m) and the annual rental being charged at that date was £2.2m (2018: £2.0m).

30 CAPITAL COMMITMENTS

	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
Commitments contracted but not provided for:				
Construction	**27,064**	29,340	**27,064**	29,287
Commitments approved by the Board but not contracted for:				
Construction	**97,395**	18,902	**97,395**	18,902
Maintenance	**15,991**	4,988	**15,991**	4,630
	140,450	53,230	**140,450**	52,819

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

	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
Social Housing Grant	**2,437**	2,094	**2,437**	2,094
Borrowings from existing secured facilities	**13,902**	16,221	**13,902**	16,168
Sales of properties	**10,725**	11,025	**10,725**	11,025
	27,064	29,340	**27,064**	29,287

31 RELATED PARTY TRANSACTIONS

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:	2019 £'000	2018 £'000
Intra-group Management fees (see below)		
Octavia Development Services Limited	**-**	-
Ducane Housing Association	**-**	60
Octavia Hill Limited	**-**	-
Octavia Living Limited	**30**	30
	30	90
Interest		
Octavia Living Limited	**370**	747
Total	**400**	837

Payable to Association by subsidiaries:	2019 £'000	2018 £'000
Octavia Living Limited		
Stage payments for developments in progress	**1,531**	111
Sales commissions and programme management income	**199**	143
	1,730	254
Octavia Development Services Limited		
Purchase of land & buildings	**-**	1
Total	**1,730**	255

31 RELATED PARTY TRANSACTIONS (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 (2018: £420,000) to the Octavia Foundation, a charitable entity which works to assist tenants of Octavia Housing and the wider community and which operates from Octavia Housing's offices in West London. Octavia Housing also donates services (including Human Resources, IT and Finance support) to the value of £40,000 in 2018/19 (2017/18: £36,000).

During 2018/19, Octavia Housing received gift aid donations from subsidiaries totalling £976,000. Octavia Living made a gift aid donation of £975,000; Octavia Development Services Limited donated £1,000.

Intra-group loans

Entity granting loan	Entity receiving loan	At 1 April 2018 £'000	Movement £'000	At 31 March 2019 £'000
Octavia Housing	Octavia Living Limited	11,168	(7,092)	**4,076**

This intra-group loan is currently for a maximum amount of £4.1m, 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.

Balances outstanding from the subsidiaries

	2019 £'000	2018 £'000
Octavia Development Services Limited	**-**	(1)
Octavia Hill Limited	**-**	-
Octavia Living Limited	**4,076**	11,168
Octavia Foundation	**185**	70
Ducane Commercial Services Limited	**-**	57
Ducane Housing Association Limited	**-**	79
	4,261	11,373

31 RELATED PARTY TRANSACTIONS (CONTINUED)

There were two board members who were tenants of Octavia Housing during the year - neither of them had any arrears at 31 March 2019 (2018: £nil). Details of their remuneration are given in note 10 above. Neither of them enjoy any other special arrangements.

32 BUSINESS COMBINATIONS

Ducane Housing Association

On 29 March 2019, the Financial Conduct Authority (FCA) acknowledged the transfer of stock, property and other assets and all engagements of Ducane Housing Association to Octavia Housing.

The transfer of Ducane Housing Association into Octavia has been accounted for using the book value of assets and liabilities on the date of transfer. The excess of assets over liabilities has been recognised as a movement in reserves.

These adjustments are summarised in the following table:

	Book value £'000
Fixed assets	
Housing Properties	28,756
Other fixed assets	411
	29,167
Current assets	
Debtors	73
Cash at bank and in hand	542
	615
Total assets	**29,782**
Creditors: falling due within one year	(413)
Total assets less current liabilities	29,369
Creditors: falling due after more than one year	(4,911)
Deferred capital grant	(5,363)
Net assets acquired	**19,095**

OCTAVIA

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

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