Yarlington Housing Group

Annual Report and Financial Statements
For the Year Ended 31 March 2018

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Board Members and Executive Directors for the year ended 31 March 2018

Board

Lindy Morgan	(Chair)
Wayne Morris	(Vice Chair)
William John Coutts	
Ray Thompson	
Michael Stancombe	
Andy Skarzynski	Appointed 14th November 2017 (as Board Member having previously been co optee) - Resigned 22nd December 2017
Joanna Makinson	
Richard Nicol	Appointed 14th November 2017
Caroline Ramsey	Appointed 14th November 2017 – Resigned 14th May 2018
Gary Orr	(Chief Executive) – Tendered resignation 6th August 2018
Caroline Moore	(Executive Director of Finance, Governance and Risk)

Executive Directors

Gary Orr	Chief Executive
Caroline Moore	Executive Director of Finance, Governance and Risk
Stephen Lodge	Executive Director of Growth and Development
Sam Leigh	Executive Director of Customer, Communities and Enterprise
Andy Skarzynski	Executive Director of People, Information and Culture (Appointed 16th April 2018)

Chartered Accountant and Registered Auditors
PricewaterhouseCoopers LLP
2 Glass Wharf
Bristol
BS2 0FR

Tax Advisors
KPMG
15 Canada Square
London E14 5GL

Bankers
The Royal Bank of Scotland plc.
2 Hendford
Yeovil
Somerset BA20 1TN

Yarlington Housing Group (the "Society") is a charitable Community Benefit Society registered with the Financial Conduct Authority (Registered in England, Registration Number 7499). Yarlington Housing Group is registered with the Regulator of Social Housing (Registration Number LH4200). The Registered office is Yarlington Housing Group, Lupin Way, Yeovil, Somerset, BA22 8WN.

Report of the Board

The Board is pleased to present its Directors' Report, Strategic Review Report (Value for Money ("VFM") self-assessment) Statement of the Board on Internal Controls and the audited consolidated financial statements for the year ended 31 March 2018.

Directors' Report for the year ended 31 March 2018

The Group

Yarlington is a Community Benefit Society, registered with the Financial Conduct Authority. It is not for profit and an exempt charity, registered as a Private Registered Provider with the Regulation of Social Housing ("RSH").

Business Analysis

Yarlington operates across the South West. We provide affordable homes for rent and shared ownership, as well as providing sheltered and extra care housing for the elderly. Yarlington has an active new build development programme across the South West.

Yarlington has four wholly owned subsidiaries. Yarlington Homes Ltd ("YHL") is a company whose purpose is to develop homes for outright market sale and to act as a procurement vehicle for YHG's development programme. Inspired to Achieve ("I2A") is a social enterprise company providing employment and training services. Yarlington Property Management Ltd ("YPM") provides a responsive repairs service to third parties. The Registered Office of all the Companies in the Group is in Somerset. Yarlington Treasury Services Plc ("YTS") is a special purpose vehicle, set up for funding purposes.

Regulatory Requirements

As a Private Registered Provider ("PRP"), Yarlington is regulated by the Regulator of Social Housing (RSH). Performance is assessed by means of regular assessments against the Regulatory Framework. In September 2016 we were subject to a routine In Depth Assessment ("IDA") from the RSH. This involved robust review of governance and viability arrangements, including risk management, board effectiveness and financial planning and stress testing. Following that IDA we were awarded the top regulatory gradings of G1 for Governance and V1 for Viability, and following the 2017 Annual Stability Checks from the RSH we have maintained a G1/V1 rating.

We undertake a self-assessment annually of our compliance with the National Housing Federation (NHF) Code of Governance and can confirm that for 2017-18 we are in full compliance. We have departed from the NHF Code of Governance since April by extending the tenure of our Chair for one additional year, beyond the normal term of nine years. Our constitution allows this in exceptional circumstances and we have decided to implement the extension as a consequence of our CEO resigning to take up a similar with another Housing Association.

We also undertake a self-assessment annually of our compliance with the RSH regulatory standards; this includes a full compliance exercise against the economic and consumer standards. Following the completion of the self-assessment we can confirm that we are fully compliant with the Governance and Financial Viability Standard and all other regulatory standards.

Governance and Management

As at 31 March 2018 the Board consisted of eight Non-Executive Directors, and two Executive Directors. There are two committees of the Board: Audit & Risk Committee and Remuneration Committee. The Group and its subsidiaries are managed by an Executive Team headed by the Chief Executive and supported by four Executive Directors. The Chief Executive and Executive Director of Finance, Governance and Risk are also Board members.

The Group adopts the National Housing Federations (NHF) Code of Governance.

Board members are remunerated and the amounts are disclosed in note 9.

Customer Involvement and Consumer Standard

The consumer standards are designed to ensure that our customers have the right to be empowered and involved in the organisation and that they have a suitable and decent home, that homes are let in a transparent and fair manner and to ensure that our neighbourhoods and communities are kept safe and clean. There are four consumer standards and although we are compliant with the standards, we are continuously seeking ways in which we can engage with our diverse range of customers to enhance the overall customer experience.

We believe that the voice of our customers is at the heart of what we do. We regularly consult with our customers to seek their input to ensure that we are delivering high standards of service delivery. Some recent examples of our consultations include our asset management strategy, our customer feedback policy and the meal service in our Independent Living schemes. We have also procured a new consultation tool so that we can consult with our customers in an inclusive manner, and to optimise the feedback from a wider range of customers. We provide feedback to our customers following the consultation by means of "you said, we did" on our customer portal.

Risk Management

The risk management and assurance framework is well embedded across the Group. As part of the framework the Board receive and review the quarterly strategic risk register, along with a summary of key issues to note. This may be either significant changes to levels of risk, changes to controls or assurance; or new risks. The Audit & Risk Committee review the full risk register and the risk management processes twice a year.

The Board maintain a Risk Appetite Statement which sets out the tolerance to risk in order to achieve the strategic objectives.

The Strategic & Key Risk Registers overarch all the registers and act as a tool for flagging any high risk areas to the Executive Team and Board, along with considering strategic risks to the Group. Key strategic risks facing the Group are: growth and diversification; uncertainty in external operating environment; ineffective governance and leadership; income and cost control; and health and safety.

Operating Environment

We continually analyse and review our operating environment. We have analysed and stress-tested the external influences upon us, particularly governmental and economic influences, the potential impact of Brexit, and the impacts of changing housing policy. Despite the current economic conditions, we consider that our current operating environment remains positive in that it offers substantial opportunity for Yarlington to grow and create additional affordable housing for rent and home ownership.

Activities
As at 31 March 2018 YHG had the following mix of homes in management.

	2018 Number	2017 Number
General Needs – social rents	**7,142**	7,121
General Needs – intermediate/affordable rents	**471**	483
Retirement Living - Sheltered	**1,323**	1,319
Extra Care housing	**295**	299
Extra Care housing – intermediate/affordable rents	**50**	-
Shared Ownership	**701**	681
Key Worker	**36**	36
Market Rent	**7**	8
Leaseholders	**303**	298
	10,328	10,245

We have an active development programme of new build houses for rent and shared ownership and outright sale.

Gift Aid
For the year ended 31st March 2018, YHG will receive Gift Aid payments of £0 from YHL (2017: £34,462), £0 from YPM (2017: nil) and £0 from Inspired to Achieve (2017: nil).

Insurance
The Group maintains insurance policies for members of the Board and Executive Directors against liabilities in relation to the Group.

Charitable Donations
The Group made donations totalling £162,000 to local community projects during the year (2017: £199,000).

Going Concern
The Board, after reviewing the Group's budgets for 2018/2019 and the medium term financial position as forecast in the 30-year Financial Plan, is of the opinion that the Group has adequate resources to continue in business for the foreseeable future. As part of this review, the Board has considered the headroom available on loan covenants. This is significant and deemed sufficient to cover the requirements of the Group. The financial statements are therefore prepared on a going concern basis.

Statement of Compliance
The Board confirms that the Directors' Report and Strategic Report have been prepared in accordance with the principles set out in the 2014 SORP for Registered Providers and the Co-Operative and Community Benefit Societies Act 2014.

Disclosure of Information to Auditors
The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditors are unaware; and each Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Strategic Report for the year ended 31 March 2018

Objectives and Strategy

In March 2017 we launched our new corporate strategy, Yarlington NextGen 2017-2021. This was developed in consultation with staff and stakeholders and was in response to the significantly changing landscape in which we operate. NextGen strategy demonstrates a fundamental re-examination of our organisation, but not at the expense of our social purpose. Increasingly we will be a housing provider for everyone, alongside supporting our residents into employment through our partnership with our subsidiary Inspired to Achieve. The three strategic objectives are:

- Serve our 23,000 customers in the most economic, efficient and effective manner
- Significantly increase the number of new homes we provide in the South West
- Implement a new service and operating model, consistent with the needs of our consumers.

The Group is committed to maintaining and improving its housing stock over the next 30 years. Our asset management and sustainability plans demonstrate sufficient funding available to maintain and improve our homes over the next 30 years.

Key Achievements

We continue to deliver strong and stable financial performance despite an uncertain operating environment. In September 2017 we secured a 35 year fixed rate £120m Bond facility. £60m of this is a deferred Bond structure with Pension Investment Companies; and £60m are retained Bonds.

By March 2018 we had secured 417 plots in the Bristol operating area, facilitating our ambition to develop in this area of high housing need.

We received a positive confirmation of our regulatory rating of G1/V1 by our regulator in October 2017 and retain a strong Moody's rating of A3. We previously held an A2 rating but were downgraded as a consequence of the sectors close operational and financial linkages to UK sovereign, which itself had been downgraded in relation to its exit from the European Union.

Our development subsidiary YHL has secured three commercial sites during the year in order to kick-start the Group's market sale programme of around 50 homes per annum. This is developed its first site this year, with sales due to complete in 2018. This profit is created cross-subsidise our affordable homes development programme.

We completed our flagship new build Extra Care Scheme in Poundbury, Dorchester in February 2018. This provides 50 rented homes and 13 Shared Ownership homes.

We have also had a successful programme of disposals of our poorer performing assets (lower demand and poorer fuel efficiency) and will use the resulting proceeds to cross-subsidise the affordable homes development programme.

Employees

The Group achieves best practice in employee involvement and engagement as reflected by the reaccreditation of the Times 100 Best Employer status in February 2017, where we were placed number 12 in the country. We expect to make our submission to the Times Top 100 Companies again in 2019 and use this experience to inform our strategy for employee culture. There is an active employee forum that inputs into key policies in relation to staff.

The Group's Policy is to take positive steps in line with the requirements of the Disability Discrimination Act to ensure that the best candidate for any vacant post is selected. When advertising for staff, the Group describes itself as an equal opportunities employer and invites applications from all members of the community.

The Group's premises are accessible to people with disabilities and job applicants are invited to draw attention

to any adaptations, adjustments or special requirements that would be needed to enable them to carry out the duties of the post.

We are also committed to our 'Resident Positive' approach when we offer interviews to all YHG residents who meet our essential criteria for vacancies.

Financial Risk Management Policy

Yarlington engages specialist treasury advisors to advise on interest rate and liquidity risk. The Board approves a treasury management policy annually; this policy addresses liquidity, investment, interest rate and counterparty credit risk.

Operational Performance

The Executive Team and the Board measure the achievement of the objectives and performance of the organisation by the regular review of the following Key Performance Indicators. We also monitor the newly introduced Sector Scorecard Measures, which are discussed under our Value for Money approach.

Our Key Performance Indicators

Yarlington Housing Group	**Targets for 2018/19**	**Mar 18**	Mar 17
Average days to re-let a dwelling	19 days	**16.96 days**	11.25 days
Rent arrears of current tenants at the year-end as a percentage of rent debit	2.25%	**1.76%**	1.61%
Percentage of all repairs completed within target	96%	**98%**	97%
Percentage of tenants satisfied with the overall service provided by Yarlington (How are we doing survey)	90%	**88.2%**	89.1%
Percentage satisfaction with the most recent repair	85%	**85.9%**	96.8%
% Customer satisfaction with the handling of a complaint	90%	**75%**	72%
% Overall staff turnover	10%	**16.3%**	13.8%
% Net profit of market sales – gifted to Yarlington	19%	**0%**	0%
No. of homes built Note: Target to develop 1,500 homes by March 2020	200	**144 discrete** **746 rolling**	144 602
No. of properties without current CP12 certificate	0	**0**	0
Interest Cover	355%	**355%**	361%
Excess MTM exposure of swaps compared to security free threshold	<£15m	**£8.83m**	£9.79m
Present Gearing level	36%	**35%**	37%
Operating Margin	24%	**33%**	34%

% Capital programme delivered to date	95%	**89%**	91.8 %
Progress against annual VFM target	£132,000	**£163,820**	£446,000

Accounting framework

The group is required to prepare its results under Financial Reporting Standard 102 (FRS 102): The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Financial Performance

Financial performance is monitored monthly and forms a key part of our Balanced Scorecard. 2017/18 was a very successful year financially for the Group, delivering an operating surplus of £18.4m and an operating margin of 32.6% (2016/17: operating surplus of £19.8m; operating margin of 34%).

The surplus does not take into account our capital expenditure on new homes; or investment in existing homes. In 2017/18 we invested £12m in new homes and £7m in capitalised improvements to existing homes.

Our operating margin was 32.6% (2017: 34%) and our net margin was 26.2% (2017: 25.5%).

90% of our turnover was from our core activity, social housing activities, with 6% (2017: 10%) of our turnover relating to shared ownership sales. These sales delivered an operating margin of 28.7% (2017: 27.4%).

An actuarial gain of £4.4m in respect of pensions was recognised in the year (2017: loss of £10.6m) reflecting the changes in the underlying scheme assumptions, net of return on assets.

We delivered turnover of £7.2m from sales of assets of which £2m (2017: £1.6m) relates to preserved Right to Buy sales. Of those proceeds, £1.4m (2017: £0.9m) is paid to South Somerset District Council under an agreement dating back to 1999.

Activity	**2018 Turnover** £'000	**2018 Operating surplus** £'000	2017 Operating surplus £'000
General needs	**38,296**	**15,160**	16,063
Supported	**9,183**	**2,747**	2,842
Shared ownership	**1,922**	**1,460**	1,290
Key Worker	**381**	**164**	120
Market Rent	**53**	**45**	50
Other	**6,738**	**(1,151)**	(551)
	56,573	**18,472**	19,814

Debt Profile

At 31 March 2018 the Group holds loan facilities totalling £370.7m comprising a term loan of £210.2m a revolving facility of £25m, together with two bonds totally £135m. One of the bonds has a retained portion of £60m and a deferred element of £60m. The details of the drawn loans are as follows:

Loan Facility	**2018**	2017	**Ave Interest**	Ave Interest
	£'000	£'000	**Rate**	Rate
			2018	2017
Fixed rate loans	**182,769**	168,386		
Variable rate loans	**19,230**	21,273		
Total loans drawn	**201,999**	189,659	**3.53%**	3.48%
Undrawn loan facilities capable of immediate drawdown	**49,312**	50,011		
Market Value of loans drawn	**187,400**	168,700		
Duration (years)*	**17.57**	11.30		

** Duration is a measure of the exposure of the debt portfolio to fixed interest rates*

Financial Instruments

The Group uses both embedded and standalone swap arrangements to manage its interest rate risk. Embedded swaps are provision in a contract that modifies the cash flow of a contract by making it dependent on some underlying measurement e.g. CPI, RPI etc.

During the year there were eight embedded swaps held with Nationwide and four embedded swaps held with Lloyds. These are treated as basic financial instruments under FRS 102.

There is also one standalone interest rate swap arrangement with Lloyds, which is considered an effective hedge and fair value movements are taken through the cash flow reserve.

The Group only borrows in sterling so there is no currency risk. Any surplus cash balances are invested in approved UK institutions.

Further details of the financial instruments held at year end can be found in note 20.

Cash Flows

Cash inflows and outflows for the year under review are contained in the consolidated statement of cash flows and the cash flow notes shown on pages 27 - 28. The main net cash inflows from operating activities are from housing management activities. The net cash outflows from capital expenditure are costs on development of properties and planned maintenance improvements. The net movement on financing is £7m (2017: £1.9m outflow), interest paid of £6.8m (2017: £8.1m) offset by a net £0.3m (2017: £1.3m) of additional grant funding, grant funding utilised of £0.6m (2017: £0.6m) and new loans of £21.3m drawn down in the year (2017: £5.5m).

The net change in cash and cash equivalents was an increase of £19.6m (2017: increase of £0.6m). Short term deposits have increased by £19.6m as a result of drawing £21.3 of new loans, physical cash held at bank has remained relatively stable in the year.

Liquidity

The Treasury Policy requires that cash investments are available for immediate drawdown to cover the cash requirement for the next six months. The requirement for the next year must be covered by existing loan facilities (whether or not they are capable of immediate drawdown). The following table shows that both these targets will be met.

	6 months to 30.09.18 £'000	**12 months to 31.03.19 £'000**
New cash requirement	1,431	**23,021**
Available funds:		
Cash	31,651	**31,651**
Undrawn loan facilities capable of immediate drawdown	49,312	**49,312**
Undrawn overdraft facility	500	**500**
Total available funds	81,463	**81,463**

There are no significant seasonal influences on the timings of the borrowing requirements. The main influence on borrowing requirements is the timing of expenditure on the development programme.

2017/18 Value for Money disclosure

Our approach to Value for Money

Our approach to securing Value for Money is embedded in our corporate strategy, NextGen which covers the period April 2017 to March 2021. The three founding objectives of our strategy are:

Strategic objective	Outcome
Customers – serve our customers in the most economic, efficient and effective	Customers highly satisfied with our service offer
New homes – significantly increase the number of new homes we provide in the South West	1500 affordable homes built
New service – to implement a new service and operating model, consistent with the needs of our customers	Management cost located in top 25% of our peer group

As shown below, the interdependencies between these three objectives cannot be understated – each is dependent on the others in order that we realise our stated goals.

Our staff and stakeholders are clear that the VFM savings derived from a new service operating model, largely based on a digital platform, are reinvested to deliver additional new homes. These efficiency savings, coupled with profit from outright sale activity and disposals of underperforming assets, form the subsidy required to increase our development programme of new homes.

Our efficiency plan was contained within our Blueprint for Next Gen which identified savings potential of £2.3m per annum, predominantly from delivering a new service operating model. We can confirm that we have identified this level of savings and these are incorporated into our base operating costs for 2018/19 and onwards. A significant amount of these savings were achieved ahead of schedule, in 2017/18, contributing to the reduced headline cost per unit shown overleaf. The majority of the efficiency savings achieved in 2017/18 arose from greater productivity of our workforce leading to reduced expenditure from subcontractors.

In addition to these transformation savings, we also achieved a further £132k VFM savings against our annual target of £100k; and £483k cashable savings from our procurement activity through using our shared procurement consortium AdvantageSouthWest.

Our performance

We set out below our performance against the sector VFM metrics. We compare our 2017/18 performance against the prior year and against our 2018/19 targets.

VFM metric	2016/17	2017/18	2018/19 target	2016/17 Quartile (national)
Reinvestment – total investment as a % of existing properties	7.4%	5.3%	8.3%	n/a
New supply of affordable housing delivered	1.4%	1.4%	2.0%	Q2
New supply of non-affordable housing delivered	0	0	0.2%	n/a
Gearing %	37.3%	35.4%	36.1%	Q1
Interest cover % (EBITDA-MRI)	236.3%	232.8%	183.4%	Q2
Headline cost per unit of managing and maintaining affordable housing	£3,178	£3,091	£3,585	Q2
Operating margin – overall	34%	32.7%	23.8%	Q2
Operating margin – affordable housing activity	40.9%	37.4%	32.7%	Q1
Return on Capital Employed	4.5%	4.3%	3.2%	Q2

Our 2016/17 performance compared to our peers is favourable across all areas. Our new supply % is set to increase considerably in the short and medium term as we increase our development programme on the back of the savings delivered in our operating model, and thereby reducing our headline cost per unit of managing the stock. Our operating margins and interest cover remain one of the strongest in the sector, despite increasing development activity and therefore borrowing costs.

We show our 2018/19 target metrics, based on our 2018/19 budget. We are forecasting a decrease in our overall operating margin and EBITDA – MRI due to our increased sales activity which has a traditionally lower margin than affordable housing activity. Our headline (i.e. total) cost per unit of managing and maintaining our stock is set to increase in 2018/19 due to the planned increased investment in our assets in terms of component replacement; provision for additional fire safety works; and an increase in the agreed standard for voids works. Our actual management cost per unit (excluding maintenance) is budgeted to reduce by 5.5%; and our maintenance cost per unit (excluding major works) is budgeted to reduce by 5.3% reflecting the significant efficiency savings achieved through our transformation of the service delivery model.

Business improvement 2018/19 onwards

As noted above we have already achieved the efficiency targets set out within our NextGen corporate strategy. We will spend the first six months of 2018/19 finalising our new VFM plan to deliver further business improvement and efficiency. We have agreed a new three year Business Delivery Plan for our maintenance arm, Yarlington Property Management. This plan is set to deliver £1.6m additional net income to the Group, and is based on three key areas of activity:

- Streamlining our processes – we are confident there are further areas where we can make significant efficiency savings
- Further insourcing of activity – to improve productivity and reduce VAT exposure
- Additional services to customers – and thereby making our overhead cost more efficient.

Our Directorate Improvement Plans were launched in April 2018 and these contain various activities to improve our efficiency, economy and effectiveness. These activities will be brought together into our new VFM Strategy for the remainder of the NextGen period.

Yarlington Housing Group

Statement of the Board on Internal Controls

Introduction

The Board acknowledges that it is responsible for ensuring that the Company has established an effective system of internal control, and for reviewing its effectiveness. The system of internal control focuses on:-

- The significant risks that threaten the Company's ability to meet its strategic and operational objectives and;
- The safeguarding of assets.

The Board's aim is to ensure control mechanisms are in place to manage rather than eliminate the risk of failure to achieve the Company's strategic and operational objectives. The process for identifying, evaluating and managing the significant risks facing the Company is ongoing. Such a system can only provide reasonable, and not absolute, assurance against material misstatement, fraud or loss.

Annual Review of Effectiveness of Internal Controls

The Audit & Risk Committee received a report from the Executive Team on the effectiveness of the Internal Controls systems in operation during the financial year. This was reviewed at the Audit & Risk Committee on 25th June 2018 and reported to the Board on 10th July 2018.

The review sets out the different ways in which assurance over the control system is obtained.

Forms of Assurance

Governance

The Board consists of up to ten members, all with a relevant range and depth of skills and experience. A thorough skills analysis, and review of Board effectiveness was undertaken in January 2018 which confirmed that the Board was operating effectively and had a good range of essential skills. This includes allowing two Executive Directors on the Board. This experience on the Board provides robust review and control in the strategy and decision making process.

The Board has a tailored training programme, including both induction training for new members and tailored sessions for personal development and sector related issues. The Board also conducts annual appraisals on the Board as a whole and on individual members.

The Board has an Annual Governance Action Plan – derived from the annual review of governance and self-assessment of compliance with the NHF Code of Governance; it also sets itself annual Key Board Deliverables, a series of key tasks or actions in order to achieve the strategic objectives; and produces an annual governance report.

Delegation by the Board

The Board has control of the activities of the whole Group, including the four subsidiary companies. All key decisions and performance monitoring of these companies are reported to the main Board directly – therefore all Board members are fully aware and involved in the decision making. There are two standing committees of the Board – Audit and Risk, and Remuneration. All have well-defined and relatively narrow remits – again ensuring that wherever possible the whole Board is involved. There is a formally approved Schedule of Delegation which sets out the various decisions which are delegated to committees, Executive Team or individuals.

Corporate Planning and Strategy

In April 2017 we launched our new Corporate Strategy, NextGen. This strategy has three clear strategic objectives: to develop and implement a new service model for our customers; to significantly increase new homes in the South West new homes; and to serve our customers in the most economic, efficient and effective manner. The strategy also focuses the direction of management in implementing controls to ensure that the objectives are met. The Board actively monitors the progress of achieving the strategic objectives, again acting as a control in ensuring that they are met; as well as monitoring the progress of the Key Board Deliverables.

Management

The Executive Team reflects the strategic direction and emphasis of NextGen. The Executive Directors are responsible for the implementation of the strategic direction of the organisation; including the delivery of the Strategy. The Executive Team has been strengthened during the year by the appointment of dedicated Directors of Service Transformation, and People, Infrastructure and Culture.

Executive Team, Heads of Departments and Senior Managers adopt a rigorous approach to preparing and reviewing all proposals, reports and policies. Objective, analytical assessment is carefully applied before taking any decision or providing confirmation. This methodology of challenge is continued at Board level.

Health and safety

During the year a considerable focus has been placed on our Health and Safety arrangements. An independent Health and Safety audit was undertaken. They evaluated all existing arrangements for health and safety, the findings of which were subsequently presented to the Board. A revised control and compliance structure was put in place to clarify roles and responsibilities, and to provide assurance over our compliance We continue to retain independent Health and Safety advisers and we have also appointed an independent "Critical Friend" to the Board. All Health & Safety Policies and procedures have been reviewed during the year, and there has also been an increased focus on compliance and assurance. We took the decision to outsource all Fire Risk Assessments to Accredited Risk Assessors, who are experienced within the sector. All resultant actions are prioritised and managed through the newly acquired RiskBase system.

Transformation Board

A major transformation project was undertaken during the year in order for us to define and adopt a new Target Operating Model. This was controlled by a clearly defined Steering Group which reported into the Executive Team; and monitored by a newly created delegated group of the Board, known as the Transformation Board. This controlled the scope of the project and monitored progress including of the financial outcomes and the risks associated with the project.

Resident Scrutiny

Residents Scrutiny Function (known as Challenge & Change) has an annual programme of reviews of our services to customers. The Group provides assurance that services are being delivered in line with customer's expectations and hold an annual Co-regulation Day to hold the Board to account in its decision-making.

Risk Management and assurance

Our risk management framework includes various forms of assurance. Risk registers, including the identification, evaluation of the risks and the appropriate control mechanisms are prepared on an individual business stream basis at an operational level and are reviewed on a quarterly basis. Each strategic project has its own strategic risk register. The strategic risks are reviewed monthly by the Executive Team and quarterly by the Board and include a commentary to the Board highlighting where there are specific changes or concerns. The Audit & Risk Committee reviews the risk management processes twice yearly. The Audit & Risk Committee also included a discussion on emerging risks that could impact on the Group at every Audit & Risk Committee meeting.

The Board also reviews and approves our Risk Appetite Statement which sets out the approach to the level of risk that the Board is prepared to accept in order to achieve our strategic objectives.

Performance Management

We have a suite of management information, suitable for monitoring by different levels in the organisation. We have an automated system to produce Balanced Scorecards for the Board, Executive Team and for individual teams. The role of a dedicated performance team supports management in analysing this management information.
Performance information is reviewed by the Executive Team on a monthly basis and by the Board on a quarterly basis. The clear format of the information, including a 'dashboard' to monitor corporate plan delivery, enables easier identification of any issues in controls and aids prompt remedial action.

Financial assurance

Any significant variances from budget are investigated as part of the regular budget monitoring process. Robust systems of monitoring covenant performance, swap exposure and projections are undertaken, and are reported to the Executive Team monthly and the Board quarterly.

Despite Moody's credit rating agency downgrading the sector, Yarlington retained our strong A3 credit rating. This process and their judgement provides external assurance on our financial viability, management and risk management process.

Value for Money

During the year we have again worked extensively on our Value for Money Plan, particularly in embedding the culture of continuous improvement. We have completed considerable analysis on the pilot sector scorecard, and our position confirms that our services provide value for money to our

customers compared to our peers. We have successfully achieved the efficiencies set as a target within our NextGen strategy.

External Audit
The Audit & Risk Committee receives and reviews the External Auditors' management letter which provides some assurance that there are no material weaknesses in internal financial controls.

Fraud
The risk of fraud is always reviewed as part of the monthly risk reviews. All internal audits focus on probity and controls to minimise the risk of fraud. We have a fraud register in which any fraud, whatever level or nature, is reported. There were no reported frauds during the year.

Regulators' Reports
We provide several returns to the Regulator during the year, notable the Quarterly Statistical Survey. These have all been signed off with no issues during the year. We received confirmation of our Governance rated 1 and Viability rated 1 ("G1/V1") following the annual stability review in October 2017.

Benchmarking
The membership of various benchmarking organisations, notably Housemark, and this year the Global Accounts analysis– as well as more informal structures – allows us to compare our performance against others on a range of activities. It also enables us to compare best practice in relation to controls processes and improve where appropriate. This provides assurance that services are being provided effectively and efficiently, and corporate objectives are being achieved. It also helps identify areas for further investigation and improvement.

Customer Insight
We constantly review and refresh our policy, procedures and reporting of obtaining and evaluating customer insight and feedback. As a result we have a more consistent and constructive system for listening to our customer's views and taking appropriate action for improvement. In December 2017 we undertook an independent stakeholder perceptions audit. This provided considerable assurance over the level of service being provided to our customers and wider stakeholder. The results have driven the production of a new Communications Plan for 2018/19.

Policies and Procedures
Formal policies and procedures are in place, including financial regulations and standing orders relating to the delegation of authorities, which allow the monitoring of controls and restrict the unauthorised use of the Company's assets. We have a Scheme of Delegation which clearly sets out where responsibility for approval lies.

Internal Audit
YHG has a dedicated in-house internal audit function. The internal audit programme is risk based and focuses on controls that mitigate key risks. Our internal audit service is supplemented by the use of external internal auditors during the year to provide specialist expertise.

Formal procedures are established for instituting appropriate action to correct weaknesses identified from the above reports, and the Audit & Risk Committee receives details of all follow-up audits, which monitor management's action to correct weaknesses. Prompt action is taken and reported where any potential significant weakness is identified.

The Executive Team review and approve all internal audit reports and the findings and recommendations for improvement are reported to Audit & Risk Committee. An annual internal audit report is produced and reported to the Audit & Risk Committee. In turn the Audit & Risk Committee provides an annual report to the Board. No major weaknesses in control were identified during the year.

Information Governance and Cyber Security

We take cyber security very seriously and in 2017/18 we commissioned an independent cyber security audit which provided an action plan of improvements required to increase our resilience to any cyber attack or security breach. We created a comprehensive action plan in advance of the implementation of GDPR, and have made some significant changes to our information governance processes during the year.

We have also set up an Information Security Forum to monitor our approach to dealing with cyber security issues and to review any potential attack and also any security breaches.

Conclusion

On behalf of the Board, the Audit & Risk Committee has reviewed the effectiveness of the system of internal control, which has been in existence for the year ended 31 March 2018, and up to the date of approval of the financial statements. No weaknesses were found in internal controls, which resulted in material losses, contingencies, or uncertainties, which require disclosure in the financial statements, or in the auditors' report on the financial statements.

By Order of the Board

Board Member

Date: 9th August 2018

Statement of the Board's Responsibilities

The board is responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

The Co-operative and Community Benefit Societies Act 2014 and registered social housing legislation require the board to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Registered Social Landlord (RSL) and of the surplus or deficit for that period. In preparing these financial statements, the board is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards 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 RSL will continue in business.

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

The board is responsible for the maintenance and integrity of the society's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Signed:

Director

Date: 9th August 2018

Independent auditors' report to the members of Yarlington Housing Group

Report on the audit of the financial statements

Opinion

In our opinion, Yarlington Housing Group's group financial statements and society financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and society's affairs as at 31 March 2018 and of the group's and the society's surplus and the group's cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); 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 from April 2015.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the group and society statements of financial position as at 31 March 2018; the group and society statements of comprehensive income, the consolidated and society statements of changes in reserves, the consolidated statement of cash flows, note 1 to the consolidated statement of cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Group Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group.

Other than those disclosed in note 4 to the financial statements, we have provided no non-audit services to the group or the society in the period from 1 April 2017 to 31 March 2018.

Our audit approach

Context

The Group is a not for profit registered social landlord with the fundamental objective to provide housing, with all surpluses reinvested in the Group to improve the provision of services to their tenants. In the current year on this basis we have re-evaluated our materiality benchmark against the sector to 1% of total assets as the Group is fundamentally driven to provide housing.

For all significant or elevated risk areas we have applied a benchmark based on 1% of revenues which is detailed in the table below. In addition to the Key Audit Matters included in our opinion, this also included management override of controls.

Overview

- Overall group materiality: 1% of Total assets £5.438 million, 1% of revenue £0.565 million).
- Overall society materiality: 1% of total assets £5.166 million, 1% revenue £0.537 million.
- The group comprises the society and four trading entities in addition to one joint venture entity.

- We conducted a full scope audit of the society and of the four trading entities and the joint venture, this encompasses all entities within the group.

- Risk of fraud in revenue recognition (Group and Society)
- Accounting for defined benefit pension schemes (Society).
- Valuation of market rent properties (Group).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the group and the industry in which it operates, and considered the risk of acts by the group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the group and society financial statements, including, but not limited to, 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 from April 2015. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with the regulators, review of correspondence with legal advisors, enquiries of management, and review of internal audit reports in so far as they related to the financial statements. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	*How our audit addressed the key audit matter*
Risk of fraud in revenue recognition *See note 1 to the financial statements for the group's and society's disclosures of significant accounting policies relating to the recognition of revenue, and note 2 for further information.* The three main sources of revenue for the group are rental and service charge income, income from property sales, and other income. We focused on these areas because there is a heightened risk as follows: • rental and service charge income – the group recognised £50,896k for the year ended 31 March 2018. The housing management system is used by the group to record and track properties and tenancies, which are then recorded through journal entries on the general ledger. There is risk of revenue from a valid property or tenancy being amended or removed from the housing management system incorrectly resulting in a transaction recorded being missed from the general ledger. There is also a risk of the application of inaccurate rent or rent weeks during the financial year. This consideration applies to social, market and commercial rental income as well as service charge income. • income from property sales – the group recognised £3,586k for the year ended 31 March 2018. There is a risk of the recognition of property sales being recorded in the incorrect period around year-end to meet certain property sales and revenue targets. • other income – the group recognised £2,091k for the year ended 31 March 2018. This includes other management fees, grant amortisation, charges for support services and other income. The recognition of other income presents a risk as revenue may be deferred into the next year once the likely year-end position is known to be in line with expectation for the group.	We evaluated and tested the accounting policies for revenue recognition against the requirements of FRS 102 and the Statement of Recommended Practice "Accounting by Registered Social Landlords" updated in 2014 (SORP). We traced a sample of properties on the housing management system to the housing management system to the rent system to ensure that rental income is complete. We traced a sample of properties to land registry support to validate that ownership of the asset for which revenue has been recorded. We performed data analytics over rental and service charge income to test the completeness and accuracy of the amounts charged per the housing management system. We tested the reconciliation between the general ledger and the housing management system. We sampled properties from the rental system which the data analytics identified as having unexpected revenue amounts recorded to check that the recorded rentals were appropriate and not indicative of any misstatement. Income from the sale of properties was tested by tracing sampled transaction to invoices, contracts or completion statements and cash received to determine that the sale was recognised in the correct period. Other income was tested by tracing sampled transactions to underlying records, which comprised invoices and other third party supporting documentation, to determine whether the revenue was recognised in the correct period. No material exceptions were noted from our testing.
Accounting for defined benefit pension schemes Society *See note 1 and note 21 to the financial statements for the group's disclosures of the accounting policies and assumptions used for its defined benefit pension schemes.* The Group is a member of the Somerset County Council defined benefit pension scheme. The group's share of assets and liabilities from the schemes are recognised in the financial statements to show the net pension position of the scheme. There are net pension liabilities of £36.5m (2017: 38.9m) on this scheme. The valuation of the defined benefit pension schemes requires the use of several actuarial assumptions. There is a risk that an incorrect actuarial assumption may be used, small differences in the assumptions applied can have a significant impact on the liability calculated. The key actuarial assumptions are the discount rate, demographics, inflation, salary increases, pension increases and asset returns.	We used our internal pension experts to assess the key actuarial assumptions such as discount rate, demographics, inflation, salary increases and pension increases. The actuarial assumptions used fall within our expected ranges. We confirmed management's actuary is appropriately qualified and independent to complete the valuation. We read the disclosures of the group to check the disclosure of the group's defined benefit pension schemes and that they were compliant with FRS 102. We traced a sample of plan contributions and census testing to supporting evidence and payment. No material exceptions were noted from our testing.

Valuation of market rent properties

Group

See note 1 to the financial statements for the group's disclosures of the accounting policies, judgements and estimates, relating to the fair value of investment properties and note 13 for further information.

Yarlington Homes Limited holds a number of market rent properties at fair value. ISAs (UK) 500 and 540 requires us, respectively, to undertake certain procedures on the use of external experts where they are used, and on the processes and assumptions underlying their calculations.

These investment properties held in the Group are revalued annually by an external valuers in accordance with the Royal Institute of Chartered Surveyors Valuation Standards.

The valuation of these properties requires the use of several assumptions and professional judgement. There is a risk that an incorrect assumption may be used, small differences in the assumptions applied can have a significant impact on the property valuation calculated.

We tested the valuations of the market rent properties by comparing the valuation movements to current market activity. We confirmed the valuation methodology and assumptions was appropriate with our own internal valuation experts.

We agreed the underlying base data used by the valuer to underlying property records to ensure the source data used was complete and accurate.

We traced a sample of properties to land registry information to validate the existence and ownership of the properties.

We confirmed the valuers held the experience and qualifications to complete the valuations by confirming the qualifications they hold.

No material exceptions were noted from our testing.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the society, the accounting processes and controls, and the industry in which they operate.

The group comprises the society and four wholly-owned trading entities along with one joint venture entity. We scoped all wholly-owned trading entities for group reporting purposes because they all required individual statutory audits.

For the joint venture we completed a full scope audit.

The full scope audits by the group and component team covered 100% of group revenue and 100% of group total assets.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	*Society financial statements*
Overall materiality	£5.438 million.	£5.166 million.
How we determined it	1% of total assets.	1% of total assets.
Rationale for benchmark applied	Based on the benchmarks used in the Annual Report, total assets is a key measure used by the directors in assessing the performance of the group, and is a generally accepted auditing benchmark. This benchmark is used by the directors to measure and compare the underlying impact and performance of the group. The Group is a not-for-profit entity with any surplus made reinvested in the Group to provide further assets. The benchmark applied is different from the prior year. As referenced in the Context section of our audit approach for significant and elevated risks we applied a specific revenue based benchmark.	Based on the benchmarks used in the Annual Report, total assets is a key measure used by the directors in assessing the performance of the group, and is a generally accepted auditing benchmark. This benchmark is used by the directors to measure and compare the underlying impact and performance of the group. The Group is a not-for-profit entity with any surplus made reinvested in the Group to provide further assets. The benchmark applied is different from the prior year. As referenced in the Context section of our audit approach for significant and elevated risks we applied a specific revenue based benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £3,939 and £5,166,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Group Audit Committee that we would report to them misstatements identified during our audit above £28,500 (Group audit) and £26,828 (Society audit) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and society's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and society and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of the Board's Responsibilities set out on page [21], the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 directors are responsible for assessing the group's and the society'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 directors either intend to liquidate the group or the society or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

The engagement partner on the audit resulting in this independent auditors' report is Heather Ancient.

Use of this report

This report, including the opinions, has been prepared for and only for the society's members as a body in accordance with Section 87 (2) and Section 98(7) of the Co-operative and Community Benefit Societies Act 2014 and Section 128 of the Housing and Regeneration Act 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Co-operative and Community Benefit Societies Act 2014 exception reporting

Under the Co-operative and Community Benefit Societies Act 2014 we are required to report to you if, in our opinion:

- a satisfactory system of control over transactions has not been maintained; or
- we have not received all the information and explanations we require for our audit; or
- proper accounting records have not been kept by the society; or
- the society financial statements are not in agreement with the accounting records

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Group Audit Committee, we were first appointed by the directors to audit the financial statements for the year ended 31 March 2014 and subsequent financial periods. The period of total uninterrupted engagement is 5 years, covering the years ended 31 March 2014 to 31 March 2018.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
23 August 2018

Statements of Comprehensive Income for the year ended 31 March 2018

	Notes	Year ended 31 Mar 2018 Group £'000	Year ended 31 Mar 2018 Society £'000	Year ended 31 Mar 2017 Group £'000	Year ended 31 Mar 2017 Society £'000
Turnover	2(a)	**56,573**	**56,500**	58,210	58,173
Cost of Sales	2(a)	**(2,557)**	**(2,556)**	(4,258)	(4,260)
Operating expenditure	2(a)	**(35,591)**	**(35,424)**	(34,138)	(33,945)
Operating surplus	2(a)	**18,425**	**18,520**	**19,814**	**19,968**
Gain on disposal of property, plant and equipment (tangible assets)	5	**3,808**	**3,800**	2,627	2,620
Share of operating surplus/(deficit) in joint venture		**(1)**	-	9	-
Interest receivable		**95**	**155**	38	93
Interest payable and financing costs	6	**(7,566)**	**(7,544)**	(7,298)	(7,300)
Disposal of financial derivatives		-	-	(1,091)	(1,091)
Movement in fair value of financial instruments	8	-	-	-	-
Increase in valuation of investment properties		**64**	**64**	726	660
Surplus before tax		**14,825**	**14,995**	**14,825**	**14,950**
Taxation	7	**(6)**	**(5)**	(39)	(35)
Gift Aid from subsidiaries		-	-	-	34
Other comprehensive income/(expense):					
Surplus for the year after tax		**14,819**	**14,990**	14,786	14,949
Actuarial gain/(loss) in respect of pension schemes	21	**4,445**	**4,445**	(10,646)	(10,646)
Release from the revaluation reserve		**1,218**	**1,218**	1,227	1,227
Changes in fair value of hedged financial instruments	8	**881**	**881**	(431)	(431)
Total comprehensive income for the year		**21,363**	**21,534**	**4,936**	**5,099**

The financial statements on pages 27 to 65 were approved and authorised for issue by the Board on 9th August 2018 and were signed on its behalf by:

Board Member:

Gary Orr

Board Member:

Caroline Moore

Company Secretary:

Gemma Burton-Connolly

The consolidation and society results relate wholly to continuing activities and the notes on pages 33 to 65 form an integral part of these financial statements.

Statements of Financial Position as at 31 March 2018

	Notes	Year Ended As at 31 Mar 2018 Group £'000	Year Ended As at 31 Mar 2018 Society £'000	Year Ended As at 31 Mar 2017 Group £'000	Year Ended As at 31 Mar 2017 Society £'000
Fixed assets					
Intangible assets	11	**283**	**285**	489	489
Tangible fixed assets	12	**486,829**	**491,998**	477,646	482,632
Investment properties	13	**9,952**	**9,952**	9,998	9,998
Investment in subsidiaries		**-**	**6,012**	-	3,000
Investment in joint ventures		**106**	**-**	107	-
		497,170	**508,247**	488,240	496,119
Stock	14	**10,133**	**3,068**	8,264	2,934
Debtors: falling due within one year	15	**4,329**	**5,674**	3,171	5,347
Investments	16	**75**	**75**	75	75
Cash and cash equivalents	17	**32,128**	**32,097**	12,548	12,467
		46,665	**40,914**	24,058	20,823
Less: creditors: amounts falling due within one year	18(a)	**(22,416)**	**(23,279)**	(18,366)	(18,240)
Net current assets		**24,249**	**17,635**	**5,692**	**2,583**
Total assets less current liabilities		**521,419**	**525,882**	**493,932**	**498,702**
Creditors: amounts falling due after more than one year	18(b)	**(261,667)**	**(261,169)**	(249,770)	(249,770)
Financial derivatives	20	**(7,904)**	**(7,904)**	(8,785)	(8,785)
Provisions for liabilities					
Pension liability	21	**(36,447)**	**(36,447)**	(38,897)	(38,897)
Other provisions		**-**	**-**	(133)	(133)
Total net assets		**215,401**	**220,362**	**196,347**	**201,117**
Reserves					
Income and expenditure reserve		**81,434**	**86,578**	61,016	65,989
Revaluation reserve		**141,871**	**141,688**	144,116	143,913
Cash flow hedge reserve		**(7,904)**	**(7,904)**	(8,785)	(8,785)
Total reserves		**215,401**	**220,362**	**196,347**	**201,117**

The financial statements on pages 27 to 65 were approved and authorised for issue by the Board on 9th August 2018 and were signed on its behalf by:

Board Member:

Gary Orr

Board Member:

Caroline Moore

Company Secretary:

Gemma Burton-Connolly

The notes on pages 28 to 65 form an integral part of these financial statements.

Yarlington Housing Group is a charitable Community Benefit Society registered with the Financial Conduct Authority (Registered in England, Registration Number 7499). Yarlington Housing Group is registered with the Regulator of Social Housing (Registration Number LH4200). The Registered office is Yarlington Housing Group, Lupin Way, Yeovil, Somerset, BA22 8WN.

Consolidated Statement of Changes in Reserves for the year ended 31 March 2018

	Income and Expenditure reserve	Cash flow hedge reserve	Revaluation reserve	Total reserves
	£'000	£'000	£'000	£'000
Opening Balance as at 1 April 2016	**56,375**	**(8,354)**	**145,291**	**193,312**
Surplus/(deficit) from Statement of Comprehensive Income	14,786	-	(674)	**14,112**
Unrealised (deficit)/surplus on revaluation of investment properties	(726)	-	726	**-**
Actuarial loss in respect of pension schemes	(10,646)	-	-	**(10,646)**
Transfer from revaluation reserve to income and expenditure Reserves	1,227	-	(1,227)	**-**
Loss on Financial Derivatives	-	(431)	-	**(431)**
Balance at 31 March 2017 / 1 April 2017	**61,016**	**(8,785)**	**144,116**	**196,347**
Surplus/(deficit) from Statement of Comprehensive Income	14,819	-	(1,091)	**13,728**
Unrealised (deficit)/surplus on revaluation of investment Properties	(64)	-	64	**-**
Actuarial gain in respect of pension schemes	4,445	-		**4,445**
Transfer from revaluation reserve to income and expenditure reserves	1,218	-	(1,218)	**-**
Gain on Financial Derivatives	-	881	-	**881**
Balance at 31 March 2018	**81,434**	**(7,904)**	**141,871**	**215,401**

Society Statement of Changes in Reserves for the year ended 31 March 2018

	Income and Expenditure reserve	Cash flow hedge reserve	Revaluation reserve	Total reserves
	£'000	£'000	£'000	£'000
Opening Balance as at 1 April 2016	**61,119**	**(8,354)**	**145,154**	**197,919**
Surplus/(deficit) from Statement of Comprehensive Income	14,949	-	(674)	**14,275**
Unrealised (deficit)/surplus on revaluation of investment properties	(660)	-	660	-
Actuarial loss in respect of pension schemes	(10,646)	-	-	**(10,646)**
Transfer from revaluation reserve to income and expenditure reserves	1,227	-	(1,227)	-
Loss on Financial Derivatives	-	(431)	-	**(431)**
Balance at 31 March 2017 / 1 April 2017	**65,989**	**(8,785)**	**143,913**	**201,117**
Surplus/(deficit) from Statement of Comprehensive Income	14,990	-	(1,071)	**13,919**
Unrealised (deficit)/surplus on revaluation of investment properties	(64)	-	64	-
Actuarial gain in respect of pension schemes	4,445	-	-	**4,445**
Transfer from revaluation reserve to income and expenditure reserves	1,218	-	(1,218)	-
Gain on Financial Derivatives	-	881	-	**881**
Balance at 31 March 2018	**86,578**	**(7,904)**	**141,688**	**220,362**

Consolidated Statement of Cash Flows for the year ended 31 March 2018

	Notes	2018 £'000	2017 £'000
Net Cash generated from operating activities	1	**24,971**	24,667
Cash Flow from investing activities			
Increase in valuation of investment properties	13	**(64)**	(726)
Purchase of Intangible fixed assets	11	**(74)**	(62)
Purchase of tangible fixed assets		**(18,575)**	(25,819)
Write down of fixed asset investment		**-**	-
Purchase of fixed asset investments		**-**	(15)
Proceeds from sale of tangible fixed assets	5	**7,163**	5,392
Share of sale of Housing Properties to SSDC		**(966)**	(927)
Interest received		**117**	28
Net cash used in investing activities		**(12,399)**	(22,129)
Cash flow from financing activities			
Interest paid		**(6,810)**	(8,152)
New loans		**21,394**	5,490
Repayment of other loans		**-**	-
Receipt of SHG		**279**	1,298
Grants utilised in the year		**(545)**	(557)
Net cash generated from/(used in) financing activities		**7,008**	(1,921)
Net increase in cash and cash equivalents		**19,580**	617
Cash and cash equivalents at beginning of the year		**12,548**	11,931
Cash and cash equivalents at end of the year	17	**32,128**	12,548

Note 1	Notes	2018 £'000	2017 £'000
Cash flow from operating activities			
Surplus for the year		**14,825**	14,825
Adjustments:			
Depreciation of fixed assets	12a	**6,850**	6,460
Amortisation of intangible assets	11	**270**	257
Impairment of fixed assets	4	**-**	-
(Increase) in stock		**(1,869)**	(5,330)
(Increase) in trade or other debtors		**(104)**	(100)
Increase in trade or other creditors		**564**	1,696
Movement in fair value of financial instruments		**-**	-
Pension costs less contributions payable		**1,995**	1,343
Carrying amount of tangible fixed asset disposals		**2,921**	2,835
Proceeds from sale of tangible fixed assets	5	**(7,163)**	(5,464)
Share of deficit/surplus in joint venture		**1**	(9)
Taxation	7	**-**	4
Interest payable		**6,497**	7,393
Interest received		**(95)**	(38)
Other non-cash items		**279**	795
Net Cash generated from operating activities		**24,971**	**24,667**

Notes to the Financial Statements for the year ended 31 March 2018

Legal Status

Yarlington Housing Group is a charitable Community Benefit Society registered with the Financial Conduct Authority (Registered in England, Registration Number 7499). It is registered as a Registered Provider with the Regulator of Social Housing (RSH) and is affiliated to the National Housing Federation.

The group comprises the following entities:

Name	Incorporation	Registered/Non-registered
Yarlington Housing Group	Co-Operative and Community Benefit Societies Act 2014	Registered
Yarlington Treasury Services	Companies Act 2006	Non-registered
Yarlington Homes Ltd	Companies Act 2006	Non-registered
Yarlington Property Management Ltd	Companies Act 2006	Non-registered
Inspired to Achieve Ltd	Companies Act 2006	Non-registered
Advantage South West LLP	Limited Liability Act 2000	Non-registered

1. Principal Accounting Policies

Statement of Compliance
The Board is responsible for preparing the Annual report and the financial statements in accordance with applicable law and regulations. The Co-Operative and Community Benefit Societies Act 2014 and registered social housing legislation require the Board to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group. The financial statements of the Group have been prepared in accordance with applicable Accounting Standards in the United Kingdom, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' (FRS 102). The financial statements comply with Schedule 1 of the Housing Act 2004, the Accounting Direction for Private Registered Providers of Social Housing 2015 and the Statement of Recommended Practice ('SORP 2014') published by the National Housing Federation ('NHF') in 2014.

Basis of Preparation
These consolidated and separate financial statements are prepared on a going concern basis, under the historical cost convention, except as modified by the recognition of certain financial assets and liabilities measured at fair value

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group and Society accounting policies consistently.

Group Consolidation
The Group is required to prepare consolidated financial statements under the Co-Operative and Community Benefit Societies Act 2014 incorporating the financial statements of the society and its subsidiaries.
Intra-group transactions have been eliminated on consolidation.

Basis of Consolidation
The Group consolidated financial statements include the financial statements of the Society and all of its

subsidiary undertakings together with the Group's share of the results of associates made up to 31 March.

A subsidiary is an entity controlled by the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Yarlington Housing Group has four wholly owned subsidiaries.

A joint venture is an undertaking in which the Group has a long-term interest and over which it exercises joint control. The Group's share of the profits less losses of associates and of joint ventures is included in the consolidated statement of comprehensive income and its interest in their net assets, is included in investments in the consolidated statement of financial position.

Operating Surplus
Yarlington Housing Group has chosen to show operating surplus on the face of the statement of comprehensive income. This figure represents income, less the costs and expenses incurred to generate it, from the group's principal revenue producing activities and other activities that are not investing or financing activities.

Turnover
Turnover represents:

Rental, service charge income and garage lettings - recognised from the point at which the properties under development reach practical completion or otherwise become available for letting.

Revenue fees and grants from local authorities and Homes England - recognised in income over the period the related costs are incurred.

Asset related fees and grants from local authorities Homes England - recognised in income over the life of the related asset.

Income from first tranche sales of Shared Ownership and housing properties developed for sale - recognised at the legal completion of the sale.

Other income, such as domiciliary care and meal sales - recognised when the income falls due as a result of performing a service or otherwise meeting the requirements of any arrangement with a third party.

Value Added Tax (VAT)
The Group's main income stream, being social rent, is exempt for VAT purposes. The majority of expenditure is subject to VAT, which the Group is unable to reclaim – this expenditure is therefore shown inclusive of VAT. VAT can be reclaimed under the partial exemption method for certain other activities and this is credited to the Income and Expenditure Account.

Right to Buy
Proceeds from the sale of dwellings, under the Preserved Right to Buy (PRTB) arrangements are received by YHG in the first instance.

YHG is entitled to retain a share of these proceeds in accordance with the terms of the Right to Buy Claw back agreement between YHG and South Somerset District Council (SSDC). YHG pay the balance to SSDC by no later than 30 April immediately following the end of each financial year, at the year end this sum is included within creditors.

The surplus or deficit on disposal of housing properties under the right to buy arrangement is calculated as being the difference between the proceeds of sale of a property and the carrying value of that property. The gain or loss on disposal is recognised in the surplus or deficit for the period at the date of transfer after adjusting for SSDC's share of the receipts.

Right to Acquire
The surplus or deficit on the disposal of housing properties under the Right to Acquire arrangement is calculated as being the difference between the proceeds of sale of a property and the carrying value of that

property. Any loss on disposal is recognised in the deficit for the period at the date of transfer, any gain on disposal less allowable deductions is credited to the disposal proceeds fund to be recycled or repaid to Homes England if not used within the specified time period.

Shared Ownership Properties
The cost of developing Shared Ownership properties is split between current assets for that part of the property which is expected to be sold by way of a first tranche sale and property, plant and equipment for the remaining part of the property which is expected to be retained.

First tranche sales on Shared Ownership properties are recognised in turnover, with an appropriate proportion of development build costs being expensed through cost of sales.

Subsequent tranches sold ('staircasing') are reflected in the surplus or deficit on sale of property, plant and equipment. Such staircasing sales may result in social housing grant being deferred or abated until it can be recycled or repaid. Cost includes the acquisition of land and buildings, the cost of developing properties, interest costs and staff time directly attributed to the development of the property.

Gift Aid
Subsidiary companies within the Group can donate any excess profits in the form of Gift Aid to the parent Group (YHG). These donations can only be made if the subsidiary company has positive reserves and is making a profit for the financial year in question. If these criteria are met, gift aid donations are made, subject to approval of the subsidiary company's Board. Gift aid is eliminated on consolidation of the Group's financial statements.

Taxation
Yarlington Housing Group is a charitable community benefit society and therefore not liable to Corporation Tax on its charitable activities. The three subsidiary companies are liable to Corporation Tax.

The charge for taxation is based on the profit/loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting.

Social Housing Properties and Depreciation

Properties rented for Social Benefit are classified as Property, Plant and Equipment (tangible assets) and referred to as Social Housing. These properties are rented at below market rate to people put forward by the relevant local authorities from their housing lists. Social housing properties under construction are stated at cost and are not depreciated. These are reclassified as social housing properties on practical completion of construction with cost apportioned by key components.

Freehold land is not depreciated. The Group depreciates freehold properties by component on a straight line basis over the estimated useful economic lives of the component categories.

Social housing properties are split between the structure and those major components which require periodic replacement. Capitalised major components are depreciated over the following useful economic lives (UEL):

Component	UEL
Structure (existing properties)	100 years
Structure (new build properties)	125 years
Roof	60 years
Kitchens	15 or 20 years depending on type installed
Bathrooms	30 years
Heating Systems	20 years
Boilers	15 years
Windows	30 years
Wiring	30 years
Ceilings	40 years
External wall insulation	40 years

Impairment reviews are carried out at each reporting date. If impairment is present the asset's carrying value is

reduced to its amended value in use amount, as outlined in the impairment policy.

The Group depreciates social housing properties held on long leases in the same manner as freehold properties, except where the unexpired lease term is shorter than the longest component life envisaged, in which case the unexpired term of the lease is adopted as the useful economic life of the relevant component category.

Shared Ownership properties are split proportionately between property, plant and equipment and current assets based on the proportion of the share of equity sold in the first tranche. The element of a property anticipated to be sold as a first tranche sale is recognised as a current asset, whereas the element relating to second and subsequent tranche sales is treated as property, plant and equipment. Depreciation on freehold properties and long leasehold social housing properties is provided to write off the cost less the estimated residual value of social housing properties by equal instalments over their remaining estimated useful economic life (UEL). Freehold land is not depreciated.

New build properties are developed by our subsidiary Yarlington Homes Ltd (YHL) and sold to Yarlington Housing Group (YHG) at cost plus 4%. The intra-group profit is eliminated on consolidation, which reduces the cost of tangible fixed assets in the group compared to that of the society.

Donated Land
Land donated by local authorities and others is added to cost of the development scheme at the market value of the land at the time of the donation. The market value is recognised as a government grant if the land is donated by a local authority and accounted for using the accruals method. If the land is donated by a non-government party the market value is recognised as income in the surplus or deficit for the period.

Tangible Fixed Assets and Depreciation, Non-social Housing
Property, plant and equipment, is stated at cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs incurred in bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended. Subsequent expenditure is capitalised where it increases the value of the asset or extends its life. Completed social housing properties are covered by a separate policy. Depreciation is charged on a straight line basis over the expected remaining economic useful lives of the assets as follows:

	UEL
Freehold offices	50 years
Electrical wiring (offices)	30 years
Mechanical ventilation services (offices)	15 years
Fire and security systems (offices)	10 years
Short leasehold property	Over life of lease
Community alarm equipment	10 years
Furniture, fixtures and fittings	5 years
Computer hardware	3 years
Computer software	4 years
Photovoltaic panels	25 years

With regard to freehold premises (non-social housing properties) depreciation is provided to write off the cost less estimated residual value over the useful economic life of the property and any additions and improvements are depreciated over the remaining life of the premises

Assets under construction are stated at cost (as defined above). They are presented separately in the note to the financial statements and not depreciated until they are completed and brought into use. The useful economic lives of all property, plant and equipment is reviewed annually.

Website Development Costs
The Group has a website, which is used to promote the Group's activities. Design and content development costs are capitalised to the extent that they deliver demonstrable benefits to the Group and are depreciated over 5 years. On-going costs of maintaining and operating the website are charged as other operating costs are incurred.

Capitalisation of Internal Staff Costs

a) *Housing development schemes*

Internal staff costs that are directly related to the development of housing assets are capitalised to the schemes under construction where the outcome of the scheme is certain. Where the outcome of the scheme is uncertain or aborted, the direct development administration costs are charged to the surplus or deficit for the period.

b) *Development of internally created assets*

Internal staffing costs relating to internally created other tangible or intangible assets are capitalised to the extent that they are additional costs incurred due to the development of the asset.

An internally generated intangible asset is only recognised if all the following conditions are met:

- The asset created can be identified (such as software or a website)
- It is possible that the asset created will generate future economic benefits; and
- The development cost of the asset can be measured reliably

Internally generated intangible assets are recognised at cost and amortised on a straight-line basis over the useful lives from the date the asset becomes usable. Software costs, including staff time to develop software, are amortised over 4 years.

Capitalisation of Interest Costs

Interest costs relating to the construction and acquisition of housing assets are charged to the cost of the development scheme, over the period of its development. The amount capitalised represents interest costs incurred specifically for financing the development programme after the deduction of Social Housing Grant in advance.

Leased Assets

Where assets are financed by leasing agreements that transfers substantially all the risks and rewards of ownership, they are treated as if they had been purchased outright. The amount capitalised is the lower of the present value of the minimum lease payments payable during the lease term or the fair value of the leased asset. The corresponding leasing commitments are shown as the present value of the obligations to the lessor. Lease payments are treated as consisting of a finance charge and a reduction in the liability. The finance charge is charged to surplus or deficit for the period using the effective interest method.

Rentals paid under operating leases are charged to the surplus or deficit for the period on a straight line basis over the period of the lease.

Investment Properties

Investment properties are properties held for capital appreciation, rental at a market rate where there are no restrictions on who can be a tenant, or both. Investment properties are re-valued each year to their fair or market value. Any changes in value are recognised in the surplus or deficit for the period when they occur.

Stocks

a) *General inventories*

Inventories are valued at the lower of cost and net realisable value, after making allowances for any obsolete and/or slow moving items. Net realisable value is the price which inventories can be sold for in the normal course of business after allowing for the costs of realisation. Inventories are valued using a first-in-first-out methodology.

b) *Properties developed for market sale*

Properties that have been developed for market sale are recognised at cost less cost to sell. Cost comprises materials, direct labour, direct development overheads and attributable interest. Sales proceeds are included in turnover.

Impairment

a) *Inventories*

At the end of each reporting period inventories are reviewed for impairment. If any inventory is found to be impaired the carrying value is reduced to the selling price less costs to complete and sell.

b) *Other tangible and intangible assets*

Other tangible and intangible assets are reviewed for impairment if there is an indication that impairment may have occurred. Where there is evidence of impairment, the affected assets are written down to the recoverable amount. Any such write down is charged to the surplus or deficit for the period.

c) *Social Housing*

Social Housing properties are subject to impairment reviews on completion and then annually thereafter. If there is evidence of impairment the carrying value of the property is compared to its amended value in use (AVU), which consists of the net present value of the expected cash flows generated by the asset over its expected useful life. If the property's carrying value is higher than its AVU the carrying value must be reduced to the AVU, the write down is charged to the surplus or deficit for the period.

d) *Unsold first tranche Shared Ownership current assets*

On practical completion shared ownership property assets are spilt between current assets for the unsold first tranche portion and property, plant and equipment for the rental portion.

First tranche current assets are reviewed for impairment if there are indications that the market value of the property has dropped below that included in the investment appraisal. If any current assets are found to be impaired the carrying value is reduced to the selling price less costs to complete and sell.

The rental portion is treated as social housing for impairment purposes.

Accrued Income
When, as a result of performing a service or otherwise meeting the requirements of any arrangement with a third party, income falls due but has not been invoiced in the period, an accrual is made for this income.

Deferred Income
Where payment has been received for goods or services not yet delivered, the amount is initially recorded as a liability in the Statement Financial Position and recognised as revenue once the delivery has been made.

Financial Instruments
Section 11 Basic Financial Instruments of FRS 102 permits an accounting policy choice for financial instruments. The Group has chosen to adopt sections 11 and 12 of FRS 102 as permitted by this section.

a) *Rent arrears and other debts*
Rent arrears, other amounts due from tenants and other miscellaneous debts are recognised and carried at original amount of the charge, less provision for impairment. A provision is made and charged to the surplus or deficit for the period when there is objective evidence that the group will not be able to collect all amounts due in accordance to the original terms.

Any tenants or miscellaneous debtors who have a payment arrangement to pay their debts over a period of longer than the Group's normal terms of business are treated as having a financing transaction. These transactions are recognised at their present value rather than transaction value. The discount rate used for the present value calculation is based upon an estimate of the rate the debtor could obtain in their own right.

b) *Cash and cash equivalents*
Cash and cash equivalents includes cash, short-term deposits and other short-term highly liquid investments with an original maturity of three months or less.

For the purpose of the Statement of Cash Flows, cash and cash equivalents are as defined above, net of outstanding bank overdrafts.

c) *Financial assets*
The group recognise its financial assets at fair value. Some of the financial assets the group has are designated as hedging instruments. Hedging is further explained below in the derivative note.

d) *Offsetting financial instruments*
Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

e) *Trade payables*
Trade payables are not interest-bearing and are stated at their transaction value.

f) *Committed borrowings and bank overdrafts*
Interest bearing loans and overdrafts are recorded at the amounts received, net of direct issue costs using the effective interest method. Direct issue costs are amortised over the period of the loans and overdrafts to which they relate. Finance charges, including premiums payable on settlement or redemption are charged to the surplus or deficit for the period as incurred using the effective interest rate method and are added to the carrying value of the borrowings or overdraft to the extent they are not settled in the period in which they arise.

When the Group enters into a loan facility agreement any associated costs are capitalised, discounted at the prevailing market rate of interest of the similar loans and amortised over the life of the related loans.

g) *Derivative financial instruments*
The group uses various derivative financial instruments to manage its exposure to interest rate risks, including interest rate swaps and options or a combination of these. All derivative instruments are recorded in the Statement of Financial Position at fair value. The recognition of gains or losses on derivative instruments depends on whether or not the instrument is designated as a hedging instrument. The group designates certain derivatives as either:

(i) a standalone derivative recognised at fair value through the profit or loss; or

(ii) a cash flow hedging instrument.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the derivative matures in more than 12 months, and as a current asset or liability when the derivative matures in less than 12 months.

Costs incurred on cancelling any such instruments are taken to the Statement of Comprehensive Income as incurred.

h) *Cash flow hedges*
The effective portion of gains or losses on derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income within the Statement of Comprehensive Income and subsequently in the cash flow hedge reserve. The ineffective portion of such gains and losses is recognised in the surplus or deficit for the period immediately.

Amounts accumulated in the cash flow hedge reserve are reclassified to Statement of Comprehensive Income in the periods when the hedged item is recognised in the Statement of Comprehensive Income.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in the cash flow reserve at that time is recognised in the surplus or deficit for the period.

Social Housing and Other Grants
Social housing grant (SHG) is receivable from Homes England. It is accounted for under section 24 of FRS 102 'Government Grants' using the accrual model. Once properties have been completed the grant is classified as a long-term creditor and amortised to the surplus or deficit for the period over the life of the properties' structure. Where grants are paid in advance, they are included in creditors until performance is completed.

If a property which received a grant is subsequently sold, or another relevant event takes place the SHG appears as a creditor. It can be recycled for use in a project approved by Homes England or repaid to them if it is not used within the agreed timescale.

Other grants received are also accounted for under section 24 of FRS 102 using the Accrual Model.

Pension Costs
The cost of providing retirement pensions and related benefits is accounted for in accordance with Section 28 of FRS 102 'Employee Benefits'.

The Group participates in two pension schemes; a defined benefit scheme, the Local Government Pension Scheme (LGPS) administered by Somerset County Council and a defined contribution scheme with Friends Life Group. The accounting treatment for the LGPS scheme is described below.

The Local Government Pension Scheme (LGPS) is accounted for as defined benefit schemes. The assets for these schemes are held separately from those of the Group in independently administered funds. Pension scheme assets are measured in accordance with the FRS 102 fair value hierarchy. Pension scheme liabilities are measured using the projected unit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent terms and currency to the liability.

The increase in the present value of the liabilities of the Group's defined benefit pension schemes expected to arise from employee service in the period is charged to operating profit. The expected return on the schemes' assets and the increase during the year in the present value of the schemes' liabilities arising from the passage of time are included in operating costs. Pension schemes' surpluses, to the extent that they are considered recoverable, or deficits, are recognised in full and presented on the face of the Statement of Financial Position net of the related deferred tax. Actuarial gains and losses which arise from the difference between actual and expected performance of the scheme are recognised in other comprehensive income.

The LGPS scheme is closed to new starters.

Provisions

a) *General provisions*

A provision is recognised in the balance sheet where the Group has an obligation as a result of a past event, and it is probable that economic benefits will be required to settle the obligation. The amount of provision is re-assessed each year in the light of estimated future income and costs as appropriate.

b) *Termination benefits*

Termination benefits are only recognised once a formal plan has been approved by the Group's senior management and communicated to employees.

Deferred Taxation
Deferred taxation is provided in accordance with Section 29 of FRS 102 'Income Tax'. It is recognised in respect of all timing differences at the reporting date where transactions or events have occurred at that date that will result in an either an obligation to pay more tax in the future or a right to pay less tax in the future.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at the reporting date.

Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will,

by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(i) Inventories and Work in Progress: Inventories and Work in Progress are stated at the lower of cost and net realisable value. Write downs on inventories are recorded where events or changes in circumstances indicate that the balance may not be realised. The identification of write-downs requires the use of estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and write downs of inventories in the periods in which such estimate has been changed.

(ii) Investment Properties: Investment properties are revalued annually and the aggregate profit or loss is transferred to the statement of comprehensive income. The investment property valuation contains a number of assumptions upon which independent, professionally qualified valuers have based their valuation of the properties. However, if any assumptions made by the property valuer prove to be inaccurate, this may mean that the value of the society's properties differs from their valuation, which could have a material effect on the financial position.

(iii) Defined benefit pension scheme: The group has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management commissions an Actuary to estimate these factors in the determining the net pension obligation in the statement of financial position. The assumptions reflect historical experience and current trends. See note 20 for the disclosures relating to the defined benefit pension scheme.

(iv) Deferred Bond: The group has issued a £120m bond, £60m of which is deferred, through its fully owned subsidiary, Yarlington Treasury Services plc. Fees incurred arranging the bond have been capitalised and will be amortised over the life of the bond, the fees will be fully amortised in 2054. Interest paid by the Society includes a charge equal to the amount of the amortised arrangement fees, interest paid by the group is the fixed interest of 3.41% associated with the bond.

2(a). Turnover, cost of sales, operating expenditure and operating surplus

Group	Turnover	Cost of Sales	2018 Operating Expenditure	Operating Surplus/ (Deficit)	2017 Operating Surplus/ (Deficit)
	£'000	£'000	£'000	£'000	£'000
Social housing lettings	49,783		(30,251)	**19,532**	20,316
First tranche/low cost home ownership Sales	3,586	(2,557)		**1,029**	1,609
Charges for support services	468		(796)	**(328)**	(280)
Supporting people	645			**645**	638
Activities other than social housing Activities	2,091		(4,544)	**(2,453)**	(2,469)
Total	**56,573**	**(2,557)**	**(35,591)**	**18,425**	19,814

Society	Turnover	Cost of Sales	2018 Operating Expenditure	Operating Surplus/ (Deficit)	2017 Operating Surplus (Deficit)
	£'000	£'000	£'000	£'000	£'000
Social housing lettings	49,783		(30,289)	**19,494**	20,278
First tranche/low cost home ownership Sales	3,586	(2,556)		**1,030**	1,607
Charges for support services	468		(796)	**(328)**	(280)
Supporting people	645			**645**	638
Activities other than social housing Activities	2,018		(4,339)	**(2,321)**	(2,275)
Total	**56,500**	**(2,556)**	**(35,424)**	**18,520**	19,968

2(b) Income and expenditure from social housing letting

Group	General Needs £'000	Supported Housing £'000	Low Cost Home Ownership £'000	Key Worker £'000	**2018 Total £'000**	2017 Total £'000
Income						
Rents receivable	36,957	7,225	1,701	305	**46,188**	46,277
Service charge income	515	1,524	141	76	**2,256**	2,137
Amortised government grant	494	-	51	-	**545**	557
Other income from Social Housing Lettings	331	434	29	-	**794**	690
Turnover from Social Housing Lettings	**38,297**	**9,183**	**1,922**	**381**	**49,783**	**49,661**
Operating Expenditure						
Management	(6,490)	(1,871)	(86)	(59)	**(8,506)**	(8,692)
Service charge costs	(515)	(1,525)	(141)	(77)	**(2,258)**	(2,137)
Routine maintenance	(7,326)	(1,559)	-	(34)	**(8,919)**	(8,870)
Major repairs expenditure	(2,901)	(617)	-	-	**(3,518)**	(3,214)
Bad Debts	(207)	(9)	-	-	**(216)**	(80)
Depreciation of Housing Properties	(5,697)	(855)	(235)	(47)	**(6,834)**	(6,352)
Impairment of Housing Properties	-	-	-	-	**-**	-
Operating costs	(23,136)	(6,436)	(462)	(217)	**(30,251)**	(29,345)
Operating surplus on Social Housing Lettings	15,161	2,747	1,460	164	**19,532**	20,316
Void Losses	187	62	10	25	**284**	276

Included in the depreciation figures above is £197,000 (2017: £151,000) of accelerated depreciation charges associated with the early replacement of certain components. This accelerated depreciation is recorded within disposals in note 12.

2(b) Income and expenditure from social housing letting

Society	General Needs £'000	Supported Housing £'000	Low Cost Home Ownership £'000	Key Worker £'000	**2018 Total £'000**	2017 Total £'000
Income						
Rents receivable	36,957	7,225	1,701	305	**46,188**	46,277
Service charge income	515	1,524	141	76	**2,256**	2,137
Amortised government grant	494	-	51	-	**545**	557
Other income from Social Housing Lettings	331	434	29	-	**794**	690
Turnover from Social Housing Lettings	**38,297**	**9,183**	**1,922**	**381**	**49,783**	49,661
Operating Expenditure						
Management	(6,490)	(1,871)	(86)	(59)	**(8,506)**	(8,692)
Service charge costs	(515)	(1,525)	(141)	(77)	**(2,258)**	(2,137)
Routine maintenance	(7,326)	(1,559)	-	(34)	**(8,919)**	(8,870)
Major repairs expenditure	(2,901)	(617)	-	-	**(3,518)**	(3,214)
Bad Debts	(207)	(9)	-	-	**(216)**	(80)
Depreciation of Housing Properties	(5,735)	(855)	(235)	(47)	**(6,872)**	(6,390)
Impairment of Housing Properties	-	-	-	-	-	-
Operating costs	(23,174)	(6,436)	(462)	(217)	**(30,289)**	(29,383)
Operating surplus on Social Housing Lettings	15,123	2,747	1,460	164	**19,494**	20,278
Void Losses	187	62	10	25	**284**	276

Included in the depreciation figures above is £194,000 (2017: £151,000) of accelerated depreciation charges associated with the early replacement of certain components. This accelerated depreciation is recorded within disposals in note 12.

3. Accommodation owned and managed

	2018 No. of properties owned and managed	2017 No. of properties owned and managed
Social Housing		
Under development at end of year:		
General Needs Housing (Social Rent)	**46**	67
General Needs Housing (Affordable Rent)	**61**	68
Supported Housing	**-**	63
Low Cost Home Ownership	**77**	126
Total under development at end of year	**184**	324
Under Management at end of year:		
General Needs Housing	**7,613**	7,604
Supported Housing	**1,668**	1,618
Low Cost Home Ownership	**701**	681
Key Worker Housing	**36**	36
Total under management at end of year	**10,018**	9,939
Non-Social Housing		
Market Rented	**7**	8
Leaseholders	**303**	298
	10,328	10,245

4. Surplus on Ordinary Activities

	2018 £'000	2017 £'000
Group		
The operating surplus is stated after charging/(crediting):-		
Auditors' remuneration (excluding VAT):		
Audit of the group financial statements	**41**	31
Audit of subsidiaries	**8**	7
Taxation compliance services	**25**	25
Other professional services	**-**	-
Operating lease rentals – other	**245**	246
Inventory – cost of sales	**504**	875
Impairment losses - housing properties	**-**	-
Depreciation of housing properties	**6,640**	6,201
Depreciation of other fixed assets	**210**	259
Amortisation	**271**	257

	2018 £'000	2017 £'000
Society		
The operating surplus is stated after charging/(crediting):-		
Auditors' remuneration (excluding VAT):		
Audit of the financial statements (including subsidiaries)	**41**	31
Taxation compliance services	**7**	7
Other professional services	**-**	-
Operating lease rentals	**245**	246
Inventory – Cost of Sales	**504**	875
Impairment losses of housing properties	**-**	-
Depreciation of housing properties	**6,675**	6,239
Depreciation of other fixed assets	**210**	259
Amortisation	**271**	257

5. Gain/(loss) on disposal of property, plant and equipment (fixed assets)

Group	Right to Buy	Right to Acquire	Shared Ownership Staircasing	Others	Total	Total
					2018	2017
	£'000	£'000	£'000	£'000	**£'000**	£'000
Proceeds of sales	2,009	645	1,567	2,942	**7,163**	5,464
Less: Costs of sales	(277)	(3)	(680)	(643)	**(1,603)**	(1,343)
Amount payable to SSDC under claw back agreement	(1,309)	-	(95)	-	**(1,404)**	(966)
Surplus	423	642	792	2,299	**4,156**	3,155
Capital grant recycled (note 23)	-	-	(348)	-	**(348)**	(142)
Disposal proceeds fund (note 24)	-	-	-	-	-	(386)
	423	**642**	**444**	**2,299**	**3,808**	2,627

Society	Right to Buy	Right to Acquire	Shared Ownership Staircasing	Others	Total	Total
					2018	2017
	£'000	£'000	£'000	£'000	**£'000**	£'000
Proceeds of sales	2,009	645	1,567	2,942	**7,163**	5,464
Less: Costs of sales	(277)	(3)	(686)	(646)	**(1,612)**	(1,350)
Amount payable to SSDC under claw back agreement	(1,309)	-	(95)	-	**(1,404)**	(966)
Surplus	423	642	787	2,296	**4,148**	3,148
Capital grant recycled (note 23)	-	-	(348)	-	**(348)**	(142)
Disposal proceeds fund (note 24)	-	-	-	-	-	(386)
	423	**642**	**439**	**2,296**	**3,800**	2,620

6. Interest payable and financing costs

	Group		Society	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Deferred benefit pension charge	1,069	997	1,069	997
On loans repayable within five years	917	1,005	914	1,007
On loans wholly or partly repayable in more than five years	5,936	5,467	5,917	5,467
Costs associated with financing	23	20	23	20
	7,945	7,489	7,923	7,491
Less: interest costs capitalised on housing properties under construction	(379)	(191)	(379)	(191)
	7,566	7,298	7,544	7,300

7. Taxation

	Group		Society	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Current tax				
UK corporate tax expense	5	36	5	34
Adjustments in respect of prior years	-	-	-	1
Total current tax	5	36	5	35
Deferred tax				
Net origination and reversal of timing differences	1	3	-	-
			-	
Total deferred tax	1	3	-	-
Tax on ordinary activities	6	39	5	35

The tax assessed in the year is lower than the standard rate of corporation tax in the United Kingdom at 19% (2017: 20%). The differences are explained as follows.

7. Taxation (continued)

	Group		Society	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Profit on ordinary activities	**14,825**	14,825	**14,995**	14,950
Profit on ordinary activities multiplied by standard rate of Corporation Tax in the UK 19% (2017: 20%)	**2,817**	2,965	**2,849**	2,990
Effects of:				
Profit from charitable activities	**(2,817)**	(2,907)	**(2,836)**	(2,953)
Expenses not deductible	-	-		-
Tax rate changes	-	-		-
Disposal of investment properties	-	(20)		-
Revaluation of investment properties	-	-		-
Profits/(Losses) from LLP	-	1		-
Group relief not paid for	-	-	**(8)**	(3)
Adjustments to tax charge in respect of prior periods	**1**	-		1
Total tax charge/(credit)	**6**	39	**5**	35

Factors that may affect future tax charges

The July 2015 Budget Statement announced changes to the UK corporation tax rate which reduced the main rate of corporation tax to 19% from 1 April 2017 and to 18% from 1 April 2020. The Finance Act 2016 reduced the main rate of corporation tax to 17% from 1 April 2020. These changes were substantively enacted on 26 October 2015 and 6 September 2016 respectively, and accordingly deferred tax balances within the financial statements have been calculated using a rate of 17% (2017: 17%).

8. Losses on Financial Instruments

Group and society	**2018**			
	Profit and loss		**Other comprehensive income**	
	Gains	**Losses**	**Gains**	**Losses**
	£'000	**£'000**	**£'000**	**£'000**
Financial liabilities measured at fair value through profit or loss	-	-	881	-
	-	-	881	-

	2017			
	Profit and loss		**Other comprehensive income**	
	Gains	**Losses**	**Gains**	**Losses**
	£'000	**£'000**	**£'000**	**£'000**
Financial liabilities measured at fair value through profit or loss	-	-	-	(431)
	-	-	-	(431)

9. Directors' Remuneration

Directors are key management personnel, defined as members of the Board, the Chief Executive and Executive Officers.

	2018 £'000	2017 £'000
The aggregate emoluments paid or receivable by non-executive Directors and former non-executive directors	**47**	49
The aggregate emoluments paid or receivable by executive Directors and former executive Directors	**592**	462
The emoluments paid to the highest paid Directors excluding pension contributions	**177**	155
The aggregate amount of Directors or past Directors pensions, excluding amounts payable under a properly funded pension scheme.	**57**	46
The aggregate amount of any consideration payable to Directors for loss of office	**-**	30

The Chief Executive is the highest paid Director. He is an ordinary member of the Somerset County Council Local Government pension scheme. No enhancement or special terms apply, a contribution of £21k (2017: £19k) was paid. He has no individual pension arrangements to which the Group makes a contribution. The increase in aggregate emoluments paid to Directors from 2016-17 is related the restructuring of the Executive Team which commenced during 2016-17.

10. Employee Information

	Group		Society	
	2018 No.	2017 No.	2018 No.	2017 No.
The average number of persons employed during the year expressed in full time equivalents (37 hours per week) was:				
Office Staff	**202**	199	194	192
Maintenance Staff	**57**	62	57	62
Scheme Managers, Caretakers and Cleaners	**44**	54	44	54
	303	315	295	308

10. Employee Information (continued)

	Group		Society	
	2018	**2017**	**2018**	**2017**
Staff costs	**£'000**	**£'000**	**£'000**	**£'000**
Wages and salaries	**8,876**	9,245	8,645	9,036
Social security costs	**886**	919	864	899
Other pension costs	**1,519**	1,483	1,506	1,474
	11,281	11,647	**11,015**	11,409

The charge for the year for the defined benefit scheme (see note 21) was £2,330,000 (2017: £1,753,000).

Group

Aggregate number of full time equivalent staff whose remuneration exceeded (including employer pension contributions)	**2018 No.**	**2017 No.**
£0 - £59,999	292	300
£60,000 - £69,999	5	6
£70,000 - £79,999	1	4
£80,000 - £89,999	-	2
£90,000 - £99,999	-	-
£100,000 - £109,999	-	-
£110,000 - £119,999	1	-
£120,000 - £129,999	-	-
£130,000 - £139,999	1	1
£140,000 - £149,999	1	-
£150,000 - £159,999	-	1
£160,000 - £169,999	-	-
£170,000 - £179,999	1	1
£180,000 - £189,999	-	-
£190,000 - £199,999	-	-
£200,000 - £209,999	1	-

All employees within the Group that do not work for the Society are in the category £0 - £59,999.

11. Intangible assets

Intangible assets are entirely made up of computer software costs used within the business. Costs include staff time required to develop the software to meet specific business needs.

	Group		Society	
	2018 £'000	**2017 £'000**	**2018 £'000**	**2017 £'000**
Cost at start of the year	1,149	1,087	1,149	1,087
Additions	74	62	74	62
Disposals	(10)	-	(10)	-
At end of the year	1,213	1,149	1,213	1,149
Accumulated amortisation at start of year	(660)	(403)	(660)	(403)
Provision for year	(273)	(257)	(271)	(257)
Disposals	3	-	3	-
At end of year	(930)	(660)	(928)	(660)
Net book value	**283**	**489**	**285**	**489**

12(a). Tangible fixed assets

Group	Housing Properties					Other fixed assets			
	Social Housing Properties for Letting Completed £'000	Social Housing Properties for Letting under Construction £'000	Low Cost Home Ownership Properties Completed £'000	Low cost Home Ownership Properties Under Construction £'000	Total Housing Properties £'000	Freehold Offices £'000	Photo-Voltaic Panels £'000	Furniture And office Equipment £'000	Total Fixed assets £'000
Cost									
At start of the year	456,790	8,108	39,272	748	504,918	3,103	705	1,661	510,387
Additions to properties acquired	-	-	-	-	-	-	-	-	-
Works to existing properties	6,833	-	-	-	6,833	-	-	-	6,833
Interest capitalised	235	23	73	48	379	-	-	-	379
Transfer of work in progress/completed	8,261	(8,261)	505	(505)	-	-	-	-	-
Additions	6,368	1,869	1,793	1,712	11,742	-	-	-	11,742
Disposals	(2,240)	(20)	(1,134)	-	(3,394)	-	-	-	(3,394)
Transfers to/from investment property	-	-	-	-	-	-	-	-	-
At end of the year	**476,247**	**1,719**	**40,509**	**2,003**	**520,478**	**3,103**	**705**	**1,661**	**525,947**
Accumulated depreciation and impairment									
At start of the year	29,879	-	1,090	-	30,969	157	148	1,467	32,741
Charge for the year	6,403	-	237	-	6,640	83	28	99	6,850
Impairment losses	-	-	-	-	-	-	-	-	-
Disposals	(436)	-	(37)	-	(473)	-	-	-	(473)
At end of the year	35,846	-	1,290	-	37,136	240	176	1,566	39,118
Net book value at the end of the year	**440,401**	**1,719**	**39,219**	**2,003**	**483,342**	**2,863**	**529**	**95**	**486,829**

Cost of properties includes £322k (2017: £325k) for direct administration costs capitalised during the year

12(b). Tangible fixed assets

Society	Housing Properties					Other fixed assets			
	Social Housing Properties for Letting Completed £'000	Social Housing Properties for Letting under Construction £'000	Low Cost Home Ownership Properties Completed £'000	Low cost Home Ownership Properties Under Construction £'000	Total Housing Properties £'000	Freehold Offices £'000	Photo-Voltaic Panels £'000	Furniture And office Equipment £'000	Total Fixed assets £'000
Cost									
At start of the year	461,441	8,383	39,447	756	510,027	3,103	705	1,657	515,492
Additions to properties acquired	-	-	-	-	-	-	-	-	-
Works to existing properties	6,833	-	-	-	6,833	-	-	-	6,833
Interest capitalised	235	23	73	48	379	-	-	-	379
Transfer of work in progress/completed	8,261	(8,261)	505	(505)	-	-	-	-	-
Additions	6,535	1,871	1,849	1,713	11,968	-	-	-	11,968
Disposals	(2,241)	(20)	(1,139)	-	(3,400)	-	-	-	(3,400)
Transfers to/from investment property	-	-	-	-	-	-	-	-	-
At end of the year	481,064	1,996	40,735	2,012	525,807	3,103	705	1,657	531,272
Accumulated depreciation and impairment									
At start of the year	29,992	-	1,096	-	31,088	157	148	1,467	32,860
Charge for the year	6,440	-	235	-	6,675	83	28	99	6,885
Impairment losses	-	-	-	-	-	-	-	-	-
Disposals	(436)	-	(35)	-	(471)	-	-	-	(471)
At end of the year	35,996	-	1,296	-	37,292	240	176	1,566	39,274
Net book value at the end of the year	445,068	1,996	39,439	2,012	488,515	2,863	529	91	491,998

Cost of properties includes £322k (2017: £325k) for direct administration costs capitalised during the year

12 (c). Fixed Asset Investments

Group Companies
The Society has four wholly owned subsidiaries, Yarlington Property Management ("YPM"), which provides maintenance services to third parties, Yarlington Homes Ltd ("YHL"), which provides development services to the Society, Inspired to Achieve (i2a) which provides employment skills advice and mentoring and Yarlington Treasury Services plc ("YTS"), which has issued our listed bond. YPM & YHL started trading on 1 October 2004. Inspired to Achieve was acquired on the 2nd October 2014. Yarlington Treasury Services was incorporated on the 18th September 2017. The Society holds one £1 Ordinary share in both YPM and i2a and twelve thousand five hundred £1 ordinary shares in YTS.

The Society held 3,000,000 £1 Ordinary shares in YHL at the start of the financial year and purchased an additional 3,000,000 shares of £1 each on the 21st March 2018. On the 30th March 2016 74,210 ordinary shares of £1 each were cancelled and extinguished and debited to accumulated profit.

The Society has the right to appoint members to the Boards of the four subsidiaries and therefore exercises control over them.

Associates and joint ventures
The Group through Yarlington Homes Ltd owns 25% of Advantage South West LLP ('ASW'); a limited liability partnership. ASW was set up in May 2004 as a consortium to obtain value for money in procurement.

13 Investment properties

	Group		Society	
	2018	2017	**2017**	2017
	£'000	£'000	**£'000**	£'000
At the start of the year	**9,998**	9,272	**9,998**	8,620
Additions		-	-	718
Disposals	**(110)**	-	**(110)**	-
Gain from adjustment in value	**64**	726	**64**	660
At end of year	**9,952**	9,998	**9,952**	9,998

Investment properties were valued at 31 March 2018 by Savills professional qualified external valuers. The valuation of properties was undertaken in accordance with the Royal Institute of Chartered Surveyors Valuation Standards and has been made on an open market basis. Future rent increases are assumed at CPI and a 10% void allowance has been assumed.

14. Stock and work in progress

	Group		Society	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Consumable maintenance stock	**79**	79	**79**	79
Properties held for sale				
Shared ownership properties:				
Completed	1,018	437	1,029	440
Work in progress	1,850	2,079	1,854	2,139
Outright sale properties: construction				
Work in progress	7,100	5,393	-	-
Surplus properties held for disposal	86	276	106	276
	10,133	8,264	**3,068**	2,934

15. Trade and other debtors

	Group		Society	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Rent arrears	**1,274**	1,303	**1,274**	1,303
Less provision for bad debts	**(852)**	(908)	**(852)**	(908)
Social housing grant receivable	**1,076**	-	**1,076**	-
Prepayments and accrued income	**937**	547	**928**	547
Amounts due from group undertakings	**-**	-	**830**	181
Loans to group undertakings	**-**	-	**549**	2,037
Other debtors	**1,894**	2,229	**1,869**	2,187
	4,329	3,171	**5,674**	5,347

Other debtors includes £23k (2017: £10k) falling due after more than one year.

Short-term funding facilities are available to Yarlington Homes Ltd, a subsidiary of the Society. These facilities are £8 million (2017: £8 million) and are secured by a floating charge against Yarlington Homes Ltd's assets and are repayable one month on demand with a final repayment date of 4 years. Interest is payable at 2% above the 1 month LIBOR rate. As at 31 March 2018, £0.549 million were drawn down (2017: £2.037m)

16. Investments

	Group		Society	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Investments at cost	**75**	75	**75**	75
	75	75	**75**	75

Investment in Somerset Savings & Loans
During 2013/14, Yarlington Housing Group made a cash investment of £15,000 with Somerset Savings & Loans: the investment provides an annual return of 2%. Somerset Savings & Loans is a community owned, not-for-profit financial co-operative. Our investment allows our tenants to apply for short term loans and save through Somerset Savings & Loans.

Investment in Smarterbuys
During 2014-15, Yarlington Housing Group made a cash investment of £30,000 with Smarterbuys, with two further investments of £15,000 in 2015-16 and 2016-17 to give a total investment of £60,000: the investment provides an annual return of 5%. Smarterbuys aims to offer a credible alternative to high interest stores and loan sharks; it is a website that offers essential household items, including furniture, electrical items and white goods, at a significant discount from the recommended retail price, with access to responsible credit.

The Directors consider the inherent value of both investments is in providing our residents access to these products and that the full carrying value is supported.

17. Cash and Cash equivalents

	Group		Society	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
Cash at bank	46	95	15	15
Short term deposits	32,082	12,453	32,082	12,452
	32,128	12,548	32,097	12,467

Analysis of group cash and cash equivalents

	As at 1 April 2017 £'000	Cash flow £'000	**As at 31 March 2018 £'000**
Cash at bank	95	(49)	**46**
Short term deposits	12,453	19,629	**32,082**
	12,548	19,580	**32,128**

18(a). Creditors: amounts falling due within one year

	Group		Society	
	2018 £'000	Restated 2017 £'000	**2018 £'000**	Restated 2017 £'000
Loans and overdrafts	7,109	4,499	7,109	4,499
Trade creditors	680	133	658	131
Amounts owed to group undertakings	-	-	2,345	1,155
Rents and service charges paid in advance	1,896	1,677	1,896	1,677
Corporation tax	5	34	5	35
Other taxation and social security payable	23	220	51	220
Accruals and deferred income	9,132	8,852	7,693	7,659
SHG to be released in 1 year	599	564	599	564
Deferred capital grant (note 22)	2	1	2	1
Recycled capital grant fund (note 23)	777	427	777	427
Disposal proceeds fund (note 24)	655	652	655	652
Other creditors	1,538	1,307	1,489	1,220
	22,416	18,366	23,279	18,240

The 2017 comparative figures have been restated to reflect the categorisation of creditors.

18(b). Creditors: amounts falling due after more than one year

	Group		Society	
	2018	**2017**	**2018**	**2017**
	£'000	**£'000**	**£'000**	**£'000**
Bank Loans between 1 and 2 years by instalments	15,521	13,572	15,521	13,572
Bank Loans between 3 and 5 years by instalments	30,885	30,353	30,885	30,353
Bank Loans repayable in more than 5 years by instalments	148,483	141,235	147,344	141,235
Less costs of issue – amortised loan costs	(1,089)	(394)	(448)	(394)
Add accrued income	2,459	0	2,459	0
Social Housing Grant	65,408	65,002	65,408	65,002
Deferred capital grant	0	2	0	2
Total	261,667	249,770	261,169	249,770

19(a). Debt analysis – drawn facilities

	Group		Society	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Loans repayable by instalments:				
Within one year	7,109	4,499	7,109	4,499
In one year or more but less than two years	15,521	13,572	15,521	13,572
In two years or more and less than five years	30,885	30,353	30,885	30,353
In five years or more	148,483	141,235	148,483	141,235
Loans not repayable by instalments				
Less loan issue costs	(1,089)	(394)	(1,089)	(394)
Add accrued income	2,458	-	2,458	-
Total	203,367	189,265	203,637	189,265

The loans are repayable monthly/quarterly at varying rates of interest and are due to be repaid at various points with the final borrowings maturing in 2038.

The interest rate profile of YHG at 31st March 2018 was:

	Total **£'000**	**Variable Rate £'000**	**Fixed Rate £'000**	**Weighted Average Rate %**	**Weighted Average Term Years**
Instalment loans	201,999	19,230	182,769	3.53	18.43
Non-instalments loans	-	-	-	-	-

19(b). Debt analysis – undrawn facilities

At 31 March 2018 YHG has the following borrowing facilities:	£'000
Undrawn committed facilities	
Undrawn facilities	49,312

20. Financial Instruments

(a) Descriptions

Yarlington Housing Group holds several different types of financial instruments which it uses to fund activities and uses derivative financial instruments to manage its interest rate risk. If certain criteria laid down in Section 12 'Other financial instruments of FRS 102' are met the directors may judge it appropriate to link a derivative financial instrument to a financial instrument recognised at amortised cost in a hedging relationship. This allows the effective portion of gains and losses on the derivative instrument, the hedging instrument, to be deferred in a cashflow hedge reserve until the impact of the amortised cost instrument, the hedged item, is seen in the profit or loss for the period. The amount of the change in fair value of the hedging instrument that was recognised in other comprehensive income during the year was a gain of £881k (2017: loss of £431k).

The ineffective portion of these gains or losses is recognised in the profit or loss for the period immediately. The directors judge that the use of hedging relationships reduces volatility in the group's financial results.

The characteristics of the main classes of financial instrument held are given below:

Interest rate swaps
Fixed rated loans
Floating rated loans
Disposal proceeds fund
Recycled capital grant fund

(b) Classifications

Amortised cost

Basic financial instruments such as loans are measured at amortised cost. This is calculated using the effective interest rate method. For floating rated loans and fixed rate loans with no interest rate changes the effective interest will equal the amount of interest paid. For fixed rated loans which have changes in interest rate over the life of the loan the effective interest rate will average the different interest rates over the life of the loan. The effective interest is the amount that is recognised in profit or loss.

Fair Value through Profit or Loss (FVTPL)

Complex financial instruments, such as derivatives are recognised at Fair Value through Profit or Loss. At the end of each financial period their value is calculated by looking at an active market of similar instruments and establishing what their value would be if they were traded on that market, their Fair Value. Any changes in the fair value are recognised in profit or loss i.e. above surplus before tax in the statement of comprehensive income.

Equity

Equity is the difference between an entity's total assets and total liabilities. Where a company has joint or a controlling interest in another company its share of the equity in that company is recognised in its financial statements.

Financial instrument carrying values

The group has the following financial instruments

	2018	2017
	£'000	£'000
Financial instruments that are debt instruments measured at amortised cost		
Trade and rent debtors	**422**	395
Other grants receivable	**-**	-
Other debtors	**3,909**	2,776
	4,331	3,171
Financial instruments that are equity instruments measured at cost less impairment		
Investment in joint venture (Group only)	**106**	107
	106	107

20. Financial Instruments (continued)

	2018	2017
Financial liabilities measured at fair value through profit or loss	**£'000**	£'000
Derivative financial instruments held to manage interest rates	(7,904)	(8,785)
Interest rate swaps	-	-
	(7,904)	(8,785)
Financial instruments measured at amortised cost		
Fixed rate loans	(178,584)	(168,386)
Floating rated loans	(23,415)	(21,273)
Disposal proceeds fund	(655)	(652)
Recycled Capital Grant Fund	(777)	(427)
Trade creditors	(680)	(133)
Accruals	(9,086)	(2,516)
Other creditors	(11,167)	(14,638)
	224,364	(208,025)
Loan commitments measured at cost less impairment		
Drawn committed borrowings	201,999	189,659
Carrying value of drawn committed borrowings	201,999	189,659
Loan commitments measured at cost less impairment		
Undrawn committed borrowings	-	-
Carrying value of undrawn committed borrowings	-	-

The society has the following financial instruments

	2018	2017
	£'000	£'000
Financial instruments that are debt instruments measured at amortised cost		
Trade and rent debtors	**422**	419
Other grants receivable	**1,076**	-
Other debtors	**4,176**	2,642
	5,674	3,656
	2018	2017
Financial liabilities measured at fair value through profit or loss	**£'000**	£'000
Derivative financial instruments held to manage interest rates	**(7,904)**	(8,785)
Interest rate swaps	-	-
	(7,904)	(8,785)
Financial instruments measured at amortised cost		
Fixed rate loans	**(178,584)**	(168,386)
Floating rated loans	**(23,415)**	(21,273)
Disposal proceeds fund	**(655)**	(652)
Recycled Capital Grant Fund	**(777)**	(427)
Trade creditors	**(362)**	(131)
Accruals	**(2,760)**	(1,454)
Other creditors	**(18,673)**	(15,576)
	(225,226)	(207,899)
Loan commitments measured at cost less impairment		
Drawn committed borrowings	**201,999**	189,659
Carrying value of drawn committed borrowings	**201,999**	189,659
Loan commitments measured at cost less impairment		
Undrawn committed borrowings	-	-
Carrying value of undrawn committed borrowings	-	-

21. Pension Obligations

Yarlington Housing Group participates in two schemes, the Local Government Pension Scheme (LGPS), which is a defined benefits scheme providing benefits on final pensionable pay and a defined contribution scheme with Standard Life. The LGPS scheme is closed to new employees.

In calculating the net present value of the liability included within provisions the actuary has used a discount rate based on a market rate AA corporate bond for the same period as the contractual obligations.

Group and Society

	2018	2017
	£'000	£'000
At start of year	(38,897)	(26,908)
Additional liabilities in the year	(904)	(320)
Interest for the year	(259)	5,691
Remeasurements	3,613	(17,360)
At end of year	(36,447)	(38,897)

Local Government Pension Scheme

The LGPS is a funded defined-benefit scheme, with the assets held in separate funds administered by Somerset County Council. The total contributions made for the year ended 31 March 2018 were £1.81m (2017: £1.85m), of which employer's contributions totalled £1.40m (2017: £1.41m) and employees' contributions totalled £0.4m (2017: £0.4m). The agreed contribution rates for future years are 14.5% for employers plus a lump sum payment of £547,000 (2017: £534,000) and range from 5.5% to 12.5% for employees, depending on salary.

Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 31 March 2016 updated to 31 March 2018 by a qualified independent actuary.

	At 31 March 2018	At 31 March 2017
Rate of increase in salaries	3.80%	4.35%
Rate of increase for pension in payment/inflation	2.30%	2.70%
Discount rate for scheme liabilities	2.55%	2.8%
Inflation assumption (CPI)	2.30%	2.70%
Commutation of pensions to lump sums	50.00%	50.00%

The current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations on retirement age 65 are:

	At 31 March 2018 Years	At 31 March 2017 Years
Retiring today		
Males	24.0	23.9
Females	25.2	25.0
Retiring in 20 years		
Males	26.2	26.1
Females	27.5	27.4

21. Pension Obligations (continued)

Analysis of the amount charged to operating costs in the Statement of Comprehensive Income

	At 31 March 2018 £'000	At 31 March 2017 £'000
Employer service cost (net of employee contributions)	**(2,294)**	(1,668)
Past service cost	**(14)**	(59)
Administration expenses	**(22)**	(26)
Total operating charge	**(2,330)**	(1,753)
Analysis of pension finance income/(costs)		
Interest on pension scheme assets	**1,111**	1,210
Interest on pension liabilities	**(2,180)**	(2,207)
Amounts charged to financing costs	**(1,069)**	(997)

The employers' cash contributions for the financial year were £1,404,000 (2017: £1,407,000). The estimated employers' cash contributions for the coming year are £1,401,000.

	At 31 March 2018 £'000	At 31 March 2017 £'000
Actuarial gains/(losses) on pension scheme assets – return on assets less interest	**832**	6,405
Actuarial (losses)/gains on scheme liabilities - remeasurements	**3,613**	(17,051)
Actuarial gain/(loss) recognised	**4,445**	(10,646)

Movement in deficit during year	**At 31 March 2018 £'000**	**At 31 March 2017 £'000**
Deficit in scheme at 1 April	(38,897)	(26,908)
Movement in year:		
Employer service cost (net of employee contributions)	(2,294)	(1,668)
Employer contributions	1,404	1,407
Past service cost	(14)	(59)
Net interest/return on assets	(259)	5,691
Remeasurements	3,613	(17,360)
Deficit in scheme at 31 March	(36,447)	(38,897)

21. Pension contributions (continued)

Asset and Liability Reconciliation	At 31 March 2018 £'000	At 31 March 2017 £'000
Reconciliation of liabilities		
Liabilities at start of period	78,528	58,555
Service cost	2,294	1,668
Interest cost	2,180	2,207
Employee contributions	409	442
Remeasurements	(3,613)	17,051
Benefits paid	(1,730)	(1,454)
Past Service cost	14	59
Curtailments and settlements	-	-
Liabilities at end of period	78,082	78,528

Reconciliation of assets	2018 £'000	2017 £'000
Assets at start of period	39,631	31,647
Interest on assets	1,111	1,210
Return on assets less interest	832	6,714
Administration expenses	(22)	(26)
Employer contributions	1,404	1,407
Employee contributions	409	442
Benefits paid	(1,730)	(1,454)
Other actuarial losses	-	(309)
Assets at end of period	41,635	39,631

Breakdown of assets by type	2018 £'000	2017 £'000
Equities	29,721	28,255
Gilts	2,253	2,429
Other bonds	3,900	3,887
Property	3,953	3,496
Cash	1,808	1,564
Assets at end of period	41,635	39,631

Defined contribution scheme

As noted on page 56, the Group also operates a defined contribution scheme with Aviva. Employees contribute a percentage of their salary into the scheme and YHG will double this contribution up to a cap of 12%. Monies are paid into an investment pot held by Friends Life and invested on behalf of the employees. Total matched contributions made in the year were £119,000 (2017: £92,000).

22. Deferred capital grant

	Group and Society	
	2018 £'000	2017 £'000
At the start of the year	3	5
Released to income in the year	(1)	(2)
At the end of the year	2	3

	2018 £'000	2017 £'000
Amount due to be released <1 year	2	1
Amount due to be released > 1 year	-	2
	2	3

23. Recycled capital grant fund

		Group and Society 2018 £'000	2017 £'000
At the start of the year		427	377
Inputs:	Grants recycled	348	142
	Interest accrued	2	1
Recycling:	New build	-	(93)
At the end of the year		777	427

24. Disposal proceeds fund

		Group and Society 2018 £'000	2017 £'000
At the start of the year		**652**	265
	Funds recycled	-	386
	Interest accrued	**3**	1
Use/allocation of funds			
	New build		-
At the end of the year		**655**	652

25. Capital commitments

	Group 2018 £'000	Group 2017 £'000	Society 2018 £'000	Society 2017 £'000
Capital expenditure that has been contracted for but is not provided for in the financial statements	5,364	16,266	5,364	16,457
Capital expenditure that has been authorised by the Board but not contracted for	24,186	2,506	24,526	2,506
	29,551	18,772	29,891	18,963
YHG expects these commitments to be financed with:				
Social housing grant	3,891	1,437	3,891	1,437
Committed loan facilities and sales	25,660	17,335	26,000	17,526
	29,551	18,772	29,891	18,963

26. Operating Leases

YHG holds office equipment under non-cancellable operating leases. At the end of the year the YHG had commitments of future minimum lease payments as follows:-

	Group		Society	
Payments due	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Not later than one year	79	84	79	84
Later than one year but not later than five years	333	534	333	534
Later than five years		-		-
Total	412	618	412	618

The lease agreements do not include any contingent rent or restrictions. Some operating leases for motor vehicles include purchase options.

27. Related parties

Yarlington Housing Group is the Parent entity in the Group and ultimate controlling party. The Group has taken advantage of the exemption available under Section 33 FRS 102 not to disclose transactions with wholly owned subsidiary undertakings.

The following are related parties:

During the year, the Society employed a Procurement Manager and a Contract Manager on behalf of Advantage South West LLP, an investment held by its subsidiary Yarlington Homes Ltd. Yarlington Housing Group provides financial and secretarial support to Advantage South West LLP. The costs associated with these posts and the support are recharged on to Advantage South West LLP. The costs were £140,486 for the period until the 31st March 2018 (2017: £150,318). Yarlington Housing Group's annual fee for membership of Advantage South West LLP's procurement consortium was £19,209 excluding VAT (2017: £19,176).