

Registered Society No: 28156R
Homes and Communities Agency No: LH4090

DRUM HOUSING ASSOCIATION LIMITED

Annual Report and Financial Statements

Year Ended 31 March 2017

DRUM HOUSING ASSOCIATION LIMITED

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GENERAL INFORMATION

BOARD OF MANAGEMENT

Carol Bode	Chair – appointed 01/10/2016
Jayne Beeson	
Bridget Phelps	Appointed 01/10/2016
Simon Porter	
Mark Ralf	Appointed 01/10/2016
Lindsay Todd	
Ashley West	Appointed 16/03/2017

SECRETARY

Malcolm Rule

REGISTERED OFFICE

Collins House
Bishopstoke Road
Eastleigh
Hampshire
SO50 6AD

BANKERS

Lloyds Bank
25 Gresham Street
London
EC2V 7HN

AUDITOR

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

INTRODUCTION FROM THE CHAIR

Since proudly becoming Chair of Drum Housing Association Limited in October 2016 we have been through a period of significant change. Perhaps most notable is the British electorate's decision to leave the European Union. We are mindful of the impact that political decisions have on our area of work and how changes within the economy will affect our residents and customers. However, we remain confident that we are in a strong position to work through such conditions as and when they arise, by working on a rolling strategy that enables us to adapt quickly and efficiently.

Despite the challenges we have faced, it has been another successful year for Drum Housing Association Limited. Yet we know that continuing with business as usual is not an option. The need for innovation is a constant. This will help us to continue delivering efficiencies and securing competitive funding for growth.

Radian's Vision 2025 remains at the heart of what we do and is where we aspire to be. A new 2017-20 Strategic Plan has been launched to give staff an understanding of the bigger picture and the roles they play individually and collectively in delivering the Plan. Empowering our people with the ability to innovate, to share and critique ideas and to engage in our Vision is key to our success.

There is an ever-growing need to supply more homes across our regions and we will continue to increase the number of homes that we manage. We are keen to identify public or private land that could be available for development. This may include larger sites with strategic opportunities that may not be suitable for short-term investors. Our development programme of property for both rent and sale is key to the success of our future.

Following the tragic events at Grenfell Tower, we have been and will continue to be in regular contact with our residents to address any concerns they may have and to provide fire safety advice and guidance. Following an internal investigation, it was established that none of our developments are of sufficient height to be considered high risk. We will continue to undertake a proactive and robust range of measures to ensure that our homes across our geography are safe and to reduce the risk of harm from fire.

At the end of 2016/17 the Association owned and managed (through its managing agent) 5,733 (2016: 5,590) homes across the South and South West of England.

During the year, Radian delivered a total of 418 (2016: 229) new homes of which 170 (2016: 60) were completed by Drum Housing Association Limited.

The 2016/17 programme created and enhanced a number of vibrant communities including Westburn Fields, Lower Froyle. We previously owned four post-war Swedish timber chalet bungalows on the site which has been rejuvenated with eight family homes for affordable rent. Another significant development is at Queen Katherine Road, Lymington, where we have delivered a mixed tenure scheme of 10 homes which include affordable rented and rent to buy properties. The new homes we provide are of a high quality, built to the highest energy efficient standards and have sustainable designs.

In July 2017, Lindsay Todd announced that he will be stepping down as Chief Executive of Radian Group as of 31 August 2017. Lindsay has steered the organisation through a period of immense growth and change, including a successful three-way merger, creating an organisation six times larger than when he joined, set against a backdrop of constantly shifting sector landscapes. Lindsay leaves Radian in a strong financial position. The Board and Executive Members are grateful to him for all he has accomplished during his time at Radian.

INTRODUCTION FROM THE CHAIR (continued)

As we head into a new financial year, I would like to express my sincere thanks to everyone that has contributed to the growth and strength of Drum Housing Association Limited. Our ability to continue developing new homes in the current climate is testament to the efforts put in by those passionate about making a difference to our communities. I look forward to seeing what the next year will bring.

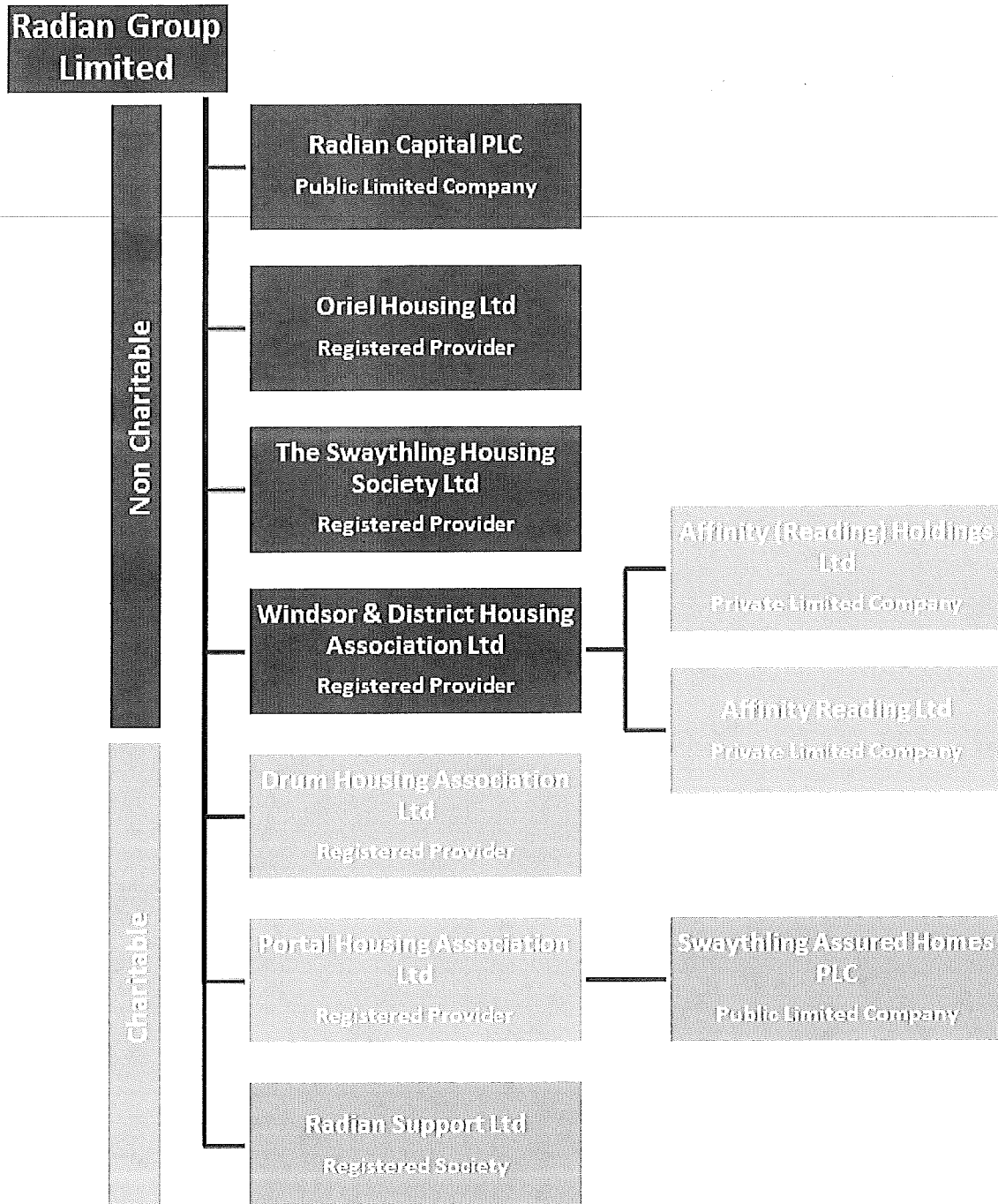
A handwritten signature in black ink, appearing to read "Carol Bode". The signature is written in a cursive, flowing style with a large initial 'C'.

Carol Bode

Chair

OUR PRINCIPAL ENTITIES

Radian Group Limited, the Group’s parent entity, is a company limited by guarantee and regulated by the Homes and Communities Agency as a Registered Provider. It does not own any housing stock and the Group’s activities take place within the Group’s registered provider subsidiaries.



OUR EXECUTIVE TEAM

Lindsay Todd – Chief Executive

Lindsay is a chartered surveyor who has held housing and development roles in housing associations in the North and the Midlands, as well as with a private rent housing company. He was Chief Executive of Oriel Group, one of Radian's founding partners, and became Radian's Chief Executive when it was formed in 2006. He is a member of the South East Regional Council of the Confederation of British Industry and Royal Institute of Chartered Surveyors Housing Supply Group. In July 2017, Lindsay announced that he will be stepping down as Chief Executive of Radian Group as of 31 August 2017.

Andrew Newberry – Former Director of Finance and IT

Andrew qualified as a chartered accountant in 1979 whilst working for an international practice in England. After two years' further experience with them in Africa he returned to England and moved into commerce. This gave him experience at a senior level in a range of activities including construction, property development, property maintenance and leasing.

Andrew joined The Swaythling Housing Society Limited as Director of Finance in 1996, taking responsibility for finance, IT and company secretary matters and became Director of Finance of Radian Group at its inception. He is a member of the National Housing Federation (NHF) Financial Policy Advisory Group and the Housing Statement of Recommended Practice (SORP) Working Party. Andrew retired from Radian at the end of April 2017.

Beverley Anne Costain - Director of Finance and IT

Anne started her career at Aon in 1992 and worked for various organisations, qualifying as a Chartered Accountant in 2000 (ACCA). Anne joined De La Rue in 2006 where she held a number of roles, culminating in being appointed Divisional Finance Director for Supply Chain and Currency.

Anne joined Radian Group in August 2012 as Deputy Finance Director, becoming Finance Director (designate) in July 2016 and formally taking over from Andrew Newberry as Finance Director upon his retirement. In her role as Deputy Finance Director, Anne has headed up the Finance and Treasury departments, qualifying as a Corporate Treasurer (AMCT) during this time.

Andrea Smith – Former Director of Development and New Business

Andrea joined The Swaythling Housing Society Limited, one of Radian's founding entities, in July 1998 and has therefore been with Radian since its inception. A chartered architect, Andrea's early career was spent in private practice.

Passionate about property and design and proud of Radian's track record of developing award-winning schemes, Andrea is a Board Member of Dorset Local Enterprise Partnership (LEP) and was chair of the NHF Delivering Great Homes Group and a member of its South East Standing Board until 31 March 2017. Andrea retired from Radian at the end of April 2017.

OUR EXECUTIVE TEAM (continued)

Peter Evans - Director of Technical Services

Peter has been working in construction for over 30 years gaining experience in a variety of roles including self employment, contracting, private sector consultancy, charitable organisations and the housing sector.

After leaving the production side of the construction industry in 1997 he qualified as a surveyor and subsequently joined the National Trust as an historic building surveyor working in Oxfordshire. In the same year he won two Chartered Institute of Builders Awards in Contractual and Technology studies. As Director of Technical Services he is responsible for asset management, maintenance and facilities management. He assumed responsibility for Radian's development function on Andrea Smith's retirement.

Ralph Facey - Director of Housing and Customer Services

Ralph joined Radian in January 2005 and has over 25 years' housing management experience gained in a range of different organisations. In Birmingham, Ralph co-ordinated preparations for the transfer of the City Castle Vale estate to a Housing Action Trust and oversaw the formal transfer. After three years spent as Housing Services Manager at Southampton City Council, Ralph became Chief Housing Officer at Gosport and led the service through a period of successful and significant change.

In January 2005 Ralph took over responsibility for The Swaythling Housing Society Limited's preparations for the July 2005 Audit Commission inspection, which resulted in a good service and excellent prospects for improvement judgment. Ralph was appointed as Director of Housing and Customer Services in December 2009 and is also a member of the Chartered Institute of Housing.

Isabelle Simon-Evans - Director of Corporate Services

Isabelle joined Radian in February 2010 following a career across the private, public and not-for-profit sectors and has experience of strategic restructuring and outsourcing as well as integrating cultures after mergers. Isabelle was formerly Director of People, Procurement and Organisational Development with The Children's Society and a Board Member and Chair of the remuneration committee for a housing association specialising in services for people with learning disabilities and mental health issues.

Starting her career in sales and marketing, Isabelle developed operational experience in running services for vulnerable adults and registering and inspecting residential care. She is a fellow of the Institute of Personnel and Development and has had experience as a magistrate in the youth and adult courts.

BOARD REPORT

The Board presents its annual report and the audited financial statements for the year ended 31 March 2017.

Principal Activities

Drum Housing Association Limited (the Association) is a Registered Society under the Co-operative and Community Benefit Societies Act 2014 and a Registered Provider of Social Housing. It is a subsidiary of Radian Group Limited (the Group). Its principal activity is to provide high quality homes and services which help improve people's lives and sustain the communities in which they live.

Corporate Governance Statement

As a subsidiary of Radian Group Limited, the Association's affairs are overseen by the Group Combined Board which is formed of Board Members from across the Group's entities with each Board Member representing their respective entity or entities.

This ensures that each entity's interests are protected. Intercompany transactions are also governed by Group policy to protect the interests of individual entities.

Board Members of Drum Housing Association Limited

The current Board Members of the Association are set out on page 1. The Board Members are drawn from a wide background bringing together professional, commercial and other relevant experience. There have been no appointments to, or resignations from, the Board after the year end and in the period up to the date of signing this report.

Recommendations from a review of Radian's formal governance structure and governance effectiveness, led by the Group Combined Board, were implemented from 1 October 2016. The objectives were to achieve best practice in decision making and excellence in governance whilst continuing to meet statutory and regulatory requirements. The review encompassed the Group's legal entity structure, the role and composition of the Group Combined Board, its Committees and their skills and expertise, resident involvement, the terms of reference for the Executive Board and the overall effectiveness of the governance structure.

Following this review a new Housing, Assets and Customer Services Panel was established to best serve residents' interests and two former resident Board Members were transferred to lend their expertise to the governance of the housing management service. On 16 March 2017, two new Board Members were appointed to various subsidiaries across the Group thus further strengthening the Group Combined Board. One of these, Ashley West, joined the Board of Drum Housing Association Limited on the same date.

Board Membership of Drum Housing Association Limited, including changes that have taken place during the year, are set out below.

DRUM HOUSING ASSOCIATION LIMITED

BOARD REPORT (continued)

Board Members of Drum Housing Association Limited (continued)

Name	Committee, Panel and Other Roles	Movements in Year	
		Joined	Left
Carol Bode	Member of Remuneration and Nominations Committee	01/10/16	
Lindsay Todd	Chief Executive Officer Member of Treasury and Investment Committee Chair of Executive Development Panel		
Simon Porter	Chair of Audit and Risk Committee Member of Treasury and Investment Committee and Remuneration and Nominations Committee		
Jayne Beeson	Member of Audit and Risk Committee and Remuneration and Nominations Committee		
Michael Collis	Resident Board Member		01/10/16
Colin Hessey	Resident Board Member		01/10/16
Mandy Clarke	Senior Independent Director Chair of Remuneration and Nominations Committee Member of Audit and Risk Committee		01/10/16
Oliver Graham	Chair of Treasury and Investment Committee Member of New Business Committee (ceased) and Audit and Risk Committee		15/12/16
Mark Ralf	Chair of Treasury and Investment Committee and Member of Audit and Risk Committee and Remuneration and Nominations Committee	01/10/16	
Bridget Phelps	Member of Audit and Risk Committee and Remuneration and Nominations Committee	01/10/16	
Ashley West	Member of Audit and Risk Committee and Remuneration and Nominations Committee	16/03/17	

The Group Combined Board Composition and Remuneration

<i>"CH"/"VC" denotes Chair/Vice Chair; "x" denotes Membership of a Board</i>	Group Combined Board						Other	Annual fees ¹
	Non-Charitable				Charitable		Radian Support	
	Radian	Windsor	Swaything	Oriel	Drum	Portal		
Carol Bode	CH	CH	CH	CH	CH	CH		£23,000
Lindsay Todd ⁴	x	x	x	x	x	x	x	n/a
Simon Porter	x	x	x	x	x	x		£11,500 ²
Mandy Clarke	x	x	x	x				£11,500 ²
Richard Williams	VC	x	x	x				£11,500 ²
Martin Hurst	x	x	x	x				£9,000
Ashley West					x	x		£9,000
Mark Ralf ⁵					x	x	VC	£11,500 ²
Bridget Phelps ⁶					x	x	CH	£9,000
Jayne Beeson					x	x		£9,000
Brian Pirie							x	£0 ³

BOARD REPORT (continued)

The Group Combined Board Composition and Remuneration (continued)

The table above sets out how the Board Members of the Association and the Board Members of its fellow Group subsidiaries form the Group Combined Board.

¹ Fees are payable to Board members in accordance with Group policy.

² The roles of Group Vice Chair, Senior Independent Director and Committee Chair receive a supplementary fee paid for by the Group.

³ Fee waived at the request of Board member.

⁴ Lindsay Todd has announced that he will be stepping down as Chief Executive of Radian Group as of 31 August 2017.

⁵ Mark Ralf has notified us of his intention to give up his Board commitments at the end of September 2017.

⁶ Bridget Phelps has notified us of her intention to give up her Board commitments at the end of her current term of office at the end of July 2017.

The Group Combined Board delegates certain governance responsibilities to Group Committees which have their own approved terms of reference. Management of daily operations is delegated to the Executive Board.

Information regarding the composition of the Board Committees is available on our website (www.radian.co.uk). The major committees supporting the Group Combined Board during the year were:

Audit and Risk Committee

The Audit and Risk Committee is responsible for the oversight of:

- Internal and external audit;
- The effectiveness of internal controls and risk identification and mitigation; and
- Reviewing financial performance and the financial statements.

Remuneration and Nominations Committee

The Remuneration and Nominations Committee has delegated responsibility for:

- Executive and Board appointments, pay and succession planning; and
- Board performance review process.

Treasury and Investment Committee

The Treasury and Investment Committee is responsible for the oversight of:

- The structure of funding arrangements;
- Raising new finance and liquidity management;
- Loan portfolio risk management;
- Management of the security portfolio;
- Budget and business plans; and
- Reviewing the Group pension investment strategy.

BOARD REPORT (continued)

Executive Board and Service Contracts

The Executive Board are set out on pages 5 to 6. The Executives hold no beneficial interest in the Group's shares and act within the authority delegated by the Group Combined Board under defined terms of reference.

The Executives are employed on similar terms to other staff, except for an entitlement to car allowances and health care insurance. The Chief Executive is provided with a company car.

The Executive Directors are members of the Radian Group Pension Scheme (RGPS) and they participate in the sections of the Scheme on the same terms as all other employee members of those sections. The Group contributes to all sections of the Scheme on behalf of its employees.

Group insurance policies, together with an additional NHF Certificate of Liability Insurance, indemnify Board Members and Officers against liability when acting for the Group or relevant subsidiaries.

Resident Involvement

The Group actively encourages residents' involvement in decision making:

- The Housing, Assets and Customer Services Panel allows residents to review performance and service delivery and monitor outcomes;
- A resident scrutiny group evaluates Radian's services and makes recommendations to the Executive Board;
- The Panel uses a combination of face-to-face and online meetings to develop local initiatives and improve customer satisfaction; and
- Various other forums and panels including the Health and Wellbeing Forum and Community Safety Panel enable residents to help shape our services.

Governance and Regulation

The Group's operations are carried out in accordance with the Housing Acts and other applicable law. The Group Combined Board adopts the NHF Code of Conduct 2012 on behalf of the Group and the NHF Code of Governance 2015 on behalf of the RP entities within the Group.

Compliance with the HCA's Regulatory Framework is monitored by the Audit and Risk Committee which provides assurance to the Board. The Board certifies that the Group is compliant with all regulatory standards and, specifically, the Governance and Financial Viability Standard. The HCA reconfirmed Radian's regulatory rating for governance and viability as G1 and V1 respectively in December 2016.

The Group Combined Board expects the Board and Committee members, involved residents, staff and contractors to comply with the Radian Code of Conduct which is based on a model provided within the NHF Code of Conduct. Having conducted an appropriate internal compliance review, the Group Combined Board considers that each of the RP entities is fully compliant with both the Governance Code and the Code of Conduct.

A statement of compliance is published on Radian's website and all Group Boards consider their effectiveness annually.

BOARD REPORT (continued)

Internal Control and Risk Management

As part of its remit to oversee Group affairs, the Group Combined Board acknowledges its ultimate responsibility for establishing and maintaining a Group-wide system of internal control that is appropriate to the various business environments in which it operates and for reviewing the effectiveness of those controls. These controls are designed to give reasonable assurance in respect of the:

- Reliability of financial and operational information used within the Group or for publication;
- Maintenance of proper accounting records;
- Safeguarding of assets against unauthorised use or disposal; and
- Management of risks against the achievement of Group strategic and business objectives.

The Group Combined Board recognises that no system of internal control can provide absolute assurance or eliminate all risk. In meeting its responsibilities, the Group Combined Board has adopted a risk-based approach to internal controls that are embedded within the normal management and governance processes. This approach, consistent with past practice, includes the regular evaluation of the nature and extent of risks to which the Group is exposed and in regularly scanning the external environment.

The process adopted by the Group Combined Board to review the effectiveness of our internal controls and the key elements of our control framework includes:

Identification and evaluation of key risks

Management responsibility has been clearly defined for the identification, evaluation and control of significant risks. There is a formal and ongoing process of management review in each area of the Group's activities. The process is coordinated through a regular reporting framework by the Audit and Risk Committee and the Group Combined Board. The Executive Board regularly considers reports on the significant risks facing the Group and the Director of Corporate Services reports to the Group Combined Board on any significant changes affecting key risks. In addition, the Treasury and Investment Committee continually reviews financial risk and advises the Board accordingly. The Board formally reviews strategic and financial risk at least once every year.

Monitoring and corrective action

A process of Group-wide control self-assessment culminating in an annual self-assessment sign off by the Executive Board and regular management reporting on control issues provides assurance to the Group's Boards. This includes a formal procedure for ensuring that corrective action is taken in relation to any significant control issues. The Group uses an outsourced internal audit function to monitor internal controls and identify any weaknesses.

Control environment and control procedures

The Group Combined Board has responsibility for a defined range of issues covering Group strategy, performance, finance and compliance. There are clearly defined levels of responsibility and delegated authority.

There is a broad framework of policies and procedures with which all employees must comply and which covers areas such as segregation of duties, accounting, treasury management, health and safety, data and asset protection and fraud prevention and detection. A framework for employees' individual objectives and appraisal supports achievement of good standards of performance.

BOARD REPORT (continued)

Internal Control and Risk Management (continued)

Information and financial reporting systems

Forecasts and budgets are prepared which allow the Board and Management to monitor the key financial objectives and progress towards achieving financial plans set for the year and the medium term. Regular management accounts and reports on financial performance, together with KPIs for service standards and progress against operational plans, are prepared, providing regular up-to-date financial and other information with significant variances investigated and reported as appropriate.

Audit and Risk Committee

The Audit and Risk Committee reviews the annual internal and external plans and reports and meets with the auditors to satisfy themselves that the internal control systems are operating effectively. The Audit and Risk Committee reviews the major risks at every meeting. In turn, the Committee Chair reports to the Group Combined Board at each of their meetings.

Fraud, bribery, money laundering and whistleblowing

A Group-wide fraud prevention policy and response plan are in place and all incidents are reported to the Audit and Risk Committee and recorded in a register which is reviewed annually. The policy covers prevention, detection and reporting of fraud and the recovery of assets. The Audit and Risk Committee has reviewed the fraud register on behalf of the Group Combined Board. A Group whistleblowing policy is in place and there are controls to mitigate the risk of bribery and money laundering.

The internal control framework and the risk management process are subject to periodic review by internal auditors who are responsible for providing independent assurance to the Audit and Risk Committee which in turn reports to the Group Combined Board.

Review of Effectiveness of Internal Control

The Group's Boards and KPMG, our internal auditors, confirm the effectiveness of our internal control systems to manage the achievement of the Group's objectives for the 12 months ended 31 March 2017.

Health, Safety and Wellbeing

The Group has detailed health, safety and wellbeing policies and procedures which are managed to protect our employees, visitors, contractors, residents and members of the public from harm. We also provide staff with training and education on health, safety and wellbeing matters.

There is quarterly KPI reporting on safety management compliance to the Audit and Risk Committee and to the Group Combined Board.

BOARD REPORT (continued)

Going Concern

After making enquiries, the Board has a reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future, being a period of at least 12 months after the date on which the report and the financial statements are signed. For this reason, it continues to adopt the going concern basis in the financial statements.

The Association's budget and business plan, which take into account the current uncertain economic climate and expected trading conditions, show that it will be able to operate within its current facilities and comply with its banking covenants for the foreseeable future.

Auditor

In the case of each of the persons who are Members of the Association at the date when this report is approved:

- So far as each of the Members is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Association's auditor is unaware; and
- Each of the Members has taken all the steps that they ought to have taken as a member to make themselves aware of any relevant audit information (as defined) and to establish that the Association's auditor is aware of that information.

A resolution to appoint BDO LLP will be proposed at the forthcoming Annual General Meeting.

The Board Report was approved by the Board on 27 July 2017 and signed on its behalf by the Chair.



Carol Bode
Chair

STRATEGIC REPORT

Our Business Model

The Association's principal activity is the provision, management and maintenance of quality, cost-effective accommodation for people in housing need. Housing properties are let at rents that are affordable to tenants who are appropriate beneficiaries of a charitable organisation.

All of the Association's housing inventory is managed by The Swaythling Housing Society Limited which is the managing agent for the majority of Radian Group's housing inventory.

The Association started in 1996 with 4,088 homes transferred from East Hampshire District Council and now owns (or has an investment in) and manages (through its managing agent) 6,635 (restated 2016: 6,478) properties in 13 local authority areas predominantly in Hampshire, Surrey, West Sussex and Wiltshire. 89% (2016: 90%) of the properties are concentrated in East Hampshire. It has been subject to a programme of repair and all of the homes we own have been maintained to a good standard.

Of the 5,733 housing properties (restated 2016: 5,590), 76% (2016: 76%) of the homes are social rent general needs and affordable rent general needs accommodation and a further 11% (2016: 12%) are social rent supported housing and housing for older people. 5% (2016: 4%) of the homes are affordable home ownership and the balance is other social, social leased and market rent housing.

The Association employed an average of 36 full time equivalent employees during the year (2016: 62). Operations for the Association are run from the Association's head office in Petersfield.

The Association measures its performance primarily by monitoring the KPIs set by the Group Combined Board, which are scrutinised by the Housing, Assets and Customer Services Panel and the Residents' Council. We have a combination of financial and operational targets for performance in areas that include rent arrears, rent losses from voids and bad debts, customer satisfaction and repairs. Our performance is subject to regulation by the HCA and our loan covenants are agreed with our lenders.

Future Developments

The Group's collective strategy is to secure opportunities and funding to enable us to develop more homes in our chosen markets within target areas. We plan to build at a rate which does not threaten our financial viability and are currently planning to deliver an average of 600 new homes a year.

Under our current structure the majority of new homes will be built by the non-charitable RPs, financed by sales of existing homes to Portal Housing Association Limited. The Group will finance purchases of homes through cash reserves and bond issues.

Under the Government's rent reduction policy announced in July 2015, we were required to reduce the majority of our rents by 1% in each of the subsequent four years. To mitigate the impact of this reduced income we have identified cost savings of £12m to be achieved by 2019/20, which is the last year of the rent reduction. As a result, our projections show that we will continue to improve our operating margins throughout the period of rent reduction.

We forecast business performance and remodel our business plan twice a year or more often if there are significant changes in our regulatory and economic environment. We review the underlying assumptions regularly to ensure that they are appropriate.

STRATEGIC REPORT (continued)

Future Developments (continued)

We stress test the model to assess the financial impact of the following major risks to the organisation:

- Further rent reductions using a number of multi-variate scenarios to test our sensitivity to these;
- Increased voids and arrears in light of welfare reforms;
- Increases in inflation and interest rates; and
- Increased exposure to outright new build sales and a fall in the percentage of first tranche sales.

This business models and stress testing is reviewed, along with mitigating actions, to ensure that we can continue to develop new homes.

The future impact of Voluntary Right to Buy has been considered as the programme will initially generate a positive inflow of cash. We are considering how we will overcome the future challenge of replenishing diminishing stock.

Our Vision and Strategic Goals

Our day-to-day activities are underpinned by a clear understanding of what we want Radian to be in the future, as outlined in our 'Vision 2025'.

Customers - Our customers in 2025 tell us that we provide great homes they want to live in. We aim:

- To have a broad customer base;
- To truly understand our customers' needs and requirements;
- For our customers to benefit from the development of our digital offer;
- For our customers to be able to build equity in their homes; and
- For our market rent customers to continue to enjoy the flexibility of renting as a long-term option.

Partners - Our partners in 2025 tell us that we are great to work with and add value. We aim:

- To work with our partners to build homes of all tenures;
- For our employees to drive our business success through innovation, flexibility and commitment to customer satisfaction and be partners in everything we do;
- To have strong relationships with all regional stakeholders;
- To have successfully merged with others; and
- To bring expertise and clarity to our partnerships.

Homes - Our homes in 2025 are distinctive and sought after. We aim:

- To double our size;
- To complete 2,000 new homes in 2025 including 300 outright new builds;
- To offer a range of tenures across all of our homes;
- To own or manage a large stock of market rent homes;
- To retain 75% of our homes as social rent homes;
- To provide low cost rented products;
- For our homes to be distinctive, sought after and tailored to our different customers and markets;
- To continue to modernise our older homes;
- To ensure that most of our new homes will be built by us on land we purchase for development;

STRATEGIC REPORT (continued)

Our Vision and Strategic Goals – Homes (continued)

- For our new homes to be energy efficient and smarter; and
- To ensure that Affordable Home Ownership will constitute a much larger proportion of our management portfolio.

Services - Our services in 2025 are rated by customers to be best in class. We aim:

- To have a clear focus on an efficient modern, digital service delivery;
- To provide locally-based services that in turn create successful, prosperous and vibrant communities;
- To facilitate customers mobility by helping them move home or by improving their current homes;
- For all our services to be associated with quality; and
- To be digitally accessible, enabling increased self-service for our customers.

Geography - Our geography in 2025 will have extended across the South. We aim:

- To extend our activities from west of the M25 and M40 to east of the M5 and south of a line from Oxford to Gloucester; and
- To continue to strengthen our offer locally for customers and partners.

Strategic Plan 2017-20

This Vision will be delivered by the achievement of our internal strategic objectives which focus on the next three years but are updated annually to remain relevant to the business. The Strategic Plan is interlinked with a transformation plan which has four success factors:

Customer - Our customers tell us that we provide great homes they want to live in and our services are highly rated:

- Redefined standards of service and customer relationships for all tenures and markets;
- Digital and mobile technology to enhance customer experience and reduce service costs;
- New online customer services; and
- Top-quartile customer satisfaction and income collection sustained while also increasing turnover and reducing our costs.

Property - Our homes are sought after and our partners tell us that we are great to work with and add value with our:

- New in-house estate management service for mixed tenure schemes;
- SMART. portfolio management service for corporate investors;
- Established Radian Build property development contractor;
- New homes that are connected, serviced more easily and which are more efficient;
- Better homes which are developed more cheaply due to competitively priced construction and land supply which will include using modular construction solutions;
- Wide range of homes and choice of tenure across an extended geography in accordance with agreed targets for profit and yield; and
- Asset management assumptions which favour stock retention.

People - We are talented and Radian is a great place to work with:

- Engaged people who deliver the change we need to succeed and continue to improve;
- A modernised approach to manage and recognise performance; and
- Appropriate change initiation and management.

STRATEGIC REPORT (continued)

Strategic Plan 2017-20 (continued)

Commercial - We are efficient and we generate surpluses which are reinvested in new products and services with:

- An updated merger strategy which we plan to have implemented;
- Competitive funding secured for growth beyond 2020;
- A brand known for quality;
- Clear about the financial contribution of each part of Radian; and
- We will have reviewed, simplified and established slicker processes to improve decision making and improve business intelligence.

Principal Risks and Uncertainties

Radian has a published risk management framework which sets out how corporate risk is considered, assessed and mitigated through the organisation’s hierarchy, from project level, to senior management and the Executive and Group Combined Boards.

Radian’s Risk Manager meets with our senior management in each business area at least three times a year to review the risk register of operational and strategic risks. A consistent approach is applied in regard to scoring risks before and after mitigating actions are taken, new controls are implemented and tracked until they are operating effectively. The results of our risk reviews are reported to Radian’s Audit and Risk Committee three times per year and top-level strategic risks are reported and reviewed by the Group Combined Board.

The following is a summary of the principal risks identified:

Nature of risk	Impact	Mitigations include
IT systems fail, are compromised or are subjected to unauthorised use or malicious attacks with potential for reputational damage	Disruption to Radian's business caused by major disaster, hardware or communications failure and/or power, air conditioning or other facilities-related issues. Viruses, phishing or malware attacks, unauthorised users or inappropriate use by staff causing failure of IT systems, impacting revenue collection, integrity and security of data, service delivery or customer confidence.	Extensive network security in place including Cisco firewalls, anti-virus, endpoint security, enhanced network management, purpose built corporate datacentre with offsite failover and backup services, cloud-based filtering for email and web, encryption and management of all mobile devices and two-factor authentication for remote users. Other controls include documented change management, planned upgrades with robust testing, appropriate maintenance and support contracts, effective supplier relationships, systems and service management with ITIL trained staff and up-to-date business continuity and disaster recovery plans which are tested regularly.
Failure to deliver our planned development programme	Failure to deliver the planned development programme, to achieve compliance with agreed standards or within planned resources.	Rigorous development control processes with effective management oversight of programme delivery. Proactive project management with Executive and Group Combined Board oversight.

STRATEGIC REPORT (continued)

Nature of risk	Impact	Mitigations include
Transformation programme	Loss of business focus during implementation of our transformation programme, failure to adopt appropriate behaviours to implement change and innovate. Disengagement of staff and/or reputational damage due to poor communication of changes.	Oversight of Radian’s transformation programme by a steering committee comprising non executive and executive members. It is delivered by a dedicated director who works closely with the Learning and Development Team. A new induction programme is in place together with a change management toolkit. Staff at all levels play an active role in the transformation process. A strong communications team is in place to support transformation communication.
Changes in legislation or regulation jeopardise our cash flow	Changes in rent regulation, welfare benefits or accounting standards jeopardise cash flow and cost saving measures.	Senior finance staff maintain awareness of sector change with advice from auditors and other sector experts. Assessment of the impact of changes using modelling and regular forecasting and analysis of financial outturn. Increased staffing within the Housing Income Team are helping to address with increased pressures. Stress testing of our business plan has considered the impact of further rent cuts beyond 2020 and has identified mitigating actions.
Breach of HCA funding conditions	Inability to use government funding as a result of failure to meet milestones or inadequate oversight of projects and programmes.	Rigorous development control processes with effective management oversight of programme delivery. Quarterly meetings are held between our development consortium and the HCA monitor the progress of our development programme.
Relationships with key stakeholders	Missed opportunities or diminished reputation due to failure to maintain a strong and positive relationship with key stakeholders, including local and national government.	Radian liaises with local authorities, is a member of key NHF working groups and engages with other consortium partners to try and influence government agenda.
Increased arrears and lost revenue due to changes in government policy	Failure to achieve top quartile performance for percentage net rent collection.	Radian has a rolling action plan to manage our response to welfare reform and the introduction of Universal Credit. It is reviewed monthly and updated regularly to reflect the progress of its rollout. We have appointed a dedicated officer and have reviewed internal procedures to minimise the risks around under-occupation and affordability for residents, particularly when considering new development schemes. We have organised awareness campaigns to ensure residents are aware of the changes and our Employment, Support and Training (EST) Team continue to take referrals for those looking to be supported into work.

STRATEGIC REPORT (continued)

Nature of risk	Impact	Mitigations include
Radian Build becomes inefficient as a result of insufficient and untimely land supply	Insufficient workflow prevents the recovery of overhead costs resulting in financial loss.	Radian Build schemes are sourced by our Land Supply Team and are currently priced in advance on a prime cost contract basis, backed by competitive procurement. The Executive Board monitors Radian Build's progress against our business plan.

Budgets and Business Plans

The members of the Group Combined Board ensure that the Group's subsidiaries act in their own interest while also contributing positively to the results of the Group as a whole.

Financial Performance

Our budget strategy requires the business:

- To increase its operating margin for housing annually which in turn increases its capacity to obtain additional funding to build an average of 600 new homes a year; and
- To ensure that the main trading entities within the Group achieve a surplus before tax.

Growth

The business aims to grow by adding more homes at a rate which sustains its financial viability. Aside from developments that are earmarked specifically for sale, our default strategy is to 'build and hold' property for a period of 30 years.

Capital and Treasury Management

The Group is financed by a combination of revenue reserves, long-term loan facilities, bond finance and Social Housing Grant received from government.

Radian has a Group-wide treasury policy with tests that apply to the Group as a whole. The policy requires the Group to maintain a minimum level of liquidity such that there is sufficient cash and committed loan facilities capable of immediate drawdown to cover the next six months' forecast cash requirement. The Group must also have sufficient cash and committed loan facilities, though not necessarily capable of immediate drawdown, to cover the higher of committed development spend and the next 18 months forecast cash requirement. The policy also prioritises a lack of reliance on any one counterparty, whether through cash holdings or available facilities.

Financial Review

Turnover has increased 11% from £35.2m to £39.1m primarily due to a £3.7m increase in first tranche affordable home ownership sales. Turnover from social housing lettings increased by 1% which equated to £0.4m. The first of four annual 1.0% rent decreases were applied to the applicable tenancies from 1 April 2016 in accordance with government policy.

The target for the year was to keep rent losses from voids in line with the previous year. During the year the Association's rent losses have fallen from 0.7% to 0.5%. Overall rent arrears at the reporting date have fallen to 1.0% (2016: 1.4%).

STRATEGIC REPORT (continued)

Financial Review (continued)

Operating costs and cost of sales have increased by 3% to £24.6m (2016: £24.0m). Social housing operating costs have fallen from £21.7m to £19.0m but this has partly been offset by a £1.9m increase in cost of sales.

Finance costs have increased by 4% to £5.4m due to the interest charge on the £28.2m nominal of AHF funding received in January 2017.

Fixed Assets and Funding

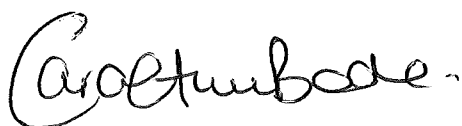
The Association's investment in fixed assets has increased to £273.6m (2016: £253.3m). The fixed asset investment is funded by £178.2m of loans and borrowings (2016: £150m), £60.2m deferred capital grant (2016: £60.6m) and £54.2m of revenue reserves (2016: £45.6m). The Association does not use stand-alone hedging instruments.

At 31 March 2017 the Association owned (or had an investment in) and managed 5,733 completed housing properties (restated 2016: 5,590). These properties were carried in the Statement of Financial Position at a net book value of £272.1m (2016: £251.9m).

The Board appointed professional valuers to value the Association's completed housing properties and investment properties as at 31 March 2017 and at that date the value of the housing properties on an existing use valuation - social housing basis was £311.9m (2016: £300.3m) and the value of investment properties as determined by the market value method was £0.4m (2016: £0.4m).

<i>Financial Key Performance Indicators</i>		Restated
	2017	2016
Turnover (£'m)	39.1	35.2
Turnover from Social Housing as % of total revenue	86%	94%
Surplus from Social Housing lettings as % of finance costs	273%	221%
Operating margin	38%	32%
Net margin	25%	17%
Debt (net of cash) as % of total assets (net of cash)	57%	54%
Debt as a multiple of revenue	4.6	4.3

The Strategic Report was approved by the Board on 27 July 2017 and signed on its behalf by the Chair.



Carol Bode
Chair

VALUE FOR MONEY

Value for Money (VfM) – An Integral Part of Our Business

We aim to provide quality services that represent value for money. In order to fulfil our regulatory obligations we publish our VfM statement on our website every September. That statement provides full details of our performance, cost, return on assets, VfM delivered to date and our future plans. Our website also contains our VfM strategy 2016-20 which is a vital component of our Vision 2025.

As part of their annual global accounts review, the HCA track the cost performance of Registered Providers, excluding any income collected, against the sector median. Radian's total cost per unit in 2015/16 was £3,880 against a sector median of £3,550 and a top quartile of £4,430. To ensure that our cost base remains appropriate in light of unprecedented welfare reform, the Group Combined Board carried out a VfM 'zero based budget' review during the year.

This process identified £12m of financial over-performance against our 2015/16 budget as a baseline. We expect to deliver this improvement in our surpluses by March 2020. Each department will contribute by reducing overheads and service costs and by creating efficiencies through greater collaboration and innovation. The 2016/17 budget incorporated planned VfM savings of £4.9m towards the 2020 target of £12m.

2016/17 saw a range of VfM activity, for example:

- A series of changes to the structure of our housing management function which resulted in improved income collection and a 14% saving in costs, which equated to £2.3m;
- A review of our void management approach which reduced cost and void loss and improved overall void turnaround time; and
- A range of reviews to reduce our overheads which included restructuring our finance and corporate services functions.

Housing Management Performance

Radian's net rent arrears reached their lowest ever position of 1.5% (Drum: 1.0%) at 31 March 2017, in spite of welfare reform. Income collection remained very strong for the Group as a whole at 100.3% and the Association collected 100.6% of its rent debit. Our Group void loss improved to 0.67% and was 0.74% for the Association.

We secured HouseMark accreditation for the high quality of our response to anti-social behaviour, our domestic abuse service and our Customer Service Centre approach.

Service Satisfaction

Customer satisfaction continued to improve in 2016/17 in spite of cost savings. Our residents in rental accommodation reported top-quartile satisfaction and home owners' satisfaction was in the top ten percent.

- Our customer's overall satisfaction with Radian increased from 83% in 2014/15 to 86% in 2016/17. The Association's overall satisfaction score was 86.7%. The Group's Net Promoter Score, which is an external customer experience benchmark, increased nine points from 15 to 24 in the year.
- Tenant satisfaction with our landlord service increased from 87% in 2014/15 to 88% in 2016/17. The Association's score was 88% and the Group's Net Promoter Score has risen from 24 to 29 in the last year; and

VALUE FOR MONEY (continued)

Service Satisfaction (continued)

- Home owners' satisfaction scores have improved significantly since 2014/15 which reflects our investment in this service in recent years. Satisfaction with the overall landlord service increased from 69% in 2014/15 to 74% in 2016/17 and was 78.2% for the Association. The Group's Net Promoter Score improved from -22 to -2 over the course of the year. Our affordable home ownership satisfaction results are the highest among our peers.

Our Community Investment Offer

Our community investment programme centres on activities that will sustain our revenue stream and minimise long-term management costs. We focus on neighbourhoods that need intensive work and run projects and initiatives aimed at improving wellbeing in socially isolated areas that are most affected by welfare reform.

In Drum's area of operation:

- We worked with the Community Voluntary Service to deliver a youth outreach service for our communities around Bordon, helping residents access support and employment services and strengthening our investment in new homes in the local area.

Radian's Employment Support and Training programme supports residents to gain employment and access training opportunities. We offer residents practical help to write CVs and gain interview and presentation skills. We also work with them to boost their confidence and self esteem.

Since April 2012 Radian's Group wide Employment Support and Training programme has helped 531 people into employment and given 1,658 people access to training opportunities.

In 2016/17 the Association has focused on hard to reach customers at risk of welfare reform:

- 27 individuals have been supported into employment;
- 42 individuals have been given training opportunities; and
- 36 individuals have been coached to prepare CVs.

Building New Communities

During the year Drum completed the Bankside Close development of eight affordable rent and six affordable home ownership homes in Christchurch, Dorset. This scheme has proven to be very popular and has provided much needed affordable homes in an area of high demand.

Measuring our return on assets

We measure our financial return on our own interest in our social housing assets after deducting government grant and loans. It has improved from 6.5% in 2015/16 to 7.8% in 2016/17. This measure takes into account that a large proportion of our investment has been borrowed from lenders. Our investment is the reserves that we have accumulated over the years by retaining our surpluses. Our return will fall as interest rates rise and our borrowing costs increase.

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 United Kingdom Generally Accepted Accounting Practice.

Registered Society law and registered provider legislation in the United Kingdom requires the Board to prepare financial statements for each reporting period which give a true and fair view of the state of affairs of the Association at the end of the year and of the surplus or deficit of the Association for the year then ended.

In preparing these financial statements the Board is required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and accounting estimates that are reasonable and prudent;
- Follow applicable United Kingdom Accounting Standards and the Statement of Recommended Practice (SORP) 2014, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Association will continue in business.

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Association and enable it to ensure that the financial statements comply with the Housing SORP 2014, the Accounting Direction for Social Housing in England from April 2015, the Co-operative and Community Benefit Societies Act 2014 and the Housing and Regeneration Act 2008. It is also responsible for safeguarding the assets of the Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board is responsible for ensuring that the Report of the Board is prepared in accordance with the Housing SORP 2014.

The Board is responsible for the maintenance and integrity of the corporate and financial information on the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in the annual reports may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DRUM HOUSING ASSOCIATION LIMITED

We have audited the financial statements of Drum Housing Association Limited for the year ended 31 March 2017 which comprise the association statement of comprehensive income, the association statement of financial position, the association statement of changes in reserves and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Association's Members, as a body, in accordance with the Housing and Regeneration Act 2008 and Section 87 of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the Association's Members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and the Association's Members as a body for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the Board and auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- Give a true and fair view of the state of the association's affairs as at 31 March 2017 and of the Association's surplus for the year then ended;
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- Have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DRUM HOUSING ASSOCIATION LIMITED
(continued)**

Matters on which we are required to report by exception

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

- The information given in the Report of the Board for the financial year for which the financial statements are prepared is not consistent with the financial statements;
- Adequate accounting records have not been kept by the Association; or
- A satisfactory system of control has not been maintained over transactions; or
- The Association's financial statements are not in agreement with the accounting records and returns; or
- We have not received all the information and explanations we require for our audit.



BDO LLP, statutory auditor
Gatwick, West Sussex
United Kingdom
30 August 2017

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

DRUM HOUSING ASSOCIATION LIMITED

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 March 2017

	Note	2017 £'000	Restated 2016 £'000
Turnover	3	39,051	35,179
Cost of sales	3	(2,940)	(998)
Operating costs	3	(21,641)	(22,987)
Surplus from disposal of housing properties	3	563	96
Operating surplus	3	15,033	11,290
Finance income	4	50	17
Finance costs	5	(5,375)	(5,206)
Fair value movement on investment properties	24	23	55
Surplus on ordinary activities before and after taxation		9,731	6,156
Other comprehensive income			
Actuarial (losses)/gains on defined benefit pension schemes	20	(1,082)	1,975
Transfer from restricted reserve		-	290
Total comprehensive income		8,649	8,421

See relevant notes to the financial statements for details of restatement of 2016 comparatives.

All activities derive from continuing operations.

The notes on pages 29 to 58 form part of these financial statements.

DRUM HOUSING ASSOCIATION LIMITED

STATEMENT OF FINANCIAL POSITION

As at 31 March 2017

	Note	2017 £'000	Restated 2016 £'000
Fixed Assets			
Housing properties	10	271,724	251,488
Other fixed assets	11	1,412	1,424
Investment properties	12	423	399
		273,559	253,311
Current Assets			
Properties for sale	13	1,715	1,613
Receivables	14	32,779	4,340
Cash	15	1,651	10,083
		36,145	16,036
Payables: amounts falling due within one year	16	(5,586)	(6,549)
Net current assets		30,559	9,487
Total assets less current liabilities		304,118	262,798
Payables: amounts falling due after more than one year	17	(182,107)	(150,346)
Deferred capital grant falling due after more than one year	18	(59,515)	(59,929)
Pension liability	20	(7,979)	(6,655)
Net assets		54,517	45,868
Capital and reserves			
Share capital	21	0	0
Restricted reserve		287	287
Revenue reserve		54,230	45,581
Association's funds		54,517	45,868


See relevant notes to the financial statements for details of restatement of 2016 comparatives.

The notes on pages 29 to 58 form part of these financial statements.

The financial statements of Drum Housing Association Limited, Registered Society number 28156R on pages 26 to 58, were approved by the Board and authorised for issue on 27 July 2017 and signed on its behalf by:



Carol Bode
Chair



Simon Porter
Board Member



Malcolm Rule
Secretary

STATEMENT OF CHANGES IN RESERVES

	Share capital £'000	Revenue reserve £'000	Restricted reserve £'000	Total £'000
At 1 April 2015	0	37,160	577	37,737
Surplus on ordinary activities for the year	-	6,156	-	6,156
Actuarial gains on defined benefit pension schemes	-	1,975	-	1,975
Transfer in	-	290	-	290
Transfer out	-	-	(290)	(290)
At 31 March 2016	0	45,581	287	45,868
Surplus on ordinary activities for the year	-	9,731	-	9,731
Actuarial losses on defined benefit pension schemes	-	(1,082)	-	(1,082)
Shares issued during the year	0	-	-	0
Shares cancelled during the year	0	-	-	0
At 31 March 2017	0	54,230	287	54,517

The notes on pages 29 to 58 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

1. LEGAL STATUS

The Association is registered with the Financial Conduct Authority as a charitable society under the Co-operative and Community Benefits Societies Act 2014 and is registered with the HCA as a social housing provider.

2. ACCOUNTING POLICIES

Basis of preparation

The financial statements of the Association have been prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP) including Financial Reporting Standard 102 (FRS 102) and the Housing SORP 2014: Statement of Recommended Practice for Registered Social Housing Providers and comply with the Accounting Direction for Private Registered Providers of Social Housing 2015.

This is the second year in which the financial statements have been prepared under FRS 102.

The financial statements are presented in pounds sterling and have been prepared on the historical cost basis except for a modification to amortised cost for certain financial instruments and investment properties as specified in the accounting policies below.

Going concern

The financial statements have been prepared on a going concern basis, details of which can be found in the Board Report on page 7.

Disclosure exemptions

The Association has taken advantage of the following disclosure exemptions under FRS 102 paragraph 1.12(b) on the basis that they are included in the consolidated financial statements of the ultimate parent company, Radian Group Limited:

- Statement of cash flows;
- Remuneration of key management personnel; and
- Detailed financial instruments disclosures.

Related parties

As a subsidiary of its parent, Radian Group Limited, whose results and balances are included in the consolidated financial statements, the Association has not disclosed transactions or balances with entities which form part of the Group and which are also Registered Providers.

Turnover

Turnover represents rental and service charge income (net of void losses), fee income and revenue grant receivable and proceeds from first tranche sales and from sales of outright new build properties at the point of completion. Turnover also includes the amortisation of capital grant in accordance with FRS 102. Deferred capital grant is released over the life of the asset structure.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

2. ACCOUNTING POLICIES (continued)

Rental income is recognised from the point when properties under development reach practical completion or otherwise become available for letting, net of any voids. Income from first tranche sales and outright new build sales is recognised at the point of legal completion of the sale. Other income is recognised as receivable on the delivery of services provided.

Cost of Sales

Cost of sales relates to first tranche and outright new build sales and represents those costs, including direct overheads and other incidental costs, incurred during the course of development, construction and marketing of those properties.

Service charges

Our service charges are predominantly variable. The charges will include an allowance for the surplus or deficit from previous years, with the surplus being returned to residents by a reduced charge and a deficit being recovered by a higher charge. Until these are returned or recovered they are held as creditors or debtors.

Value Added Tax (VAT)

The Association is VAT registered, but a large proportion of its income, namely rent, is exempt for VAT purposes and thus gives rise to a partial exemption calculation. Expenditure is therefore shown inclusive of VAT and the input VAT recovered is shown in the statement of comprehensive income.

Deferred Capital Grant

Deferred capital grant, predominantly Social Housing Grant, is initially recognised at fair value as a long term liability and is released as turnover in the statement of comprehensive income over the life of the structure of housing properties. On disposal of the assets, deferred capital grant is transferred to the Recycled Capital Grant Fund until the grant is reinvested in a replacement property or repaid, reflecting the existing obligation under the Social Housing Grant funding regime. If there is no requirement to recycle or repay the grant on disposal of the assets any unamortised grant remaining within creditors is released to the statement of comprehensive income.

Revenue Grant

We receive disabled adaptation grants in respect of revenue expenditure and these are credited to income and expenditure in the same period as the expenditure to which they relate.

Donated land

Land donated by local authorities and others for social rent usage is added to the fixed asset register at zero cost.

Cyclical repairs and maintenance

The actual costs of cyclical repairs and maintenance are charged to the statement of comprehensive income as incurred.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

2. ACCOUNTING POLICIES (continued)

Affordable home ownership transactions

Affordable home ownership properties are split proportionately between current and fixed assets based on the element relating to expected first tranche sales. The first tranche proportion is classed as a current asset and related sale proceeds included in turnover. The remaining staircasing element is included in completed housing property at cost. Subsequent staircasing sales are treated as surplus on disposal of fixed assets. Deficits on schemes are recognised as soon as they are foreseen.

Outright new build properties

Completed properties and properties under construction are valued at the lower of cost and estimated selling price less costs to complete and sell and are classified as current assets. Cost comprises materials, direct labour and direct development overheads.

Fixed assets - Housing properties

Housing properties are held at cost less depreciation. Cost includes acquisition expenditure, development costs and directly attributable administration costs.

Housing properties are split between the structure and major components which require periodic replacement. Replacement or restoration of such major components is capitalised and depreciated over the average estimated useful life.

Housing properties in the course of construction are held at cost and are not depreciated. They are transferred to completed properties when handed over for letting or sale.

Affordable home ownership properties are split proportionately between fixed 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 and the remainder as a fixed asset.

Investment properties

Investment properties are commercial properties and other properties not held for social benefit or use in the business, instead held for investment potential or capital appreciation. Investment properties are measured at cost on acquisition or initial recognition and subsequently revalued at the year end with changes recognised in income and expenditure. Details of the valuers and the basis of valuation adopted are included in note 12.

Critical judgments, estimates and uncertainty

Preparation of the financial statements requires management to make the following significant judgments and estimates:

Impairment review

Estimates have been made in the impairment review of social housing properties affected by the rent reduction - see our impairment policy.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

2. ACCOUNTING POLICIES (continued)

Classification of loans

Fixed rate loans could be repaid early and the fixes could be broken. This would involve paying a premium to lenders or the lenders paying a discount to us depending on the prevailing interest rate as there are two-way break clauses in our loan agreements. Since we have no current intention to repay any of these loans early by breaking the fixes, we have exercised professional judgment in classifying these loans as 'basic'. In light of the requirements and criteria set out in FRS 102 and given our intention and forecasted ability to hold all of these loans to maturity, we consider classification of the loans as 'basic' to be appropriate, and recognition at amortised cost to be a fair representation of our liabilities.

Defined benefit pension obligations

Financial and actuarial assumptions underlying accounting estimates of the Association's defined benefit obligations are informed by actuarial advice, based on best estimates according to scheme duration and applied consistently across accounting periods.

Capitalisation of property development costs

The estimate of anticipated costs to complete a development scheme is determined by a qualified surveyor. Judgment is involved in determining the appropriate allocation of costs for mixed tenure developments and the subsequent allocation of costs relating to affordable home ownership properties between current and fixed assets.

Intercompany recharges

The allocation of management expenditure to providers within the Group is determined by a range of factors including the number of homes under management and the level of the organisation's development activity.

Fair value measurement

Investment properties are professionally valued using a yield methodology based on market rental values discounted to present value and with reference to sales activity in the local area.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

2. ACCOUNTING POLICIES (continued)

Depreciation

Freehold buildings and components

Depreciation is provided to write off the cost to estimated residual value on a straight line basis over the estimated useful economic life of assets at the following annual rates:

- Structure – 100 years
- Boilers – 15 years
- Kitchens – 20 years
- Photovoltaics – 20 years
- Bathroom – 30 years
- Heating – 30 years
- Windows – 30 years
- Sheltered Housing – 50 years

Other fixed assets

Depreciation is charged on a straight line basis over the expected useful lives of the assets at the following annual rates:

- Freehold premises – 50 years
- Office equipment – 3 to 5 years
- Office furniture and development equipment – 10 years
- Motor vehicles, yard plant and machinery – 4 years

Leasehold property depreciation is charged on a straight line basis over the period of the lease.

Impairment

At each reporting date the Association assesses whether an indicator of impairment exists. If such an indicator exists, assets affected are subject to an impairment review and the recoverable amount of the asset or cash generating unit is estimated (the higher of value in use, fair value less costs to sell and value in use – service potential). Value in use - service potential is represented by depreciated replacement cost which is the lower of rebuild cost and the estimated price of an asset with equivalent service potential on the open market, adjusted for depreciation. In practice, depreciated replacement cost is rebuild cost given the lack of data available on equivalent assets in the open market.

An impairment loss occurs when the carrying amount of an asset or cash generating unit exceeds its recoverable amount. This impairment loss is charged and disclosed as a separate line within operating expenditure where it is considered to be material.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

2. ACCOUNTING POLICIES (continued)

Pensions

The Association's pension arrangements comprise two defined benefit schemes and a defined contribution scheme.

For the defined contribution scheme the amount charged to income and expenditure in respect of pension costs is the employer contribution payable in the year.

For defined benefit schemes the amounts charged to operating profit are the costs arising from employee services rendered during the period, benefit changes and settlements. They are included within staff costs. The net interest cost on the net defined benefit liabilities is included within finance costs. Remeasurement comprising actuarial gains and losses and the return on scheme assets are recognised immediately in other comprehensive income.

Defined benefit schemes are funded with assets of the scheme held separately from those of the Association and administered by The Pensions Trust or local government in respect of the LGPS. Pension scheme assets are measured at fair value and liabilities on an actuarial basis using the projected unit method. Actuarial valuations are obtained at least triennially and are updated at each reporting date.

Taxation

Due to its charitable objects the Association benefits from exemptions afforded by tax legislation and is not liable to corporation tax.

Financial assets and liabilities

All are initially measured at transaction price, including transaction costs, unless those financial assets are classified as fair value through profit or loss, which are initially measured at fair value, unless the arrangement constitutes a financing transaction. Under FRS 102, if an arrangement is a financing transaction, the financial asset or liability should be measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

The Association's loans and bond meet the definition of, and are classified as, basic financial instruments under FRS 102. These instruments are initially recorded at the transaction price. They are subsequently recorded at historic cost as the difference between historic cost and amortised cost is not material.

Where instruments are classified as payable or receivable within one year they are measured at an undiscounted amount of the cash expected to be paid or received within one year.

Financial assets are only derecognised when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Association transfers to another party substantially all of the risks and rewards of ownership of the financial asset or, c) the Association, despite having retained some but not all significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are only derecognised when the obligation specified in the contract is discharged, cancelled or expires.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

2. ACCOUNTING POLICIES (continued)

Financial instruments

Financial instruments are recognised when the Association becomes a party to the contractual provisions of the instrument and are classified according to their substance.

Finance costs

Finance costs are charged to income and expenditure over the term of debt using the effective interest rate method so that the amount charged is at a constant rate on the carrying amount. Issue costs, premiums and discounts are capitalised and amortised over the life of the associated financial instrument.

Leases

Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks or rewards of ownership of the leased assets to the entity. All other leases are classified as operating leases.

All of the Association's leases are classified as operating leases. Whether the Association is the lessee or lessor, rentals under operating leases are charged on a straight line basis over the lease term even if the payments are not made on such a basis.

Restricted Reserves

Restricted reserves represent a share of East Hampshire District Council (EHDC) Right to Buy receipts for specified projects. The reserve is utilised when suitable works are identified and approval is obtained and treated as a subsidy against the gross cost of works.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

3. TURNOVER, COST OF SALES, OPERATING COSTS, SURPLUS FROM DISPOSAL OF FIXED ASSETS AND OPERATING SURPLUS

	2017			Restated 2016						
	Turnover £'000	Cost of sales £'000	Operating costs £'000	Surplus from disposal of fixed assets £'000	Operating surplus/ (deficit) £'000	Turnover £'000	Cost of sales £'000	Operating costs £'000	Surplus from disposal of fixed assets £'000	Operating surplus/ (deficit) £'000
Social housing lettings	33,637	-	(18,943)	-	14,694	33,233	-	(21,716)	-	11,517
Other social housing activities										
Development administration	-	-	(2,388)	-	(2,388)	-	-	(953)	-	(953)
Cesspool emptying	44	-	(19)	-	25	73	-	(97)	-	(24)
First tranche affordable home ownership sales	5,262	(2,940)	(5)	-	2,317	1,630	(998)	(4)	-	628
Surplus from disposal of fixed assets	-	-	-	563	563	-	-	-	96	96
Help to buy agency	-	-	(48)	-	(48)	-	-	(48)	-	(48)
Non-rent bad debts	-	-	(148)	-	(148)	-	-	(101)	-	(101)
Total other social housing activities	5,306	(2,940)	(2,608)	563	321	1,703	(998)	(1,203)	96	(402)
Non-social housing activities										
Care and support schemes	-	-	-	-	-	-	-	59	-	59
Continued										
Supporting people	5	-	-	-	5	138	-	(92)	-	46
Market rent properties	21	-	(5)	-	16	22	-	(7)	-	15
Service charge income and costs	56	-	(47)	-	9	75	-	(59)	-	16
Other	26	-	(38)	-	(12)	8	-	31	-	39
Total non-social housing activities	108	-	(90)	-	18	243	-	(68)	-	175
Total	39,051	(2,940)	(21,641)	563	15,033	35,179	(998)	(22,987)	96	11,290

The 2016 Sale of housing accommodation and First tranche affordable home ownership comparative has been aggregated to show under the heading of First tranche affordable home ownership sales.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

3. TURNOVER, COST OF SALES, OPERATING COSTS, SURPLUS FROM DISPOSAL OF FIXED ASSETS AND OPERATING SURPLUS (continued)

	2017				Total	Total	Restated 2016
	General needs housing £'000	Supported housing and housing for older people £'000	Affordable home ownership £'000	Other social housing £'000			
Turnover							
Rent receivable net of identifiable service charges (net of voids)	26,159	3,413	626	1,713	31,911	31,508	
Service charge income	372	531	146	16	1,065	1,074	
Net rental income	26,531	3,944	772	1,729	32,976	32,582	
Amortisation of Capital Grant	624	-	37	-	661	651	
Net turnover from social housing lettings	27,155	3,944	809	1,729	33,637	33,233	
Operating expenditure							
Service charge costs	(939)	(138)	(58)	(55)	(1,190)	(1,271)	
Management	(4,677)	(689)	(287)	(272)	(5,925)	(5,999)	
Routine maintenance	(3,194)	(470)	-	(186)	(3,850)	(4,228)	
Planned maintenance	(1,135)	(167)	-	(66)	(1,368)	(1,506)	
Bad debts	(44)	(7)	(3)	(3)	(57)	(90)	
Major repairs expenditure	(3,126)	(460)	-	(182)	(3,768)	(3,122)	
Depreciation of housing properties	(3,053)	(366)	(100)	(296)	(3,815)	(4,135)	
(Loss) on disposal of housing components	(158)	(11)	-	(8)	(177)	-	
Reversal of impairment/(impairment charge) on housing	1,321	-	-	-	1,321	(1,346)	
Other costs	(85)	(16)	(7)	(6)	(114)	(19)	
Operating expenditure on social housing lettings	(15,090)	(2,324)	(455)	(1,074)	(18,943)	(21,716)	
Operating surplus on social housing lettings	12,065	1,620	354	655	14,694	11,517	
Void losses	(156)	(69)	-	(16)	(241)	(330)	

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

3. TURNOVER, COST OF SALES, OPERATING COSTS, SURPLUS FROM DISPOSAL OF FIXED ASSETS AND OPERATING SURPLUS (continued)

The 2016 Turnover comparative has been restated to include £651k of Amortisation of capital grant which was previously disclosed within Other social housing activities.

The 2016 Planned maintenance comparative has been restated to reflect a net adjustment of £114k of central service recharges which is now disclosed within Major repairs expenditure.

	2017		2016	
	Staircasing £'000	Right to buy £'000	Other housing sales £'000	Other fixed assets £'000
				Total £'000
Surplus/(deficit) from disposal of fixed assets				
Sale proceeds	879	95	513	-
Less: cost of sales	(534)	(42)	(324)	(24)
				Total £'000
	345	53	189	(24)
				563
				96

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

3. TURNOVER, COST OF SALES, OPERATING COSTS, SURPLUS FROM DISPOSAL OF FIXED ASSETS AND OPERATING SURPLUS (continued)

	2017 Number	Restated 2016 Number
Properties in management		
Social rent general needs housing	3,827	3,833
Affordable rent general needs housing	505	392
Social rent supported housing and housing for older people	638	646
Affordable home ownership	266	226
Other social housing	252	249
Social leased housing	243	242
Market rent housing	2	2
Housing properties in management	5,733	5,590
Non housing properties in management	902	888
Total properties in management	6,635	6,478
Properties under construction	164	136

The 2016 Social leased housing comparative has been restated to exclude three properties for which the Association does not own the freehold.

4. FINANCE INCOME

	2017 £'000	2016 £'000
Interest receivable from bank and building society deposits	14	17
Bond premium amortised	36	-
	50	17

5. FINANCE COSTS

	2017 £'000	Restated 2016 £'000
On housing loans at amortised cost		
Interest costs	5,080	4,973
Loan arrangement fees and associated costs	92	4
Interest on pension scheme liabilities	203	229
	5,375	5,206

The 2016 Finance costs comparative has been restated to include £229k of Interest on pension scheme liabilities which was disclosed as Net other financing costs in the prior year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

6. SURPLUS ON ORDINARY ACTIVITIES BEFORE TAXATION

	2017 £'000	2016 £'000
Surplus on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation of fixed assets	3,887	4,194
(Reversal of impairment)/impairment charge on housing	(1,321)	1,346
Operating lease rental:		
Temporary social housing	9	19
Land and buildings	25	24

The analysis of auditor's remuneration is as follows:

Fees payable (excluding VAT) to the Association's auditor for the audit of the Association's annual financial statements	17	21
Total audit fees	17	21
Fees payable (excluding VAT) to the Association's auditor in respect of other services	2	2
Total non-audit fees	2	2

In 2016 management exercised judgment in providing for a development where solicitors acting for the Association failed to register its title at the Land Registry and where the outcome of ongoing legal proceedings were uncertain.

7. TAXATION

Due to its charitable status, the Association benefits from various exemptions from tax afforded by tax legislation and is therefore not liable to corporation tax on income and gains falling within these exemptions.

8. DIRECTORS' EMOLUMENTS

The Directors are defined as the Board Members and the Executive Board. The payments detailed below relate to those payments made by the Association and do not relate to payments made by other Group entities.

	2017 £'000	2016 £'000
Aggregate emoluments payable to Directors (including benefits in kind)	12	8
Pension contributions in respect of services as directors	-	-
	12	8
Emoluments payable to the highest paid Director (excluding pension contributions but including benefits in kind)	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

8. DIRECTORS' EMOLUMENTS (continued)

The remuneration of the Chief Executive is disclosed in the financial statements of The Swaythling Housing Society Limited. The Chief Executive is an ordinary member of the Final Salary Scheme with a 1/60th accrual rate benefit structure of RGPS with the same conditions of membership as all other employees within that contributory benefit structure of the Scheme. Full details of scheme funding are disclosed in note 20.

No members of the Executive Board are paid by Drum Housing Association Limited. With the exception of the Director of Radian Support, who was paid by Radian Support Limited, they are paid by The Swaythling Housing Society Limited. It is not possible to disaggregate Directors' remuneration in respect of services performed on behalf of Drum Housing Association Limited and services to other Radian Group entities.

Non-Executive Directors of the Board received emoluments during the year totalling £11,972 (2016: £8,000). Board expenses of £854 (2016: £nil) were incurred in the year.

None of the directors paid by the Association have received remuneration in excess of £60,000.

9. STAFF COSTS

The average number of employees (including directors) expressed as full time equivalents (calculated on a standard working week of 37 hours) during the year was as follows:

	2017 FTE	2016 FTE
Housing and central services	32	41
Property maintenance	3	7
Development	1	2
Care and support	-	12
	36	62
	2017 £'000	2016 £'000
Staff costs (for the above employees)		
Wages and salaries	1,755	1,921
Social security costs	161	146
Pension costs	279	371
	2,195	2,438

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

9. STAFF COSTS (continued)

The Association has the following number of full time equivalent staff with remuneration (including compensation for loss of office and excluding pension contributions) of £60,000 or more, shown in bands of £10,000.

	2017	2016
	FTE	FTE
Salary banding		
£60,000 - £69,999	2	2
£70,000 - £79,999	-	-
£80,000 - £89,999	-	-
£90,000 - £99,999	1	1
£100,000 - £109,999	-	-
£110,000 - £119,999	-	-
£120,000 - £129,999	-	-
£130,000 - £139,999	-	-
£140,000 - £149,999	-	-
£150,000 - £159,999	-	-
£160,000 - £169,000	-	-
	3	3

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

10. HOUSING PROPERTIES

	Social housing lettings properties £'000	Affordable home ownership properties £'000	Total Completed Housing Properties £'000	Social housing lettings properties in course of construction £'000	Affordable home ownership properties in course of construction £'000	Total Housing Properties in course of construction £'000	Total housing properties £'000
Cost							
At 1 April 2016	268,636	14,767	283,403	8,451	1,990	10,441	293,844
Additions	-	-	-	17,203	7,990	25,193	25,193
Additions - works to existing properties	2,041	-	2,041	-	-	-	2,041
Transferred into management	16,503	3,464	19,967	(16,503)	(3,464)	(19,967)	-
Disposals and demolitions	(1,994)	(662)	(2,656)	(159)	-	(159)	(2,815)
Reversal of impairment on housing	1,466	-	1,466	-	-	-	1,466
Net movement to current assets	-	(318)	(318)	-	(2,958)	(2,958)	(3,276)
At 31 March 2017	286,652	17,251	303,903	8,992	3,558	12,550	316,453
Accumulated depreciation							
At 1 April 2016	(41,652)	(704)	(42,356)	-	-	-	(42,356)
Charge for the year	(3,715)	(100)	(3,815)	-	-	-	(3,815)
Disposals and demolitions	1,558	29	1,587	-	-	-	1,587
Reversal of impairment on housing	(145)	-	(145)	-	-	-	(145)
At 31 March 2017	(43,954)	(775)	(44,729)	-	-	-	(44,729)
Net book value							
At 31 March 2017	242,698	16,476	259,174	8,992	3,558	12,550	271,724
At 31 March 2016	226,984	14,063	241,047	8,451	1,990	10,441	251,488

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)**10. HOUSING PROPERTIES (continued)****Reversal of impairment**

The prior year impairment provision in respect of the full carrying value of Jordan Court, a development of 13 properties, has been released in the current year. At the end of the prior year the Association had become aware that it was not the owner of the property due to a failure of a third party to register title. The issue has since been resolved in the Association's favour and the full value of the impairment provision has been reversed.

Property valuation

Social housing land and buildings are shown at historic cost. The value of social housing properties as determined by the "Existing Use Valuation – Social Housing" method at 31 March 2017 was £311.9m (2016: £300.3m). The valuation was carried out by Jones Lang LaSalle (RICS), 30 Warwick Street, London, W1B 5NH.

Expenditure on works to existing housing properties

	2017	2016
	£'000	£'000
Amounts capitalised	2,041	2,233
Amounts charged to Statement of Comprehensive Income	3,768	3,008

Security

The Association had property with a net book value of £84.5m pledged as security at 31 March 2017 (2016: £85.1m).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

11. OTHER FIXED ASSETS

	Freehold land and premises £'000	Vehicles, plant and equipment £'000	Computers, fixtures and fittings £'000	Other fixed assets Total £'000
Cost				
At 1 April 2016 (restated)	1,784	688	171	2,643
Additions	-	84	-	84
Disposals and demolitions	-	(57)	-	(57)
At 31 March 2017	1,784	715	171	2,670
Accumulated depreciation				
At 1 April 2016 (restated)	(535)	(618)	(66)	(1,219)
Charge for the year	(29)	(26)	(17)	(72)
Disposals and demolitions	6	27	-	33
At 31 March 2017	(558)	(617)	(83)	(1,258)
Net book value				
At 31 March 2017	1,226	98	88	1,412
At 31 March 2016	1,249	70	105	1,424

The 2016 Cost and Accumulated depreciation comparative for Vehicles, plant and equipment and Computers, fixtures and fittings of £688k, (£618k), £171k and (£66k) respectively was previously disclosed in aggregate as £859k and (£684k) as Plant, machinery, fixtures and vehicles.

12. INVESTMENT PROPERTIES

	Investment properties £'000
Cost	
At 1 April 2016	399
Additions	1
Revaluation surplus	23
At 31 March 2017	423

Completed investment properties are shown at market value of £0.4m (2016: £0.4m). The valuation was carried out by Jones Lang LaSalle (RICS), 30 Warwick Street, London, W1B 5NH.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

12. INVESTMENT PROPERTIES (continued)

If the investment properties had not been revalued they would have been included at the following amounts:

	2017 £'000	2016 £'000
Cost	306	306
Depreciation	(41)	(35)
Net book value	265	271

13. PROPERTIES FOR SALE

	2017 £'000	2016 £'000
Affordable home ownership schemes		
Properties under construction	1,601	1,328
Completed properties	114	285
	1,715	1,613

14. RECEIVABLES

	2017 £'000	Restated 2016 £'000
Gross arrears of rent and service charges	872	1,335
Bad debt provision	(310)	(416)
Net tenant arrears	562	919
Trade receivables	44	164
Amounts due from Group undertakings	299	3,133
Short term non-liquid assets	31,687	-
Other receivables and prepayments	187	124
	32,779	4,340

The 2016 Gross arrears of rent and service charges comparative has been restated to reflect the £362k adjustment relating to deferred income which is now disclosed within Payables: Amounts falling due within one year.

Non-liquid assets include cash deposits and the proceeds of the AHF bond of £30.9m. These funds will be released once housing properties have been pledged as security.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

15. CASH

	2017 £'000	Restated 2016 £'000
Cash	1,651	10,083

The 2016 Cash comparative has been restated to reallocate £72k of sinking funds incorrectly netting down cash balances, which are now disclosed within Other payables in note 16.

16. PAYABLES: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2017 £'000	Restated 2016 £'000
Rent and service charges received in advance	703	1,193
Other taxation and social security payable	40	50
Trade payables	1,904	2,210
Interest due and payable	444	351
Right to buy profit share agreement	283	471
Other payables	376	321
Deferred income	362	362
Accruals	565	756
Contract retentions	103	171
Unamortised fees and net premiums	136	-
Deferred capital grant falling due within one year	670	664
	5,586	6,549

The 2016 Trade payables comparative has been restated to reflect £1,754k of capital accruals previously disclosed within Other payables and £17k of Amounts due to contractors previously disclosed under a separate heading entitled Amounts due to contractors.

The 2016 Other payables comparative has been restated to reflect £756k of accruals which are now disclosed under a separate heading entitled Accruals, £584k of contract retentions of which £171k is disclosed under a separate heading entitled Contract retentions and £413k which is now disclosed within Contract retentions in note Payables: Amounts falling due after more than one year. The comparative also includes £195k of Leaseholder sinking funds and deferred income previously disclosed within Payables: Amounts falling due after more than one year and £72k of Sinking funds previously disclosed within Cash.

The 2016 Deferred income comparative has been restated to reflect £362k of deferred income previously disclosed within Receivables: Gross arrears of rent and service charges.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

17. PAYABLES: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2017 £'000	Restated 2016 £'000
Loans and borrowings	178,200	150,000
Contract retentions	660	413
Recycled Capital Grant Fund (see note 19)	-	-
Unamortised fees and net premiums	3,247	(67)
	182,107	150,346

The 2016 Leaseholder sinking funds and deferred income comparative of £195k has been moved within Other payables within Payables: Amounts falling due within one year.

The 2016 Social housing grant comparative of £58,859k and Other public subsidy comparative of £1,070k have been disclosed separately on the statement of financial position (note 18).

The 2016 Contract retentions comparative of £413k above was previously disclosed within Other payables within Payables: Amounts falling due within one year.

Loans and borrowings are secured by a combination of fixed mortgages over housing properties and fixed charges over bank accounts.

Loans and borrowings are repayable as follows:

	2017			Restated 2016		
	Bank loans £'000	Bonds £'000	Total £'000	Bank loans £'000	Bonds £'000	Total £'000
In multiple instalments						
two to five years	3,000	-	3,000	1,500	-	1,500
five years or more	147,000	-	147,000	148,500	-	148,500
	150,000	-	150,000	150,000	-	150,000
In a single instalment						
five years or more	-	28,200	28,200	-	-	-
	150,000	28,200	178,200	150,000	-	150,000

The 2016 Loans and borrowings schedule comparative has been restated to reflect corrections to the repayment profile of the loans and borrowings (no change to the total).

The Association has participated in a single bond which is repayable in a single instalment and is subject to a fixed nominal rate of interest of 2.9%. The Association has a single bank loan which is repayable in multiple instalments and which is made up of various tranches some of which are subject to a variable nominal rate of interest between LIBOR + 0.2% and LIBOR + 0.3% and some of which are subject to a fixed rate of interest.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

17. PAYABLES: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (continued)

Interest rate risk

Interest rate risk is the risk that the Association is unable to service its loans and borrowings due to rises in interest rates. The Association manages interest rate risk through the requirements laid out in the Group Treasury policy.

Liquidity risk

Liquidity risk is the risk that the Association is unable to service its loans and borrowings or meet repayment liabilities as they fall due, due to insufficient cash. The Association manages liquidity risk through the requirements laid out in the Group Treasury policy.

Counterparty credit risk

Counterparty credit risk is the risk that the Association is required to repay funding early due to failure of counterparties. The Association manages counterparty credit risk by regularly monitoring and reviewing the credit rating of counterparties through the requirements laid out in the Group Treasury policy.

Market risk

Market risk is the risk that the Association is unable to refinance loans and borrowings at a similar rate as they mature. The Association manages market risk by modelling the impact of interest rate rises in its long-term forecast and identifying mitigating actions.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

18. DEFERRED CAPITAL GRANT FALLING DUE AFTER MORE THAN ONE YEAR

	Completed £'000	In course of construction £'000	Total £'000
Cost			
At 1 April 2016	65,838	406	66,244
Inputs			
Received in year	-	309	309
Transferred from recycled capital grant fund	-	245	245
Transferred into management	510	-	510
Outputs			
Net movement to payables due within one year	(6)	-	(6)
Recycled on disposal	(275)	-	(275)
Transferred into management	-	(510)	(510)
Other	(54)	-	(54)
At 31 March 2017	66,013	450	66,463
Accumulated amortisation			
At 1 April 2016	(6,315)	-	(6,315)
Released on disposal	28	-	28
Charge for the year	(661)	-	(661)
At 31 March 2017	(6,948)	-	(6,948)
Amortised deferred capital grant falling due after more than one year			
At 31 March 2017	59,065	450	59,515
At 31 March 2016	59,523	406	59,929

The recycled capital grant fund for the Radian Group is held centrally within The Swaythling Housing Society Limited hence transfers from the recycled capital grant fund will not agree to the Association's recycled capital grant fund note.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

19. RECYCLED CAPITAL GRANT FUND

	Recycled capital grant fund £'000
At 1 April 2016	-
Net inputs to fund:	
Grants recycled	275
Recycling of grant:	
Transfer to other Group members	(275)
At 31 March 2017	<u>-</u>

20. PENSIONS

Radian Group Pension Scheme (RGPS)

On 1 October 2012 all employers within the Radian Group established RGPS, a separate pension scheme administered by the Pensions Trust. At the same time employers in the Radian Group withdrew from the Social Housing Pension Scheme (SHPS) and discharged those liabilities which were not transferred to RGPS. RGPS has the following defined benefit structures for its active members:

- 1/60th Final Salary; and
- 1/60th CARE (Career Average Revalued Earnings)

RGPS is closed to new members for all employers within the Radian Group though the Group has retained the ability to admit new members at its discretion.

Employers continued to make monthly contributions of 6.9% of members' earnings until 31 March 2017.

A full actuarial valuation was carried out at 30 September 2013 and updated to 31 March 2017 by an independent qualified actuary. The valuation showed a deficit of £7.9m which the Group has agreed with the Trustee to aim to eliminate over a period of eight years from 1 April 2015. To this end the Group has paid a lump sum of £3.2m during the year (2016: £1.4m). Employers continue to pay 23.2% of pensionable earnings less members' contributions in respect of the cost of accruing benefits.

	2017	2016
	%	%
Main financial assumptions adopted for FRS 102 purposes:		
RPI inflation	3.3	3.0
CPI inflation	2.3	2.0
Salary increases	4.3	3.0
Discount rate	<u>2.7</u>	<u>3.5</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

20. PENSIONS (continued)

Post retirement mortality assumptions:

	Males	Females
Retiring today	23.2	24.9
Retiring in 20 years	24.9	26.4

The Pensions Trust Flexible Retirement Plan (FRP)

The Association participates in a defined contribution scheme administered by The Pensions Trust. The accounting charge represents the Association's contributions to the Plan for the year and amounted to £17k (2016: £14k). There were outstanding contributions as at 31 March 2017 of £2k (2016: £1k).

Hampshire County Council Pension Fund (HPF)

The Association participates in Local Government Pension Scheme HPF a multi-employer defined benefit scheme whose deficit can be separately identified.

A full actuarial valuation of HPF was carried out at 31 March 2016 and updated for FRS 102 purposes to 31 March 2017 by an independent qualified actuary. The valuation results show a funding deficit of £5.4m and a funding level of 60.3%. The agreed employer's contribution rate will increase from 15.6% of gross pay in 2016/17 to 31.5% from 2017/18 onwards. To contribute to the Fund shortfall, the Group must pay a capital contribution amount for past service contributions over a recovery period of ten years. These additional contributions have been set at £557k from 2017/18, increased from £56k in 2016/17 as set by the previous valuation. Capital contributions will increase by 3.5% per year from 2018/19 in line with actuarial salary increase assumptions adopted in the 2016 funding valuation.

Main financial assumptions adopted for FRS 102 purposes:

	2017	2016
	%	%
RPI inflation	3.8	2.9
Salary increases	3.1	3.3
Pension increases (CPI inflation)	2.7	2.3
Discount rate	2.2	3.0

Post retirement mortality assumptions:

Mortality assumptions are based on the recent mortality experience of members and allow for expected future mortality improvements. Sample life expectancies at age 65 resulting from these assumptions are shown below:

	Males	Females
Member aged 65 at accounting date	24.0	27.0
Member aged 45 at accounting date	26.0	29.3

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

20. PENSIONS (continued)

At 31 March 2017 the assets in the schemes which the Association participates in were:

	Radian Group Pension Scheme £'000	Hampshire Council Pension Fund £'000	Total £'000
Equities	44,833	5,940	50,773
Government Bonds	-	2,482	2,482
Corporate Bonds	19,933	138	20,071
Property	2,221	640	2,861
Cash	-	335	335
Alternative assets	2,854	315	3,169
Total market values of assets	69,841	9,850	79,691

The Association's obligations in respect of its defined benefit retirement schemes are set out below:

	Radian Group Pension Scheme		Hampshire Council Pension Fund		Total	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Fair value of scheme assets	4,889	3,700	9,850	8,290	14,739	11,990
Present value of defined benefit obligation	(5,928)	(4,435)	(16,790)	(14,210)	(22,718)	(18,645)
Association's share of deficit in the scheme	(1,039)	(735)	(6,940)	(5,920)	(7,979)	(6,655)

Movements in the fair value of scheme assets:

	Radian Group Pension Scheme		Hampshire Council Pension Fund		Total	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Opening fair value of scheme assets	3,700	3,541	8,290	8,260	11,990	11,801
Interest income on scheme assets	134	112	250	230	384	342
Actuarial gains/(losses)	993	(7)	1,370	(110)	2,363	(117)
Contributions from employers	95	99	130	120	225	219
Contributions from scheme members	73	71	40	40	113	111
Benefits paid	(106)	(116)	(230)	(250)	(336)	(366)
Reallocation of assets between entities	-	-	-	-	-	-
Closing fair value of scheme assets	4,889	3,700	9,850	8,290	14,739	11,990

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

20. PENSIONS (continued)

Movements in the present value of defined benefit obligations:

	Radian Group Pension Scheme		Hampshire Council Pension Fund		Total	
	2017	2016	2017	2016	2017	2016
	£'000	£'000	£'000	£'000	£'000	£'000
Opening defined benefit obligation	4,435	4,805	14,210	15,230	18,645	20,035
Service cost	102	187	160	170	262	357
Interest cost	156	151	420	420	576	571
Expenses	13	29	-	-	13	29
Actuarial losses/(gains)	1,255	(692)	2,190	(1,400)	3,445	(2,092)
Benefits paid net of transfers in	(106)	(116)	(230)	(250)	(336)	(366)
Contributions by scheme members	73	71	40	40	113	111
Closing defined benefit obligation	5,928	4,435	16,790	14,210	22,718	18,645

Analysis of amounts charged to operating surplus:

	Radian Group Pension Scheme		Hampshire Council Pension Fund		Total	
	2017	2016	2017	2016	2017	2016
	£'000	£'000	£'000	£'000	£'000	£'000
Current service costs	102	187	160	170	262	357
Expenses	13	29	-	-	13	29
	115	216	160	170	275	386
Amounts charged to other finance costs:						
Net finance charge	22	39	170	190	192	229

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

20. PENSIONS (continued)

Statement of Comprehensive Income:

Analysis of amount recognised in Other Comprehensive Income:

	Radian Group Pension Scheme		Hampshire Council Pension Fund		Total	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Actual return less expected return on pension scheme assets	993	(7)	1,370	(110)	2,363	(117)
Changes in financial assumptions underlying the present value of the scheme liabilities	(1,255)	621	-	-	(1,255)	621
Experience gains/(losses) arising on the scheme liabilities	-	71	(2,190)	1,400	(2,190)	1,471
Actuarial (losses)/gains on pension schemes	(262)	685	(820)	1,290	(1,082)	1,975

21. SHARE CAPITAL

	2017 £	2016 £
Shares of £1 each		
Issued and fully paid at 1 April	7	7
Shares issued during the year	4	-
Shares cancelled during the year	(4)	-
Shares issued and fully paid at 31 March	7	7

The share capital of the Association consists of shares with a nominal value of £1 each, which carry no rights to dividends or other income. Shares in issue are not capable of being repaid or transferred. When a shareholder ceases to be a member, that share is cancelled and the amount paid thereon becomes the property of the Association. Therefore, all shareholdings relate to non-equity interests.

The members are entitled to vote at annual and special meetings of the Association.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

22. CAPITAL COMMITMENTS

	2017 £'000	2016 £'000
Capital expenditure commitments were as follows:		
Capital new build expenditure contracted but not provided for in the financial statements	10,326	16,341
Capital new build expenditure authorised but not contracted	20,033	2,234
	30,359	18,575

The above represents authorised or contracted but not provided for in the financial statements expenditure on housing properties. As at the reporting date there was no material PPE expenditure either authorised or contracted but not provided for in the financial statements.

Our capital commitments will be financed by cash (£1.7m at 31 March 2017). Additional funds will continue to be generated from operations (approximately £1.0m each month). The Association is also in the process of securing housing properties against the AHF bond which will release £30.8m of cash.

23. OPERATING LEASES

	Land and Buildings	
	2017 £'000	2016 £'000
Leases which expire:		
Not later than one year	29	35
Later than one year and not later than five years	13	72
More than five years	-	-
	42	107

The total receipts which the Association is committed to receive under operating leases are as follows:

	Tenancy Leases	
	2017 £'000	Restated 2016 £'000
Leases which expire:		
Not later than one year	6,756	5,442
Later than one year and not later than five years	14,388	9,880
More than five years	2,852	2,197
	23,996	17,519

The 2016 Leases comparative has been restated to reflect a change from recognising future minimum lease income for leases that have no end date from 35 years to one month in line with default notice periods.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

24. FINANCIAL INSTRUMENTS

	At fair value		At historic or amortised cost	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Financial assets				
Investment properties	423	399	-	-
Cash and cash equivalents	-	-	1,651	10,083
Receivables	-	-	793	1,207
Amounts due from Group undertakings	-	-	299	3,133
Short term non-liquid assets	-	-	31,687	-
	423	399	34,430	14,423
			2017	2016
			£'000	£'000
Financial liabilities at historic or amortised cost				
Trade and other payables			6,246	6,962
Loans and borrowings including unamortised net premiums			181,447	149,933
			187,693	156,895
			2017	2016
			£'000	£'000
Fair value (losses)/gains				
On investment properties			23	55

25. RELATED PARTY TRANSACTIONS

The Association, a subsidiary of Radian Group Limited, has taken advantage of the exemption contained in FRS 102 33.1A not to disclose transactions or balances with entities which form part of the Group.

This is the case except for intragroup transactions with the following subsidiaries and transactions with the following joint ventures:

- Radian Support Limited;
- Radian Capital plc;
- Swaythling Assured Homes plc;
- Affinity (Reading) Holdings Limited; and
- Affinity (Reading) Limited.

These entities are not regulated by the Regulation Committee of the HCA and the Accounting Direction for Social Housing requires Registered Providers to disclose transactions with non-regulated Group members. Dormant subsidiary Swaythling Assured Homes plc was also a non-regulated subsidiary but there were no transactions with regulated Group members during the year.

Transactions with the subsidiaries are eliminated in the Group financial statements. Transactions with the joint ventures are not eliminated in the Group financial statements.

No such transactions took place during the year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (continued)

26. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

At 31 March 2017 the Association's ultimate parent and ultimate controlling party was Radian Group Limited, a company limited by guarantee and incorporated in England.

Radian Group is a Registered Provider and is the parent of both the largest and smallest Group into which the Association is consolidated.

Group financial statements can be obtained from Radian Group Limited, Collins House, Bishopstoke Road, Eastleigh, Hampshire, SO50 6AD.