



Yarlington Housing Group
Annual Report and Financial Statements
For the Year Ended 31 March 2017

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Board Members and Executive Directors for the year ended 31 March 2017

Board

Helen Cope	(Chair)	Resigned 16 th January 2017
Lindy Morgan	(Chair)	Appointed Chair 21 st February 2017
William John Coutts		
Ray Thompson		
Dominic Lynch		Resigned 21 st September 2016
Wayne Morris	(Vice Chair)	Appointed Vice Chair 21 st February 2017
Michael Stancombe		
Joanna Makinson		Appointed 21 st February 2017 (as Board Member having previously been co optee)
Gary Orr	(Chief Executive)	
Caroline Moore	(Executive Director of Finance & Corporate Services)	

Co-Optees to the Board

Andy Skarzynski	Appointed 23 rd May 2017
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Executive Directors

Gary Orr	Chief Executive
Caroline Moore	Executive Director of Finance and Corporate Services
Phyllida Culpin	Executive Director for Customer and Community Services (Resigned 23 rd December 2016)
Stephen Lodge	Executive Director of Growth and Development (Appointed 23 rd August 2016)
Sam Leigh	Executive Director of Transformation (Appointed 24 th April 2017)

Chartered Accountant and Registered Auditors

PricewaterhouseCoopers LLP
Princess Court
23 Princess Street
Plymouth PL1 2EX

Bankers

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

Yarlington Housing Group was a company limited by guarantee (Registered in England, Company Number 3488535), and was registered as a charity with the Charities Commission (Registration Number 1108793). On the 28th February 2017 Yarlington Housing Group became a charitable Community Benefit Society registered with the Financial Conduct Authority (Registered in England, Registration Number 7499). Yarlington Housing Group is registered with the Homes & Communities Agency (Registration Number LH4200). The Registered office is Yarlington Housing Group, Lupin Way, Yeovil, Somerset, BA22 8WN.

Report of the Board

The Board is pleased to present its Directors' Report, Strategic Review Report, Value for Money (VFM) self-assessment, Statement of the Board on Internal Controls and the audited consolidated financial statements for the year ended 31 March 2017.

Directors' Report for the year ended 31 March 2017

The Group

Until 28 February 2017, Yarlington Housing Group ("Yarlington") was a Company limited by Guarantee, registered at Companies House in accordance with the Companies Act 2006; and a registered charity. On 28 February 2017, it converted to a Community Benefit Society, registered with the Financial Conduct Authority, retaining its not for profit status and exempt charity status. It is registered as a Private Registered Provider with the Homes & Communities Agency ("HCA") and is affiliated to the National Housing Federation (NHF).

Business Analysis

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

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

Regulatory Requirements

As a Private Registered Provider ("PRP"), Yarlington is regulated by the HCA. Performance is assessed by means of regular assessments against the Regulatory Framework. In September 2017 we were subject to a routine In Depth Assessment ("IDA") from the HCA. This involved robust review of governance and viability arrangements, including risk management, board effectiveness and financial planning and stress testing. We can confirm that following that IDA we have maintained the top regulatory gradings of G1 for Governance and V1 for Viability. In addition The HCA confirmed that we fully complied with the publication requirements of the VFM Standard and Accounting Direction.

We undertake a self-assessment annually of our compliance with the NHF Code of Governance and can confirm that for 2016-17 we are in full compliance.

We also undertake a self-assessment annually of our compliance with the HCA Governance and Financial Viability Standards and can confirm that we are in full compliance.

Governance and Management

As at 31 March 2017 the Board had eight Board members. There are three committees of the Board: Audit & Risk Committee, Customer Services Committee and Remuneration Committee. The Group and its subsidiaries are managed by an Executive Team headed by the Chief Executive and supported by three Executive Directors. The Chief Executive and Executive Director of Finance and Corporate Services are also Board members.

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

Customer Involvement

Customers are involved in various aspects of service provision. We have an electronic forum, known as The Vibe where we can consult with over 1500 residents. There is a resident scrutiny group (named "Challenge and Change") whose role is to independently scrutinise the service delivery of Yarlington. This is done via a

series of service reviews and an annual co-regulation day where the Board's strategic decision making is held to account.

Risk Management

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

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

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

Operating Environment

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

Activities

As at 31 March 2017 YHG had the following mix of homes in management.

	2017 Number	2016 Number
General Needs – social rents	7,121	7,107
General Needs – intermediate/affordable rents	483	452
Retirement Living - Sheltered	1,319	1,317
Extra Care housing	299	301
Shared Ownership	681	625
Key Worker	36	36
Market Rent	8	2
Leaseholders	298	298
	10,245	10,138

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

Gift Aid

For the year ended 31st March 2017, YHG will receive Gift Aid payments of £34,462 from YHL (2016: nil), £0 from YPM (2016: nil) and £0 from Inspired to Achieve (2016: nil).

Insurance

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

Charitable Donations

The Group made donations totalling £199,000 to local community projects during the year (2016: £216,000).

Going Concern

The Board, after reviewing the Group's budgets for 2017/2018 and the medium term financial position as forecast in the 30-year Financial Plan, is of the opinion that the Group has adequate resources to continue in business for the foreseeable future. As part of this review, the Board has considered the headroom available on loan covenants. This is significant and deemed sufficient to cover the requirements of the Group. The financial statements are therefore prepared on a going concern basis.

Statement of Compliance

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

Independent Auditors

A resolution will be made at the Annual General Meeting to re-appoint PricewaterhouseCoopers LLP as auditors to the Group.

Disclosure of Information to Auditors

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

Strategic Report for the year ended 31 March 2017

Objectives and Strategy

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

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

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

Key Achievements

We continue to deliver strong and stable financial performance despite an uncertain operating environment. We have incorporated our increased development ambitions into our financial forecasts, and we have fully stress tested them and are confident they remain deliverable.

We received a positive confirmation of our regulatory rating of G1/V1 by our regulator in September 2016 and retained our strong Moody's rating of A2 even in light of our increased development and the uncertainty introduced to the sector from the EU Referendum result.

Our development subsidiary YHL has secured three commercial sites during the year in order to kickstart the Group's market sale programme of around 50 homes per annum. This is in order to use the profit created to cross-subsidise our affordable homes development programme.

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

During the year we took the decision to break our RPI linked swap as it no longer provided an effective hedge against our rental income. This cost £1.1m in terms of breakage costs but enables a more appropriate structuring of our financial instrument portfolio.

We were delighted to secure £15m of Affordable Homes Fund bond funding in March 2017 at extremely competitive borrowing rates.

Employees

The Group achieves best practice in employee involvement and engagement as reflected by the reaccreditation of the Times 100 Best Employer status in February 2017, where we were placed number 12 in the country. This backs up our Investors in People Gold status which was awarded in April 2015. There is an active employee forum that inputs into key policies in relation to staff.

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

The Group's premises are accessible to people with disabilities and job applicants are invited to draw attention to any adaptations, adjustments or special requirements that would be needed to enable them to

carry out the duties of the post.

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

Financial Risk Management Policy

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

Operational Performance

The Executive Team and the Board measure the achievement of the objectives and performance of the organisation by the regular review of the following Key Performance Indicators.

Our Key Performance Indicators

Yarlington Housing Group	Targets for 2016/17	Mar 17	Mar 16
Average days to re-let a dwelling	16.5 days	11.25 days	16.61 days
Rent arrears of current tenants at the year-end as a percentage of rent debit	1.5%	1.61%	1.63%
Percentage of all repairs completed within target	96%	97%	95%
Percentage of tenants satisfied with the overall service provided by Yarlington (How are we doing survey)	88%	89.1%	85%
Percentage satisfaction with the most recent repair	85%	96.8%	95.2%
% Customer satisfaction with the handling of a complaint	75%	72%	NEW
% Overall staff turnover	10%	13.8%	16.06%
% Net profit of market sales – gifted to Yarlington	0%	0%	0%
No. of homes built Note: Target to develop 1,500 homes by March 2020	591	602	458
No. of properties without current CP12 certificate	0	0	0
Interest Cover	120%	367%	390%
Excess MTM exposure of swaps compared to security free threshold	<£15m	£9.79m	NEW
Present Gearing level	52%	44%	43%
Operating Margin	30%	34%	33.5%
% Capital programme delivered to date	95%	91.8%	NEW
Progress against annual VFM target	£368,000	£446,000	£360,000

Accounting framework

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

Financial Performance

Financial performance is monitored monthly and forms a key part of our Balanced Scorecard. 2016/17 was a very successful year financially for the Group, delivering an operating surplus of £20m and an operating margin of 34% (2015/16: operating surplus of £21m; operating margin of 34%).

The level of surplus was lower than in 2015/16 as we completed fewer shared ownership sales. The surplus does not take into account our capital expenditure on new homes; or investment in existing homes. In 2016/17 we invested £17m in new homes and £8m in capitalised improvements to existing homes.

Our operating margin was 34.0% (2016: 33.5%) and our net margin was 25.5% (2016: 24.6%).

89.9% of our turnover was from our core activity, social housing activities, with 10% (2016: 15%) of our turnover relating to shared ownership sales. These sales delivered an operating margin of 27.4% (2016: 23.5%).

An actuarial loss of £10.6m in respect of pensions was booked in year (2016: gain of £4.0m) reflecting the changes in the underlying scheme assumptions, net of return on assets.

We delivered turnover of £5.5m from sales of assets of which £1.6m relates to preserved Right to Buy sales. Of those proceeds, £0.9m is paid to South Somerset District Council under an agreement dating back to 1999.

Activity	2017 Turnover £'000	2017 Operating surplus £'000	2016 Operating surplus £'000
General needs	38,387	16,063	15,484
Supported	9,169	2,842	2,624
Shared ownership	1,731	1,290	1,027
Key Worker	374	120	171
Market Rent	53	50	51
Other	8,496	(551)	1,264
	58,210	19,814	20,621

Debt Profile

At 31 March 2017 the Group holds loan facilities totalling £239.67m comprising a term loan of £214.67m and a revolving facility of £25m. On 28th March 2017 we committed to £15m of Affordable Homes Funding bond programme at a rate of 2.057%. This was completed in April 2017. The details of the drawn loans are as follows:

Loan Facility	2017 £'000	2016 £'000	Ave Interest Rate 2017	Ave Interest Rate 2016
Fixed rate loans	168,386	135,332		
Variable rate loans	21,273	48,837		
Total loans drawn	189,659	184,169	3.48%	3.51%
Undrawn loan facilities capable of immediate drawdown	50,011	63,357		
Market Value of loans drawn	168,700	157,005		
Duration (years)*	11.30	9.61		

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

Financial Instruments

The Group uses both embedded and standalone swap arrangements to manage its interest rate risk.

During the year there were eight embedded swaps held with Nationwide and 2 embedded swaps held with Lloyds. These are treated as basic financial instruments under FRS 102.

There were also two standalone swap arrangements (one interest rate and one RPI-linked swap) held during the year, which are treated as complex financial instruments and therefore fair valued under FRS 102. During the year, the RPI swap was cancelled as it was no longer a perfect hedge given that rent levels are no longer linked to RPI. The cost of breaking the swap (£1.1m) is shown separately on the face of the Statement of Comprehensive Income.

The remaining interest rate swap is considered an effective hedge and fair value movements are taken through the cash flow reserve.

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

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

Cash Flows

Cash inflows and outflows for the year under review are contained in the consolidated statement of cash flows and the cash flow notes shown on pages 27 - 28. The main net cash inflows from operating activities are from housing management activities. The net cash outflows from capital expenditure are costs on development of properties and planned maintenance improvements. The net movement on financing is £1.9m (2016: £12.3m outflow), interest paid of £8.1m offset by a net £1.3m of additional grant funding, grant funding utilised of £0.6m (2016: £0.6m) and new loans of £5.5m drawn down in the year (2016: nil).

The net change in cash and cash equivalents was an increase of £0.6m (2016: decrease of £2.3m). Short term deposits have remained relatively stable in year and the movement is in physical cash held at bank.

Liquidity

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

	6 months to 30.09.17 £'000	12 months to 31.03.18 £'000
New cash requirement	10,199	12,191
Available funds:		
Cash	12,548	12,548
Undrawn loan facilities capable of immediate drawdown	50,011	50,011
Undrawn overdraft facility	500	500
Total available funds	63,059	63,059

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

Value for Money Self-Assessment

For 2016/17 we have prepared our VFM self-assessment in line with HCA regulatory requirements. The full self-assessment is contained in our Annual Report on VFM to residents and can be found on our website <http://www.yhg.co.uk/AboutUs/WhoWeAre/ValueForMoney.aspx> and provides more detail to the summary below.

In 2017/17 we formalised our approach to setting and monitoring VFM targets. We continue using our VFM log for recording individual VFM savings that occur during the year, and with monitoring VFM savings that are identified during the budget setting process. However, as part of our work in refreshing the Growth Strategy in September 2016, we made more explicit the link between our VFM targets and how we will redeploy those efficiency gains into building additional new homes. Our Corporate Strategy, which was refreshed in 2016/17, identified the level of future VFM savings required from the ongoing business in order to meet the Board's ambition to deliver additional new homes. The Board has set the organisation clear targets for efficiency savings and will monitor the delivery of those savings on a quarterly basis.

It is therefore the Board's opinion that based on all aspects covered in this self assessment we conclude that Yarlington complies with the requirements of the HCA VFM Standard.

Absolute and comparative costs of delivering services - During the year we have undertaken regular benchmarking of the cost of delivering our services and our performance. Our main method of benchmarking is as an active member of HouseMark. We undertake the comprehensive annual benchmarking, as well as quarterly benchmarking of key performance indicators. We have also introduced benchmarking in terms of unit cost analysis for our headline management costs.

We are pleased to report that overall our comparative costs have typically remained stable or reduced over the year. Certain cost reductions were significant as a result of our response to the July 2015 rent cut announcement.

In June 2016 our Regulator, the HCA, published its research into "Understanding Differences in Unit Costs", which analysed the differences in unit costs between providers. Building on the work already undertaken on unit costs, we reported on our understanding of the identifiable factors that affect our costs of managing and maintaining our assets compared to similar providers. We have identified a group of providers with a similar cost structure to enable more meaningful understanding of our cost drivers. The analysis showed that we are at median cost for 2014/15 and provisionally upper quartile for 2016/17. We have used the information to set ourselves the target of becoming top quartile in terms of headline cost per unit for budget setting purposes for 2017/18. The resultant increase in operating surplus will be used to fund the ongoing increase in new homes identified in the Growth Strategy approved in 2016/17.

Our financial benchmarking, including the retention of a strong credit rating and opinion, shows that we are particularly strong financially, and development benchmarking shows that we are competitive when it comes to our development costs.

We incorporate the outcomes from the various benchmarking into our Budget Setting process, and also use our Performance management frameworks to dive into specific areas of service delivery before any benchmarking activity is completed to interrogate performance on a much deeper level than previously undertaken. By tightening the links between performance management, budget monitoring, customer feedback, and service evolution reviews, we are able to more quickly identify areas requiring investigation.

Achievement of targeted VFM gains and future targets –

Progress against the annual overall VFM target (i.e. above that assumed in individual budgets) is captured on our electronic VFM log and monitored by the Board through the quarterly Board scorecard. This log records a wide variety of VFM initiatives from across the whole business. For 2016-17 the budgetary savings amounted to £178k against a target of £100k. This was in addition to the overall VFM savings that had been identified as part of the maintenance budget for 2016/17 of £277k.

Yarlington is an active founding member of Advantage South West, the South West based procurement consortium. During 2016-17 ASW delivered savings for its members in terms of negotiating value based and high quality components. Yarlington's share of the savings was £411k – representing an excellent return on the annual subscription of £23,011 thereby saving £17.85 per £1.

The Summer 2015 budget introduced a four year rent reduction regime of 1% per annum. This had the impact of removing £14m from our forecast income over that period. Although the level for reduction would not have led us to breaching any loan covenants, the Board rightly reviewed the Financial Plan to identify areas of efficiency and/or areas of discretionary spend across the business. We brought forward our costs project and identified that we could remove, if necessary, around £40m of expenditure in that period. The Board then prioritised expenditure and services to retain and these were built back in to the Financial Plan. The revised Financial Plan resulted in £12m of savings being made across the organisation. All £12m identified savings had been made and were incorporated into budgets from 1 April 2016.

During 2016/17 we refreshed our corporate strategy and, in particular, our Growth Strategy and service delivery model. As part of this strategy refresh, we set clear efficiency plans and targets for the next three years, particularly around our management cost per unit as outlined above. The resultant savings will be utilised to subsidise additional levels of new build activity.

Return on our assets – social, financial and environmental – Each year the Board approves a series of Internal Financial Measures, within which our financial plan has to perform over the ten year period. These include a tolerance within our loan covenants, but importantly also several measures of profitability, efficiency, and liquidity. The projected performance against these measures is both competitive against our peers as well as over the duration of the plan; and is monitored on a quarterly basis by the Board in the Financial Scorecard.

We reviewed and refreshed our Strategic Asset Management Plan and associated action plan; this formalises our approach to asset disposals and the rationale for the decision making process of which assets to dispose. We implemented a new asset management review tool to evaluate the return on our assets – both individually and as a portfolio.

Due to the concentration of our stock in a relatively small geographical area and the good condition of our stock resulting from the considerable investment in the stock (including significant demolition of our worst performing PRC properties), we do not have significant numbers of properties that have negative Net Present Values. However during the year we continued to identify those poorly performing properties requiring a more detailed appraisal. During 2016/17 we continued the process of actively reviewing properties which are due to become vacant, with a view to ensuring that they were only retained as part of the portfolio if their retention represented value for money in the future e.g. strong demand, appropriate energy efficiency level, size, location etc. As a result of the review process we identified 32 properties for disposal, and have identified further properties in the pipeline for disposal in 2017-18. The proceeds from these disposals have been directly linked within the Financial Plan to the funding of an additional 30 new build units in each of 2017/18 and 2018/19.

We continue to measure the social return and impact of our work. We use the HACT Wellbeing Tool and Social Value Bank where appropriate to measure the impact of our investment, primarily on community investment. In 2016/17, the tool calculated the social value for Get On employment support delivered by i2a at £690,444 and for Debt Advice delivered by Citizens Advice South Somerset at £605,920.

How are resources allocated

All activity at Yarlington is driven by achieving our corporate strategy and its objectives which are set in consultation with customers, stakeholders and staff. It is important that our available resources – people, finance and assets – are appropriately allocated to ensure the corporate objectives are achieved.

The annual budget setting process is designed to ensure that value for money is central to managers' considerations when planning the resources they need to deliver their services in the new financial

year. The underlying assumption is that the budget is set within the parameters of the 30 year Financial Plan. VFM savings recorded in the central log are forecast to continue and the Financial Plan allowance is reduced by the relevant amount. The budget is constructed using a zero based budget methodology and after challenge and advice from the finance team. Any area in excess of the Financial Plan allowance is required to be funded from elsewhere in the overall Financial Plan envelope and a business case is made and challenged to ensure the investment demonstrates improved resident satisfaction and triple bottom line. A number of budget headings have efficiency savings built in to the annual budget which are needed to be delivered during the year.

Managers are challenged to consider alternative service delivery and procurement options in order to realise savings. The total value of savings identified through the budget setting process is reported to the Board. A target of achieving £132,000 in cashable savings is built into the budget. When savings are made the budget is then vired to the savings target, progress against the savings target is reported to the Board each quarter.

We have a well embedded risk management framework. Key risks are reported to the Board with a focus on those risks that are changing and where action is being taken. As part of the budget/financial planning process additional resources may be redirected to those areas where the risk profile indicates that additional resources – temporary or permanent – are required.

We use our internally developed Impact Assessment Tool to make informed decisions as to how our community investment budget is allocated and monitored between projects, depending on the relationship between impact on the beneficiaries and the overall cost.

How we provide evidence and assurance

The key way we evidence improvement is through the Value for Money log as reported above. Each department has VFM targets which contribute to the total budget VFM target.

We encourage a culture of wanting to learn from pilot projects. We regularly undertake follow up reviews/post project reviews to aid our learning for future activity.

As part of our ongoing benchmark activity we look at trends in our performance, and particularly using the HouseMark VFM dashboard to understand those areas of operation that have moved on a trend basis.

Going forward we will be monitoring the Social housing management cost per unit on a quarterly basis, as well as setting targets for savings to be made for these costs per unit. We also welcome the introduction of a sector efficiency scorecard pilot.

Throughout this report various ways have been noted as to how the Board gains positive assurance that VFM is being delivered throughout the organisation and across all activities:

- Quarterly Board and Financial Scorecards
- Benchmarking reports
- Progress against individual improvement plans
- Customer satisfaction statistics
- Progress against Corporate Plan objectives
- VFM log as part of the management accounts
- Quarterly KPIs
- Business case for new opportunities
- Annual ASW report
- External accreditation, including credit rating
- Internal audit reports – identify cost of each activity and opportunity for savings, as well as the actual cost of undertaking the review
- Service evolution reports – identify efficiency savings available as a result of improving processes

We have a strong business assurance function that coordinates Internal Audit, Risk Management, Service Evolution and Scrutiny. All these functions explicitly address VFM implications in all reviews undertaken. Follow up of all recommendations for change is routinely undertaken.

Our Business Intelligence Team coordinates our performance management systems – both in terms of operational performance and also performance against our corporate strategy objectives. This efficiently coordinated form of reporting provides additional assurance to the Board on overall performance. The team also coordinates all our benchmarking activity and customer insight information to ensure all information available on our properties and customers is managed in an efficient and effective way.

Summary and looking ahead

We relaunched the Corporate Strategy in April 2017. This strategy has a clear efficiency target of £2.3m pa of efficiency savings to be derived from redesigning our service delivery model. These savings will be used to subsidise further the provision of an additional 500 new homes by 2021.

This future efficiency target will be monitored in absolute terms and also on a quarterly basis in the form of headline management cost per unit; underlying management cost per unit; and responsive maintenance cost per unit.

Statement of the Board on Internal Controls

Introduction

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

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

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

Annual Review of Effectiveness of Internal Controls

The Audit & Risk Committee received a report from the Executive Team on the effectiveness of the Internal Controls systems in operation during the financial year. This was reviewed at the Audit & Risk Committee on 26th June 2017 and reported to the Board on 11th July 2017.

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

Forms of Assurance

Governance

The Board consists of ten members, all with a relevant range and depth of skills and experience. A thorough skills analysis and review of Board effectiveness was undertaken independently in January 2017 which confirmed that the Board was operating effectively and had a good range of essential skills. This includes allowing Executive Directors on the Board. This experience on the Board has led to further robust review and control in the strategy and decision making process.

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

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

Delegation by the Board

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

Corporate Planning and Strategy

During 2016/17 we developed a new Corporate Strategy, NextGen, which was launched in April 2017. This strategy has three clear strategic objectives: to develop and implement a new service model for our customers; to significantly increase new homes in the South West new homes; and to serve our customers in the most economic, efficient and effective manner. The strategy also focuses the direction of management in implementing controls to ensure that the objectives are met. The Board actively monitors the progress of achieving the strategic objectives, again acting as a control in ensuring that they are met; as well as monitoring the progress of the Key Board Deliverables.

Management

The Executive Team reflects the strategic direction and emphasis of NextGen. The Executive Directors are responsible for the implementation of the strategic direction of the organisation; including the delivery of the Strategy.

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

Resident Scrutiny

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

Risk Management and assurance

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

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

Performance Management

We have a suite of management information, suitable for monitoring by different levels in the organisation. We have an automated system to produce Balanced Scorecards for the Board, Executive Team and for individual teams. The role of a dedicated performance team supports management in analysing this management information.

Performance information is reviewed by the Executive Team on a monthly basis and by the Board on a quarterly basis. The clear format of the information, including a 'dashboard' to monitor corporate plan delivery, enables easier identification of any issues in controls and aids prompt remedial action.

Financial assurance

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

A number of standalone swaps were cancelled during the year in order to minimise our exposure to any further change in interest rates and to optimise our security position.

Despite Moody's credit rating agency downgrading the sector, Yarlington retained our strong A2 credit rating. This process and their judgement provides external assurance on our financial viability, management and risk management process.

Value for Money

During the year we have again worked extensively on our Value for Money Plan, particularly in embedding the culture of continuous improvement. We have done considerable analysis on the published Global Accounts sector analysis and our position confirms that our services provide value for money to our customers compared to our peers. We have had confirmation that we comply with the VfM Standard by the HCA, through their IDA process.

External Audit

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

Fraud

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

Regulators' Reports

We provide several returns to the Regulator during the year, notable the Quarterly Statistical Survey. These have all been signed off with no issues during the year. We received confirmation of our Governance rated 1 and Viability rated 1 ("G1/V1") following the extensive In Depth Assessment process in September 2016.

Benchmarking

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

Customer Insight

We constantly review and refresh our policy, procedures and reporting of obtaining and evaluating customer insight and feedback. As a result we have a more consistent and constructive system for listening to our customer's views and taking appropriate action for improvement.

Policies and Procedures

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

Internal Audit

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

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

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

Conclusion

On behalf of the Board, the Audit & Risk Committee has reviewed the effectiveness of the system of internal control, which has been in existence for the year ended 31 March 2017, and up to the date of approval of the financial statements. No weaknesses were found in internal controls, which resulted in material losses, contingencies, or uncertainties, which require disclosure in the financial statements, or in the auditors' report on the financial statements.

Public Benefit Entity

As a public benefit entity, Yarlington Housing Group has applied the public benefit entity 'PBE' prefixed paragraphs of FRS102.

Information for Auditors

The board members who held office at the date of approval of this board report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditors are unaware; and each board member has taken all the steps that they ought to have taken as a board member to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Statement of Compliance

The Board confirms that this Report to the Board has been prepared in accordance with the principles set out in Para 4.7 of the 2014 SORP for Registered Social Housing Providers.

This Board report was approved on the 11 July 2017 and signed on its behalf by:

A handwritten signature in black ink, consisting of several loops and a final vertical stroke, positioned above the 'Signed:' label.

Signed:

Date: 25 July 2017

Director

Statement of the Board's Responsibilities

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the RSL will continue in business.

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

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

Signed:



Director

Date: 25 July 2017

Independent auditors' report to the members of Yarlington Housing Group

Report on the financial statements

Our opinion

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

- give a true and fair view of the state of the group's and of the registered provider's affairs as at 31 March 2017 and of the group's and the registered provider's surplus and the group's cash flows for the year then ended; and
 - have been properly prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.
-

What we have audited

The financial statements, included within the Annual Report and Financial Statements, comprise:

- the group and registered provider statements of financial position as at 31 March 2017;
- the group and registered provider statements of comprehensive income for the year then ended;
- the group's statement of changes in reserves for the year then ended;
- the group statement of cash flows and cash flow notes for the year then ended;
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the board has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Other matters on which we are required to report by exception

Propriety of accounting records, system of internal control and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the board

As explained more fully in the Statement of the Board's Responsibilities set out on page 21, the Board is 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 ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the registered provider's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the board; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the board's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Heather Ancient

Heather Ancient
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Plymouth

27 July 2017

Statements of Comprehensive Income for the year ended 31 March 2017

	Notes	Year ended 31 Mar 2017		Year ended 31 Mar 2016	
		Group £'000	Society £'000	Group £'000	Society £'000
Turnover	2(a)	58,210	58,173	61,557	60,766
Cost of Sales	2(a)	(4,258)	(4,260)	(6,929)	(6,935)
Operating expenditure	2(a)	(34,138)	(33,945)	(34,007)	(33,134)
Operating surplus	2(a)	19,814	19,968	20,621	20,697
Gain on disposal of property, plant and equipment (fixed assets)	5	2,627	2,620	1,752	1,742
Share of operating surplus/(deficit) in joint venture		9	-	(7)	-
Interest receivable		38	93	48	70
Interest payable and financing costs	6	(7,298)	(7,300)	(7,556)	(7,556)
Disposal of financial derivatives		(1,091)	(1,091)		
Movement in fair value of financial instruments	8	-	-	234	234
Increase/(decrease) in valuation of investment properties		726	660	70	10
Surplus before tax		14,825	14,950	15,162	15,197
Taxation	7	(39)	(35)	(6)	1
Gift Aid from subsidiaries		-	34	-	-
Other comprehensive income/(expense):					
Surplus for the year after tax		14,786	14,949	15,156	15,198
Actuarial (loss)/gain in respect of pension schemes	21	(10,646)	(10,646)	4,020	4,020
Release from the revaluation reserve		1,227	1,227	1,233	1,233
Changes in fair value of hedged financial instruments	8	(431)	(431)	(550)	(550)
Total comprehensive income for the year		4,936	5,099	19,859	19,901

The financial statements on pages 24 to 60 were approved and authorised for issue by the Board on 11th July 2017 and were signed on its behalf by:

Board Member:

Gary Orr



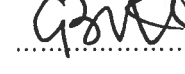
Board Member:

Caroline Moore



Secretary:

Gemma Burton-Connolly



25 July 2017

The consolidation and parent results relate wholly to continuing activities and the notes on pages 24 to 60 form an integral part of these financial statements.

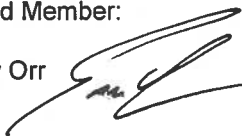
Statements of Financial Position as at 31 March 2017

	Notes	Year Ended As at 31 Mar 2017		Year Ended As at 31 Mar 2016	
		Group £'000	Society £'000	Group £'000	Society £'000
Fixed assets					
Intangible assets	11	489	489	684	684
Tangible fixed assets	12	477,646	482,632	460,660	465,457
Investment properties	13	9,998	9,998	9,272	8,620
Investment in subsidiaries		-	3,000	-	3,000
Investment in joint ventures		107	-	98	-
		<u>488,240</u>	<u>496,119</u>	<u>470,714</u>	<u>477,761</u>
Stock	14	8,264	2,934	3,160	2,165
Trade and other debtors	15	3,171	5,347	3,656	3,711
Investments	16	75	75	60	60
Cash and cash equivalents	17	12,548	12,467	11,931	11,931
		<u>24,058</u>	<u>20,823</u>	<u>18,807</u>	<u>17,867</u>
Less: creditors: amounts falling due within one year	18(a)	<u>(18,366)</u>	<u>(18,240)</u>	<u>(11,766)</u>	<u>(13,266)</u>
Net current assets/(liabilities)		<u>5,692</u>	<u>2,583</u>	<u>7,041</u>	<u>4,601</u>
Total assets less current liabilities		<u>493,932</u>	<u>498,702</u>	<u>477,755</u>	<u>482,362</u>
Creditors: amounts falling due after more than one year	18(b)	<u>(249,770)</u>	<u>(249,770)</u>	<u>(248,697)</u>	<u>(248,697)</u>
Financial derivatives	20	(8,785)	(8,785)	(8,838)	(8,838)
Provisions for liabilities					
Pension provision	21	(38,897)	(38,897)	(26,908)	(26,908)
Other provisions		(133)	(133)	-	-
Total net assets		<u>196,347</u>	<u>201,117</u>	<u>193,312</u>	<u>197,919</u>
Reserves					
Income and expenditure reserve		61,016	65,989	56,375	61,119
Revaluation reserve		144,116	143,913	145,291	145,154
Cash flow hedge reserve		(8,785)	(8,785)	(8,354)	(8,354)
Total reserves		<u>196,347</u>	<u>201,117</u>	<u>193,312</u>	<u>197,919</u>

The financial statements on pages 24 to 60 were approved and authorised for issue by the Board on 11th July 2017 and were signed on its behalf by:

Board Member:

Gary Orr



Board Member

Caroline Moore



Secretary:

Gemma Burton-Connolly



The notes on pages 29 to 60 form an integral part of these financial statements.

25 July 2017

Yarlington Housing Group was a company limited by guarantee (Registered in England, Company Number 3488535), and was registered as a charity with the Charities Commission (Registration Number 1108793). On the 28th February 2017 Yarlington Housing Group became a charitable Community Benefit Society registered with the Financial Conduct Authority (Registered in England, Registration Number 7499). Yarlington Housing Group is registered with the Homes & Communities Agency (Registration Number LH4200). The Registered office is Yarlington Housing Group, Lupin Way, Yeovil, Somerset, BA22 8WN.

Consolidated Statement of Changes in Reserves for the year ended 31 March 2017

	Income and Expenditure reserve £'000	Cash flow hedge reserve £'000	Revaluation reserve £'000	Total reserves £'000
Opening Balance as at 1 April 2015	36,036	(7,804)	147,181	175,413
Surplus/(deficit) from Statement of Comprehensive Income	15,156	-	(727)	14,429
Unrealised (deficit)/surplus on revaluation of investment properties	(70)	-	70	-
Actuarial (loss)/gain in respect of pension schemes	4,020	-	-	4,020
Transfer from revaluation reserve to income and expenditure reserves	1,233	-	(1,233)	-
Movement on Financial Derivatives	-	(550)	-	(550)
Balance at 31 March 2016 / 1 April 2016	56,375	(8,354)	145,291	193,312
Surplus/(deficit) from Statement of Comprehensive Income	14,786	-	(674)	14,112
Unrealised (deficit)/surplus on revaluation of investment properties	(726)	-	726	-
Actuarial (loss)/gain in respect of pension schemes	(10,646)	-	-	(10,646)
Transfer from revaluation reserve to income and expenditure reserves	1,227	-	(1,227)	-
Movement on Financial Derivatives	-	(431)	-	(431)
Balance at 31 March 2017	61,016	(8,785)	144,116	196,347

Consolidated Statement of Cash Flows for the year ended 31 March 2017

	Notes	2017 £'000	2016 £'000
Net Cash generated from operating activities	1	24,667	29,094
Cash Flow from investing activities			
Increase in valuation of investment properties	13	(726)	(70)
Purchase of Intangible fixed assets	11	(62)	(46)
Purchase of tangible fixed assets		(25,819)	(21,962)
Write down of fixed asset investment		-	60
Purchase of fixed asset investments		(15)	(15)
Proceeds from sale of tangible fixed assets	5	5,392	3,864
Share of sale of Housing Properties to SSDC		(927)	(1,038)
Interest received		28	48
Net cash from investing activities		(22,129)	(19,159)
Cash flow from financing activities			
Interest paid		(8,152)	(6,779)
New loans		5,490	-
Repayment of other loans		-	(8,227)
Receipt of SHG		1,298	3,265
Grants utilised in the year		(557)	(540)
Net cash used in financing activities		(1,921)	(12,281)
Net Change in cash and cash equivalents		617	(2,346)
Cash and cash equivalents at beginning of the year		11,931	14,277
Cash and cash equivalents at end of the year	17	12,548	11,931

Yarlington Housing Group
Annual Report and Financial Statements
For the Year Ended 31 March 2017

Note 1	Notes	2017 £'000	2016 £'000
Cash flow from operating activities			
Surplus for the year		14,825	15,162
Adjustments:			
Depreciation of fixed assets	12a	6,460	5,982
Amortisation of intangible assets	11	257	255
Impairment of fixed assets	4	-	492
(Increase)/decrease in stock		(5,330)	2,104
(Increase)/decrease in trade or other debtors		(100)	223
Increase/(decrease) in trade or other creditors		1,696	(1,451)
Movement in fair value of financial instruments		-	(234)
Pension costs less contributions payable		1,343	1,731
Carrying amount of tangible fixed asset disposals		2,835	2,141
Proceeds from sale of tangible fixed assets	5	(5,464)	(3,864)
Share of surplus/deficit in joint venture		(9)	7
Taxation	7	4	6
Interest payable		7,393	6,588
Interest received		(38)	(48)
Other non-cash items		795	-
Net Cash generated from operating activities		24,667	29,094

Notes to the Financial Statements for the year ended 31 March 2017

Legal Status

Yarlington Housing Group was a company limited by guarantee (Registered in England, Company Number 3488535), and was registered as a charity with the Charities Commission (Registration Number 1108793). On the 28th February 2017 Yarlington Housing Group became a charitable Community Benefit Society registered with the Financial Conduct Authority (Registered in England, Registration Number 7499). It is registered as a Registered Provider with the Homes and Communities Agency (HCA) and is affiliated to the National Housing Federation.

The group comprises the following entities:

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

1. Principal Accounting Policies

Statement of Compliance

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

Basis of Preparation

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

As from 1 January 2015 all previous UK GAAP accounting standards were withdrawn and replaced by FRS 102: The Financial Reporting Standard applicable in the UK and the Republic of Ireland.

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

Group Consolidation

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

Basis of Consolidation

The Group consolidated financial statements include the financial statements of the Society and all of its subsidiary undertakings together with the Group's share of the results of associates made up to 31 March.

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

Yarlington Housing Group has three wholly owned subsidiaries.

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

Operating Surplus

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

Turnover

Turnover represents:

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

Revenue fees and grants from local authorities and the Home and Communities Agency - recognised in income over the period the related costs are incurred.

Asset related fees and grants from local authorities and the Home and Communities Agency - recognised in income over the life of the related asset.

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

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

Value Added Tax (VAT)

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

Right to Buy

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

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

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

Right to Acquire

The surplus or deficit on the disposal of housing properties under the Right to Acquire arrangement is calculated as being the difference between the proceeds of sale of a property and the carrying value of that property. Any loss on disposal is recognised in the deficit for the period at the date of transfer, any gain on disposal less allowable deductions is credited to the disposal proceeds fund to be recycled or repaid to the Homes and Communities Agency (HCA) if not used within the specified time period.

Shared Ownership Properties

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

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

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

Gift Aid

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

Taxation

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

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

Social Housing Properties and Depreciation

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

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

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

<u>Component</u>	<u>UEL</u>
Structure (existing properties)	100 years
Structure (new build properties)	125 years
Roof	60 years
Kitchens	15 or 20 years depending on type installed
Bathrooms	30 years
Heating Systems	20 years
Boilers	15 years
Windows	30 years

Wiring	30 years
External wall insulation	40 years

Impairment reviews are carried out at each reporting date. If impairment is present the asset's carrying value is reduced to its amended value in use amount, as outlined in the impairment policy.

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

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

Yarlington Housing Group has elected to take the transitional exemption laid out in paragraph 35.10(d) of FRS 102 and elect to use the 31 March 2014 valuation as the deemed cost of social housing properties to that date. All social housing properties completed after that date are recognised at cost.

Donated Land

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

Property, Plant and Equipment and Depreciation, Non-social Housing

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

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

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

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

Website Development Costs

The Group has a website, which is used to promote the Group's activities. Design and content development costs are capitalised to the extent that they deliver demonstrable benefits to the Group and are depreciated

over 5 years. On-going costs of maintaining and operating the website are charged as other operating costs are incurred.

Capitalisation of Internal Staff Costs

a) *Housing development schemes*

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

b) *Development of internally created assets*

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

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

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

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

Capitalisation of Interest Costs

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

Leased Assets

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

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

Investment Properties

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

Inventories

a) *General inventories*

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

b) *Properties identified for disposal*

Where a decision has been taken to dispose of housing properties, these are included under inventories. These properties are held at the lower of historical cost less depreciation, or net realisable value. Cost

comprises materials, direct labour, direct development overheads and attributable interest. Net realisable value is based on estimated sales price after allowing for all further costs of completion and disposal.

c) *Properties developed for market sale*

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

Impairment

a) *Inventories*

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

b) *Other tangible and intangible assets*

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

c) *Social Housing*

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

d) *Unsold first tranche Shared Ownership current assets*

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

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

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

Accrued Income

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

Deferred Income

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

Financial Instruments

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

a) *Rent arrears and other debts*

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

Any tenants or miscellaneous debtors who have a payment arrangement to pay their debts over a period of

longer than the Group's normal terms of business are treated as having a financing transaction. These transactions are recognised at their present value rather than transaction value. The discount rate used for the present value calculation is based upon an estimate of the rate the debtor could obtain in their own right.

b) Cash and cash equivalents

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

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

c) Financial assets

The group capitalise its financial assets at fair value. They represent some of the financial instruments the group has designated as hedging instruments. Hedging is further explained below in the derivative note.

d) Offsetting financial instruments

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

e) Trade payables

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

f) Committed borrowings and bank overdrafts

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

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

g) Derivative financial instruments

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

- (i) a standalone derivative recognised at fair value through the profit or loss; or
- (ii) a cash flow hedging instrument.

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

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

h) Cash flow hedges

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

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

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

Social Housing and Other Grants

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

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

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

Pension Costs

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

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

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

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

The LGPS scheme is closed to new starters.

Provisions

a) General provisions

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

b) Termination benefits

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

Deferred Taxation

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

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

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

Critical accounting judgements and estimation uncertainty

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

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

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

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

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

Group	Turnover	2017		Operating Surplus/ (Deficit) £'000	2016 Operating Surplus/ (Deficit) £'000
		Cost of Sales	Operating Expenditure		
	£'000	£'000	£'000		
Social housing lettings	49,661	-	(29,345)	20,316	19,306
First tranche/low cost home ownership Sales	5,867	(4,258)	-	1,609	2,129
Charges for support services	446	-	(726)	(280)	(516)
Supporting people	638	-	-	638	608
Activities other than social housing Activities	1,598	-	(4,067)	(2,469)	(906)
Total	58,210	(4,258)	(34,138)	19,814	20,621

Society	Turnover	2017		Operating Surplus/ (Deficit) £'000	2016 Operating Surplus/ (Deficit) £'000
		Cost of Sales	Operating Expenditure		
	£'000	£'000	£'000		
Social housing lettings	49,661	-	(29,383)	20,278	19,262
First tranche/low cost home ownership Sales	5,867	(4,260)	-	1,607	2,123
Charges for support services	446	-	(726)	(280)	(515)
Supporting people	638	-	-	638	608
Activities other than social housing Activities	1,561	-	(3,836)	(2,275)	(781)
Total	58,173	(4,260)	(33,945)	19,968	20,697

2(b) Income and expenditure from social housing letting

Group	General Needs £'000	Supported Housing £'000	Low Cost Home Ownership £'000	Key Worker £'000	2017 Total £'000	2016 Total £'000
Income						
Rents receivable	37,124	7,307	1,541	305	46,277	45,805
Service charge income	462	1,502	104	69	2,137	2,246
Amortised government grant	488	-	69	-	557	540
Other income from Social Housing Lettings	313	360	17	-	690	595
Turnover from Social Housing Lettings	38,387	9,169	1,731	374	49,661	49,186
Operating Expenditure						
Management	(6,613)	(1,853)	(122)	(104)	(8,692)	(8,708)
Service charge costs	(462)	(1,502)	(104)	(69)	(2,137)	(2,246)
Routine maintenance	(7,286)	(1,550)	-	(34)	(8,870)	(9,247)
Major repairs expenditure	(2,650)	(564)	-	-	(3,214)	(3,052)
Bad Debts	(77)	(3)	-	-	(80)	(491)
Depreciation of Housing Properties	(5,235)	(855)	(215)	(47)	(6,352)	(5,644)
Impairment of Housing Properties	-	-	-	-	-	(492)
Operating costs	(22,323)	(6,327)	(441)	(254)	(29,345)	(29,880)
Operating surplus on Social Housing Lettings	16,064	2,842	1,290	120	20,316	19,306
Void Losses	186	40	27	23	276	388

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

2(b) Income and expenditure from social housing letting

Society	General Needs £'000	Supported Housing £'000	Low Cost Home Ownership £'000	Key Worker £'000	2017 Total £'000	2016 Total £'000
Income						
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Operating Expenditure						
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Service charge costs	(462)	(1,502)	(104)	(69)	(2,137)	(2,246)
Routine maintenance	(7,286)	(1,550)	-	(34)	(8,870)	(9,247)
Major repairs expenditure	(2,650)	(564)	-	-	(3,214)	(3,052)
Bad Debts	(77)	(3)	-	-	(80)	(491)
Depreciation of Housing Properties	(5,273)	(855)	(215)	(47)	(6,390)	(5,688)
Impairment of Housing Properties	-	-	-	-	-	(492)
Operating costs	(22,361)	(6,327)	(441)	(254)	(29,383)	(29,924)
Operating surplus on Social Housing Lettings	16,026	2,842	1,290	120	20,278	19,262
Void Losses	186	40	27	23	276	388

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

3. Accommodation owned and managed

	2017	2016
	No. of properties owned and managed	No. of properties owned and managed
Social Housing		
<u>Under development at end of year:</u>		
General Needs Housing (Social Rent)	67	108
General Needs Housing (Affordable Rent)	68	69
Supported Housing	63	63
Low Cost Home Ownership	126	140
<u>Total under development at end of year</u>	<u>324</u>	<u>380</u>
 <u>Under Management at end of year:</u>		
General Needs Housing	7,604	7,559
Supported Housing	1,618	1,618
Low Cost Home Ownership	681	625
Key Worker Housing	36	36
<u>Total under management at end of year</u>	<u>9,939</u>	<u>9,838</u>
 Non-Social Housing		
Market Rented	8	2
Leaseholders	298	298
	<u>10,245</u>	<u>10,138</u>

4. Surplus on Ordinary Activities

	2017	2016
	£'000	£'000
Group		
The operating surplus is stated after charging/(crediting):-		
Auditors' remuneration (excluding VAT):		
Audit of the group financial statements	29	28
Audit of subsidiaries	11	11
Taxation compliance services	25	13
Other professional services	-	15
Operating lease rentals – other	246	286
Inventory – cost of sales	875	2,585
Impairment losses - housing properties	-	492
Depreciation of housing properties	6,201	5,643
Depreciation of other fixed assets	259	339
Amortisation	257	255

	2017	2016
	£'000	£'000
Society		
The operating surplus is stated after charging/(crediting):-		
Auditors' remuneration (excluding VAT):		
Audit of the financial statements	5	5
Taxation compliance services	7	7
Other professional services	-	2
Operating lease rentals	246	286
Inventory – Cost of Sales	875	1,954
Impairment losses of housing properties	-	492
Depreciation of housing properties	6,239	5,688
Depreciation of other fixed assets	259	339
Amortisation	257	255

An additional £34,000 of audit fees were charged in the current year relating to additional audit services in 2016, these were agreed post year and signing of the financial statements and have therefore been disclosed this year for completeness.

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

Group	Right to Buy	Right to Acquire	Shared Ownership Staircasing	Others	Total	
					2017	2016
	£'000	£'000	£'000	£'000	£'000	£'000
Proceeds of sales	1,595	385	838	2,646	5,464	3,864
Less: Costs of sales	(420)	(26)	(383)	(514)	(1,343)	(884)
Amount payable to SSDC under claw back agreement	(903)	-	(63)	-	(966)	(927)
Surplus	272	359	392	2,132	3,155	2,053
Capital grant recycled (note 23)	-	-	(142)	-	(142)	(156)
Disposal proceeds fund (note 24)	-	(386)	-	-	(386)	(145)
	272	(27)	250	2,132	2,627	1,752

Society	Right to Buy	Right to Acquire	Shared Ownership Staircasing	Others	Total	
					2017	2016
	£'000	£'000	£'000	£'000	£'000	£'000
Proceeds of sales	1,595	385	838	2,646	5,464	3,864
Less: Costs of sales	(424)	(26)	(386)	(514)	(1,350)	(894)
Amount payable to SSDC under claw back agreement	(903)	-	(63)	-	(966)	(927)
Surplus	268	359	389	2,132	3,148	2,043
Capital grant recycled (note 23)	-	-	(142)	-	(142)	(156)
Disposal proceeds fund (note 24)	-	(386)	-	-	(386)	(145)
	268	(27)	247	2,132	2,620	1,742

6. Interest payable and financing costs

	Group		Society	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Deferred benefit pension charge	997	968	997	968
On loans repayable within five years	1,005	991	1,007	991
On loans wholly or partly repayable in more than five years	5,467	5,935	5,467	5,935
Disposal of financial derivative				
Costs associated with financing	20	20	20	20
	<u>7,489</u>	<u>7,914</u>	<u>7,491</u>	<u>7,914</u>
Less: interest costs capitalised on housing properties under construction	(191)	(358)	(191)	(358)
	<u>7,298</u>	<u>7,556</u>	<u>7,300</u>	<u>7,556</u>

7. Taxation

	Group		Society	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Current tax				
UK corporate tax expense	36	2	34	2
Adjustments in respect of prior years	-	(3)	1	(3)
Total current tax	<u>36</u>	<u>(1)</u>	<u>35</u>	<u>(1)</u>
Deferred tax				
Net origination and reversal of timing differences	3	7	-	-
Total deferred tax	<u>3</u>	<u>7</u>	<u>-</u>	<u>-</u>
Tax on ordinary activities	<u>39</u>	<u>6</u>	<u>35</u>	<u>(1)</u>

The tax assessed in the year is lower than the standard rate of corporation tax in the United Kingdom at 20% (2016: 20%). The differences are explained as follows.

7. Taxation (continued)

	Group		Society	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Profit on ordinary activities	<u>14,825</u>	<u>15,162</u>	<u>14,950</u>	<u>15,197</u>
Profit on ordinary activities multiplied by standard rate of Corporation Tax in the UK 20% (2016: 20%)	2,965	3,032	2,990	3,039
Effects of:				
Profit from charitable activities	(2,907)	(3,018)	(2,953)	(3,024)
Expenses not deductible	-	-	-	-
Tax rate changes	-	-	-	-
Disposal of investment properties	(20)	-	-	-
Revaluation of investment properties	-	(4)	-	-
Profits/(Losses) from LLP	1	(1)	-	-
Group relief not paid for	-	-	(3)	(13)
Adjustments to tax charge in respect of prior periods	-	(3)	1	(3)
Total tax charge/(credit)	<u>39</u>	<u>6</u>	<u>35</u>	<u>(1)</u>

Factors that may affect future tax charges

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

8. Gains/(losses) on Financial instruments

Group and society	2017			
	Profit and loss		Other comprehensive income	
	Gains £'000	Losses £'000	Gains £'000	Losses £'000
Financial liabilities measured at fair value through profit or loss	-	-	-	(431)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(431)</u>
	2016			
	Profit and loss		Other comprehensive income	
	Gains £'000	Losses £'000	Gains £'000	Losses £'000
Financial liabilities measured at fair value through profit or loss	504	(270)	-	(550)
	<u>504</u>	<u>(270)</u>	<u>-</u>	<u>(550)</u>

9. Directors' Remuneration

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

	2017 £'000	2016 £'000
The aggregate emoluments paid or receivable by non-executive Directors and former non-executive directors	49	53
The aggregate emoluments paid or receivable by executive Directors and former executive Directors	462	462
The emoluments paid to the highest paid Directors excluding pension contributions	155	155
The aggregate amount of Directors or past Directors pensions, excluding amounts payable under a properly funded pension scheme.	46	57
The aggregate amount of any consideration payable to Directors for loss of office	30	-

The Chief Executive is the highest paid Director. He is an ordinary member of the Somerset County Council Local Government pension scheme. No enhancement or special terms apply. He has no individual pension arrangements to which the Group makes a contribution. A contribution of £19k (2016: £19k) was paid.

10. Employee Information

	Group		Society	
	2017 No.	2016 No.	2017 No.	2016 No.
The average number of persons employed during the year expressed in full time equivalents (37 hours per week) was :				
Office Staff	199	201	192	192
Maintenance Staff	62	67	62	67
Scheme Managers, Caretakers and Cleaners	54	62	54	62
	315	330	308	321

10. Employee Information (continued)

	Group		Society	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Staff costs				
Wages and salaries	9,245	9,491	9,036	9,263
Social security costs	919	731	899	709
Other pension costs	1,483	1,592	1,474	1,581
	<u>11,647</u>	<u>11,814</u>	<u>11,409</u>	<u>11,553</u>

Group

Aggregate number of full time equivalent staff whose remuneration exceeded (including employer pension contributions)	2017 No.	2016 No.
£0 - £59,999	300	320
£60,000 - £69,999	6	5
£70,000 - £79,999	4	1
£80,000 - £89,999	2	1
£90,000 - £99,999	-	-
£100,000 - £109,999	-	-
£110,000 - £119,999	-	1
£120,000 - £129,999	-	-
£130,000 - £139,999	1	-
£140,000 - £149,999	-	-
£150,000 - £159,999	1	1
£160,000 - £169,999	-	-
£170,000 - £179,999	1	1

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

11. Intangible assets

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

Group and Society

	£'000
Cost at start of year	1,087
Additions	62
At end of year	<u>1,149</u>
Accumulated amortisation at start of year	(403)
Provision for year	(257)
At end of year	<u>(660)</u>
Net book value	
At 31 March 2017	489
At 31 March 2016	<u>684</u>

Group	Housing Properties					Other fixed assets				
	Social Housing Properties for Letting Completed £'000	Social Housing Properties for Letting under Construction £'000	Low Cost Home Ownership Properties Completed £'000	Low cost Home Ownership Properties Under Construction £'000	Total Housing Properties £'000	Freehold Offices £'000	Photo-Voltaic Panels £'000	Furniture And office Equipment £'000	Total Fixed assets £'000	
Cost										
At start of the year	442,947	2,683	35,550	915	482,095	3,527	705	1,773	488,100	
Additions to properties acquired	8,197	-	-	-	8,197	741	-	-	8,938	
Works to existing properties	60	42	71	18	191	-	-	-	191	
Interest capitalised	1,660	(1,660)	830	(830)	-	-	-	-	-	
Transfer of work in progress/completed	5,705	7,068	3,435	669	16,877	-	-	4	16,881	
Additions	(1,779)	(25)	(614)	(24)	(2,442)	(1,165)	-	(116)	(3,723)	
Disposals	-	-	-	-	-	-	-	-	-	
Transfers to/from investment property	-	-	-	-	-	-	-	-	-	
At end of the year	456,790	8,108	39,272	748	504,918	3,103	705	1,661	510,387	
Depreciation and impairment										
At start of the year	24,221	-	900	-	25,121	836	120	1,363	27,440	
Charge for the year	5,987	-	214	-	6,201	11	28	220	6,460	
Impairment losses	-	-	-	-	-	-	-	-	-	
Disposals	(329)	-	(24)	-	(353)	(690)	-	(116)	(1,159)	
At end of the year	29,879	-	1,090	-	30,969	157	148	1,467	32,741	
Net book value at the end of the year	426,911	8,108	38,182	748	473,949	2,946	557	194	477,646	

Cost of properties includes £325k (2016: £364k) for direct administration costs capitalised during the year

Society	Housing Properties					Other fixed assets					Total Fixed assets £'000
	Social Housing Properties for Letting Completed £'000	Social Housing Properties for Letting under Construction £'000	Low Cost Home Ownership Properties Completed £'000	Low cost Home Ownership Properties Under Construction £'000	Total Housing Properties £'000	Freehold Offices £'000	Photo-Voltaic Panels £'000	Furniture And office Equipment £'000			
Cost											
At start of the year	447,592	2,733	35,727	921	486,973	3,527	705	1,773	492,978		
Additions to properties acquired	-	-	-	-	-	-	-	-	-		
Works to existing properties	8,197	-	-	-	8,197	741	-	-	8,938		
Interest capitalised	60	42	71	18	191	-	-	-	191		
Transfer of work in progress/completed	1,660	(1,660)	830	(830)	-	-	-	-	-		
Additions	5,717	7,293	3,438	672	17,120	-	-	-	17,120		
Disposals	(1,785)	(25)	(619)	(25)	(2,454)	(1,165)	-	(116)	(3,735)		
Transfers to/from investment property	-	-	-	-	-	-	-	-	-		
At end of the year	461,441	8,383	39,447	756	510,027	3,103	705	1,657	515,492		
Depreciation and impairment											
At start of the year	24,297	-	905	-	25,202	836	120	1,363	27,521		
Charge for the year	6,024	-	215	-	6,239	11	28	220	6,498		
Impairment losses	-	-	-	-	-	-	-	-	-		
Disposals	(329)	-	(24)	-	(353)	(690)	-	(116)	(1,159)		
At end of the year	29,992	-	1,096	-	31,088	157	148	1,467	32,860		
Net book value at the end of the year	431,449	8,383	38,351	756	478,939	2,946	557	190	482,632		

Cost of properties includes £325k (2016: £346k) for direct administration costs capitalised during the year

12 (c). Fixed Asset Investments

Group Companies

The Society has three wholly owned subsidiaries, Yarlington Property Management ("YPM"), which provides maintenance services to third parties, Yarlington Homes Ltd ("YHL"), which provides development services to the Society and Inspired to Achieve (i2a) which provides employment skills advice and mentoring. YPM & YHL started trading on 1 October 2004. Inspired to Achieve was acquired on the 2nd October 2014. The Society holds one £1 Ordinary share in both YPM and i2a.

The Society held £1 Ordinary shares in YHL at the start of the financial year and purchased an additional 3,000,000 shares of £1 each on the 22nd March 2016. On the 30th March 2016 74,210 ordinary shares of £1 each were cancelled and extinguished and debited to accumulated profit.

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

Associates and joint ventures

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

13 Investment properties

	Group		Society	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
At the start of the year	9,272	9,330	8,620	8,738
Additions	-	-	718	-
Disposals	-	(128)	-	(128)
Gain/(loss) from adjustment in value	726	70	660	10
At end of year	<u>9,998</u>	<u>9,272</u>	<u>9,998</u>	<u>8,620</u>

Investment properties were valued at 31 March 2017 by Savills professional qualified external valuers. The valuation of properties was undertaken in accordance with the Royal Institute of Chartered Surveyors Valuation Standards.

14. Stock and work in progress

	Group		Society	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Consumable maintenance stock	79	84	79	84
Properties held for sale				
Shared ownership properties:				
Completed	437	713	440	713
Work in progress	2,079	921	2,139	921
Outright sale properties: construction				
Work in progress	5,393	995	-	-
Surplus properties held for disposal	276	447	276	447
	<u>8,264</u>	<u>3,160</u>	<u>2,934</u>	<u>2,165</u>

15. Trade and other debtors

	Group		Society	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Rent arrears	1,303	1,313	1,303	1,313
Less provision for bad debts	(908)	(894)	(908)	(894)
Social housing grant receivable	-	595	-	595
Prepayments and accrued income	547	501	547	501
Amounts due from group undertakings	-	-	181	159
Loans to group undertakings	-	-	2,037	-
Other debtors	2,229	2,141	2,187	2,037
	<u>3,171</u>	<u>3,656</u>	<u>5,347</u>	<u>3,711</u>

Other debtors includes £0k (2016: £13k) falling due after more than one year.

Short-term funding facilities are available to Yarlington Homes Ltd, a subsidiary of the Society. These facilities are £8 million (2016: £8 million) and are secured by a floating charge against Yarlington Homes Ltd's assets and are repayable one month on demand with a final repayment date of 4 years. Interest is payable at 2% above the 1 month LIBOR rate. As at 31 March 2017, £2.037m were drawn down (2016: £0)

16. Investments

	Group		Society	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Investments at cost or fair value	75	60	75	60
	<u>75</u>	<u>60</u>	<u>75</u>	<u>60</u>

Investment in Somerset Savings & Loans

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

Investment in Smarterbuys

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

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

17. Cash and Cash equivalents

	Group		Society	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Cash at bank	95	18	15	18
Short term deposits	<u>12,453</u>	<u>11,913</u>	<u>12,452</u>	<u>11,913</u>
	<u>12,548</u>	<u>11,931</u>	<u>12,467</u>	<u>11,931</u>

Analysis of group cash and cash equivalents

	As at 1 April 2016 £'000	Cash flow £'000	As at 31 March 2017 £'000
Cash at bank	18	77	95
Short term deposits	<u>11,913</u>	<u>540</u>	<u>12,453</u>
	<u>11,931</u>	<u>617</u>	<u>12,548</u>

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

	Group		Society	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Loans and overdrafts	4,499	-	4,499	-
Trade creditors	133	463	131	446
Amounts owed to group undertakings	-	-	1,155	2,385
Rents and service charges paid in advance	1,677	1,367	1,677	1,367
Corporation tax	34	2	35	7
Other taxation and social security payable	220	60	220	46
Accruals and deferred income	2,516	2,140	1,454	1,281
SHG to be released in 1 year	564	562	564	562
Deferred capital grant (note 22)	1	2	1	2
Recycled capital grant fund (note 23)	427	377	427	377
Disposal proceeds fund (note 24)	652	265	652	265
Other creditors	<u>7,643</u>	<u>6,528</u>	<u>7,425</u>	<u>6,528</u>
	<u>18,366</u>	<u>11,766</u>	<u>18,240</u>	<u>13,266</u>

Within amounts owed to group undertakings is £0 (2016: £1,602,000) which the Society is investing on Yarlington Homes Ltd's behalf. All others amounts are trading items and unsecured.

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

	Group		Society	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Bank Loans between 1 and 2 years by instalments	13,572	12,355	13,572	12,355
Bank Loans between 3 and 5 years by instalments	30,353	22,630	30,353	22,630
Bank Loans repayable in more than 5 years by instalments	141,235	149,184	141,235	149,184
Less costs of issue – amortised loan costs	(394)	(415)	(394)	(415)
Social Housing Grant	65,002	64,940	65,002	64,940
Deferred capital grant	2	3	2	3
Total	249,770	248,697	249,770	248,697

19(a). Debt analysis – drawn facilities

	Group		Society	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Loans repayable by instalments:				
Within one year	4,499	-	4,499	-
In one year or more but less than two years	13,572	12,355	13,572	12,355
In two years or more and less than five year	30,353	22,630	30,353	22,630
In five years or more	141,235	149,184	141,235	149,184
Loans not repayable by instalments				
Less loan issue costs	(394)	(415)	(394)	(415)
Total	189,265	183,754	189,265	183,754

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

The above value does not include funds from the Affordable Housing Finance PLC (AHF) a subsidiary of The Housing Finance Corporation. A bond issue of £15m principal repayable in 2043 was priced on the 28th March with the transaction completed on the 4th April. The funds are to be held by AHF until property charging is complete; this is expected to be within 6 months, with funds transferring to the group within the next financial year.

The interest rate profile of YHG at 31st March 2017 was:

	Total £'000	Variable Rate £'000	Fixed Rate £'000	Weighted Average Rate %	Weighted Average Term Years
Instalment loans	189,659	21,273	168,386	3.48%	18.78
Non-instalments loans	-	-	-	-	-

19(b). Debt analysis – undrawn facilities

At 31 March 2017 YHG has the following borrowing facilities:	£'000
Undrawn committed facilities	-
Undrawn facilities	50,011

The above does not include the £15m AHF funds noted in note 19(a) as this was not committed until 4th April.

20. Financial Instruments

(a) Descriptions

Yarlington Housing Group holds several different types of financial instruments which it uses to fund activities and manage its interest rate risk. The characteristics of the main classes of financial instrument held are given below:

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

(b) Classifications

Amortised cost

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

Fair Value through Profit or Loss (FVTPL)

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

Equity

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

Financial instrument carrying values

The group has the following financial instruments

	2017 £'000	2016 £'000
Financial instruments that are debt instruments measured at amortised cost		
Trade and rent debtors	395	419
Other grants receivable	-	595
Other debtors	<u>2,776</u>	<u>2,642</u>
	3,171	3,656
Financial instruments that are equity instruments measured at cost less impairment		
Investment in joint venture (Group only)	<u>107</u>	<u>98</u>
	107	98

20. Financial Instruments (continued)

	2017	2016
	£'000	£'000
Financial liabilities measured at fair value through profit or loss		
Derivative financial instruments held to manage interest rates	(8,785)	(8,354)
Interest rate swaps	-	(484)
	(8,785)	(8,838)
 Financial instruments measured at amortised cost		
Fixed rate loans	(168,386)	(135,322)
Floating rated loans	(21,273)	(48,837)
Disposal proceeds fund	(652)	(265)
Recycled Capital Grant Fund	(427)	(377)
Trade creditors	(133)	(447)
Accruals	(2,516)	(2,140)
Other creditors	(14,638)	(8,563)
	(208,025)	(195,951)
 Loan commitments measured at cost less impairment		
Drawn committed borrowings	189,659	184,159
Carrying value of drawn committed borrowings	189,659	184,159
 Loan commitments measured at cost less impairment		
Undrawn committed borrowings	-	-
Carrying value of undrawn committed borrowings	-	-

The society has the following financial instruments

	2017	2016
	£'000	£'000
Financial instruments that are debt instruments measured at amortised cost		
Trade and rent debtors	395	419
Other grants receivable	-	595
Other debtors	4,952	2,697
	5,347	3,711
 Financial liabilities measured at fair value through profit or loss		
Derivative financial instruments held to manage interest rates	(8,785)	(8,354)
Interest rate swaps	-	(484)
	(8,785)	(8,838)
 Financial instruments measured at amortised cost		
Fixed rate loans	(168,386)	(135,322)
Floating rated loans	(21,273)	(48,837)
Disposal proceeds fund	(652)	(265)
Recycled Capital Grant Fund	(427)	(377)
Trade creditors	(131)	(446)
Accruals	(1,454)	(1,281)
Other creditors	(15,576)	(10,890)
	(207,899)	(197,418)
 Loan commitments measured at cost less impairment		
Drawn committed borrowings	189,659	184,159
Carrying value of drawn committed borrowings	189,659	184,159
 Loan commitments measured at cost less impairment		
Undrawn committed borrowings	-	-
Carrying value of undrawn committed borrowings	-	-

21. Pension Obligations

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

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

Group and Society

	2017 £'000	2016 £'000
At start of year	(26,908)	(29,197)
Additional liabilities in the year	(320)	(742)
Interest for the year	5,691	(1,739)
Remeasurements	(17,360)	4,770
At end of year	<u>(38,897)</u>	<u>(26,908)</u>

Local Government Pension Scheme

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

Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 31 March 2013 updated to 31 March 2017 by a qualified independent actuary.

	At 31 March 2017	At 31 March 2016
Rate of increase in salaries	4.35%	4.15%
Rate of increase for pension in payment/inflation	2.70%	2.50%
Discount rate for scheme liabilities	2.8%	3.80%
Inflation assumption (CPI)	2.70%	2.50%
Commutation of pensions to lump sums	50.00%	50.00%

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

	At 31 March 2017 Years	At 31 March 2016 Years
Retiring today		
Males	23.9	23.8
Females	25.0	26.2
Retiring in 20 years		
Males	26.1	26.1
Females	27.4	28.5

21. Pension Obligations (continued)

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

	At 31 March 2017 £'000	At 31 March 2016 £'000
Employer service cost (net of employee contributions)	(1,668)	(2,103)
Past service cost	(59)	(179)
Administration expenses	(26)	(21)
Total operating charge	(1,753)	(2,303)
Analysis of pension finance income/(costs)		
Interest on pension scheme assets	1,210	1,049
Interest on pension liabilities	(2,207)	(2,017)
Amounts charged to financing costs	(997)	(968)

The employers' cash contributions for the financial year were £1,407,000 (2016: £1,540,000). The estimated employers' cash contributions for the coming year are £1,464,000.

Actuarial gains/(losses) on pension scheme assets – return on assets less interest	6,405	(750)
Actuarial (losses)/gains on scheme liabilities - remeasurements	(17,051)	4,770
Actuarial (loss)/gain recognised	(10,646)	4,020

	At 31 March 2017 £'000	At 31 March 2016 £'000
Movement in deficit during year		
Deficit in scheme at 1 April	(26,908)	(29,197)
Movement in year:		
Employer service cost (net of employee contributions)	(1,668)	(2,103)
Employer contributions	1,407	1,540
Past service cost	(59)	(179)
Net interest/return on assets	5,691	(1,739)
Remeasurements	(17,360)	4,770
Deficit in scheme at 31 March	(38,897)	(26,908)

21. Pension contributions (continued)

Asset and Liability Reconciliation	At 31 March 2017 £'000	At 31 March 2016 £'000
Reconciliation of liabilities		
Liabilities at start of period	58,555	59,567
Service cost	1,668	2,103
Interest cost	2,207	2,017
Employee contributions	442	499
Remeasurements	17,051	(4,770)
Benefits paid	(1,454)	(1,040)
Past Service cost	59	179
Curtailments and settlements	-	-
Liabilities at end of period	<u>78,528</u>	<u>58,555</u>
Reconciliation of assets		
Assets at start of period	31,647	30,370
Interest on assets	1,210	1,049
Return on assets less interest	6,714	(750)
Administration expenses	(26)	(21)
Employer contributions	1,407	1,540
Employee contributions	442	499
Benefits paid	(1,454)	(1,040)
Other actuarial losses	(309)	-
Assets at end of period	<u>39,631</u>	<u>31,647</u>

Defined contribution scheme

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

22. Deferred capital grant

	Group and Society	
	2017 £'000	2016 £'000
At the start of the year	5	12
Released to income in the year	(2)	(7)
At the end of the year	<u>3</u>	<u>5</u>
	2017 £'000	2016 £'000
Amount due to be released <1 year	1	2
Amount due to be released > 1 year	2	3
	<u>3</u>	<u>5</u>

23. Recycled capital grant fund

		Group and Society	
		2017	2016
		£'000	£'000
At the start of the year		377	220
Inputs:	Grants recycled	142	156
	Interest accrued	1	1
Recycling:	New build	(93)	-
At the end of the year		<u>427</u>	<u>377</u>

24. Disposal proceeds fund

		Group and Society	
		2017	2016
		£'000	£'000
At the start of the year		265	119
Funds recycled		386	145
	Interest accrued	1	1
Use/allocation of funds	New build	-	-
At the end of the year		<u>652</u>	<u>265</u>

25. Capital commitments

	Group		Society	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Capital expenditure that has been contracted for but is not provided for in the financial statements	16,266	21,025	16,457	22,395
Capital expenditure that has been authorised by the Board but not contracted for	2,506	11,379	2,506	11,421
	<u>18,772</u>	<u>32,404</u>	<u>18,963</u>	<u>32,816</u>

YHG expects these commitments to be financed with:

Social housing grant	1,437	1,732	1,437	1,732
Committed loan facilities and sales	17,335	32,672	17,526	32,084
	<u>18,772</u>	<u>32,404</u>	<u>18,963</u>	<u>32,818</u>

26. Operating Leases

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

Payments due	Group		Society	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Not later than one year	84	110	84	110
Later than one year but not later than five years	534	671	534	671
Later than five years	-	-	-	-
Total	618	781	618	781

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

27. Related parties

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

The following are related parties:

During the year, the Society employed a Procurement Manager and a Contract Manager on behalf of Advantage South West LLP, an investment held by its subsidiary Yarlington Homes Ltd. Yarlington Housing Group provides financial and secretarial support to Advantage South West LLP. The costs associated with these posts and the support are recharged on to Advantage South West LLP. The costs were £150,318 for the period until the 31st March 2017 (2016: £201,786). Yarlington Housing Group's annual fee for membership of Advantage South West LLP's procurement consortium was £19,176 excluding VAT (2016: £20,886).