



Clarion Housing Group

ANNUAL REPORT AND
ACCOUNTS 2017/18



CLARION
HOUSING GROUP

Everybody deserves a good home

Clarion Housing Group is the country's largest housing association, with nearly 125,000 homes nationwide. It is a business for social purpose and a leading developer, scaling up to build 50,000 homes over 10 years. Its strength and reach create opportunities that change people's lives.

INTRODUCTION

- 1 The year at a glance
- 2 Our ambition
- 8 Highlights of the year
- 10 Foreword by the Group Chairman and the Group Chief Executive
- 13 Board, Executive Directors and Advisers

STRATEGIC REPORT

- 14 External environment
- 16 Where we operate
- 18 Strategy at a glance
- 28 Corporate Social Responsibility
- 30 Financial review of 2017/18
- 36 Treasury management report
- 38 Value for money
- 40 Principal risks and uncertainties
- 44 Clarion Housing Group Board
- 46 Group Executive Team
- 48 Corporate governance
- 49 Report of the Remuneration and Nominations Committee
- 50 Report of the Audit and Risk Committee
- 51 Board statement on the effectiveness of the system of internal control for the period ending 31 March 2018
- 52 Statement of Board's responsibilities in respect of the Board's report and the financial statements

FINANCIAL STATEMENTS

- 53 Independent auditor's report to Clarion Housing Group Limited
- 54 Group Statement of Comprehensive Income
- 55 Parent Statement of Comprehensive Income
- 56 Group Statement of Financial Position
- 57 Parent Statement of Financial Position
- 58 Statements of Changes in Capital and Reserves
- 59 Group Statement of Cash Flows
- 60 Notes to the financial statements



Financial highlights

£829m

Turnover

£157m

Net surplus

£439m

Net long-term investment in affordable housing properties

£4,432

Operating cost per home

£125m

Sales income

1.9

Interest cover

A3

Credit rating (Moody's)

37%

Operating margin

Operational highlights

80.0%

Overall customer satisfaction

88.0%

Resident satisfaction with repairs

3.4%

Rent arrears as a percentage of rent debit (social housing)

123,788

Homes managed at the end of the year

82.8%

Housing calls answered within 30 seconds

£96m

Social value of community investment

Property development highlights

1,263

New homes completed

1,038

New affordable homes completed

225

New private sale homes completed

1,428

New homes started

c.14,000

New homes pipeline

Financial strength

The stewardship of Clarion Housing Group aims to ensure long-term financial stability, delivering a well-run and efficient business with a single, unified and integrated housing association at its core.

The simplified structures enable Clarion to provide a good service to its customers and quality homes which are safe to live in. The Board has adopted a framework of Financial Golden Rules to manage financial performance. The Group's performance has been noted by the Regulator, which has awarded Clarion the highest grades for governance and viability. With a strong, stable and resilient financial position, Clarion can move forward with confidence, knowing it has the capability to provide genuinely affordable housing for those whose needs are not met by the market. Clarion is here for the long haul – it can deliver these housebuilding and community improvement ambitions for decades to come.

+ Read more on [page 22](#)

80.0%

Overall customer satisfaction

**Highest grading**

Clarion Housing Group is graded G1 and V1 for governance and financial viability – the highest possible grading

3.4%

Rent arrears

Rent arrears decreased by 0.1% compared with 2016/17

**Financial resilience**

Our financial strength and resilience mean we can manage adverse trading conditions, absorb market shocks and ride out economic uncertainty

**Greater efficiency**

By creating a single housing association, Clarion Housing, the Group can improve services and drive economies of scale

Meeting housing need

*Clarion intends to play a key role
in fixing the housing market.*

It is already making inroads, and building on firm foundations. This year it completed 1,263 new homes and started to build a further 1,428. The number of homes built is set to significantly increase in 2018/19 in line with the Group's aim to build 50,000 new homes over 10 years, two thirds of them affordable. It is pursuing ambitious plans for new developments, for example a joint venture to build up to 2,600 homes in Ebbsfleet Garden City. It is also focusing on reviving existing communities and the transformative Merton regeneration project has now received outline planning consent.

+ Read more on [page 17](#)

50,000

New homes over 10 years

£426m

Spend on new homes has increased from last year, up from £292 million, reflecting an increase in our pipeline of approved schemes up from circa 8,000 homes to circa 14,000 homes

£1bn

Investment in Merton

A regeneration scheme to transform three existing estates in Merton and deliver 2,800 new homes received the go-ahead in 2017/18



New homes

Completed 1,263 new homes in 2017/18



Supporting and strengthening our communities

Clarion's social investments help to create sustainable communities, supporting residents to be independent and resilient.

Clarion Futures, the Group's charitable foundation, has pledged to invest £150 million in Clarion's communities over the next 10 years. Clarion Futures supports young residents to give them a better start in life and supports adults to become financially independent. This year, it helped over 3,000 people into employment and over 200 into apprenticeships. As the lead delivery partner for Love London Working, it also helped a further 2,800 people into work in the capital. In total, interventions such as these equated to £96 million in social value, putting Clarion Futures on track to deliver £1 billion in social value over the next decade.

+ Read more on [page 20](#)

3,035

People helped into employment

218

Apprenticeships started

£1bn

In social value to be delivered over the next decade

£96

Social value of community investment



million

Continued strong performance

April 2017

Ambitious proposals to invest £1 billion transforming three existing estates in the London Borough of Merton were submitted to the local authority and subsequently approved.



June 2017

A new office at Reed House in Norwich opened to accommodate many of Clarion's key operations.



August 2017

Clarion committed £22 million to regenerating its Barne Barton estate in Plymouth.



May 2017

A staff representation agreement with UNISON, the UK's largest union, was signed.

July 2017

Clarion staff attended the London Pride festival 2017 as part of House Proud, the LGBTQ network for social housing professionals.

September 2017

Clarion used its expertise to respond to the Government's review into building regulations and fire safety.

October 2017

Clarion Futures, Clarion's charitable foundation and the largest social investment programme of its kind, launched.



**CLARION
FUTURES**

December 2017

Ruth Cooke was selected as the new Group Chief Executive, to take over from Keith Exford CBE.



February 2018

Partnership established with Ashridge Executive Education at Hult International Business School to provide high quality senior leadership development opportunities.



November 2017

The Future Shape of the Sector Commission held its first meeting to identify and discuss key trends which may affect housing associations through the 2020s.



**CLARION
HOUSING**



January 2018

Clarion's single housing association, Clarion Housing, launched.

March 2018

Achieved G1/V1 grading, the highest available regulatory judgement for both governance and viability from the Regulator of Social Housing – a significant step forward in the delivery of consistent services to all residents.

Delivering on our objectives

Neil Goulden
Group Chairman



"Over the past year all these matters of scale, influence, service provision and investment have driven our performance."

Ruth Cooke
Group Chief Executive



We are pleased to present Clarion Housing Group's 2017/18 Annual Report and Financial Statements. Last year's first annual report of the newly created Group set out that we would be a national force in developing new homes and helping tackle the housing crisis. Furthermore, our consolidation to a single housing association would help us better deliver local services to our residents. We also said that Clarion would establish the largest social investment programme of its kind in the sector, underlining our commitment to placing our social purpose at the heart of everything we do.

We are delighted to say that over the past year all these matters of scale, influence, service provision and investment have driven our performance, reflecting the hard work of people across the Group.

After the initial work to create the combined organisation, including the consolidation of all of our legacy housing associations, we have focused on driving up the quality of our services to consistently higher levels across the Group – in many cases by establishing new ways of working. It has been a year of real challenge, but the results are starting to show, and it provides us with a strong platform to realise the long-term potential of our organisation.

This hard work can be seen in the Group's strong performance. In line with expectations, we ended 2017/18 having made a surplus of £157 million on a turnover of £829 million. Our operating surplus was £305 million and we generated an operating margin of 37%. Our financial strength is recognised by Moody's rating agency through our A3 investment grade rating, one of the strongest in the sector. These financial results enable us to develop more homes and deliver better services to residents.

The Group's first full year of operations was overseen by Keith Exford, who retired as Group Chief Executive on 6 April 2018. On behalf of the Board we would like to take this opportunity to thank Keith and wish him all the very best for the future. Since beginning his career at Southwark Council, Keith went on to become one of the leading figures in our sector. Without him, there would be no Clarion.

The two organisations that came together to form our Group capture the history of social and affordable housing over the past 100 years, from Victorian philanthropy to the shockwaves felt after the broadcast of the television drama 'Cathy Come Home' in 1966 and to today, where we have the most acute housing crisis in a generation. Our core purpose always was, and always will be, providing genuinely affordable housing to those who are not well served by the market. There are those who accuse housing associations of having forgotten their roots – they are wrong.

Clarion is a modern manifestation of those early principles of providing social housing. We are a customer service business that is working to meet housing need, but in an era where public funding is limited – and so we have to operate as efficiently and effectively as possible; that's how we fulfil our purpose. We let 5,000 homes in a year, every year. That's 5,000 life-changing moments, mostly for people moving into their first home or to a better place. This is one of the ways in which we fulfil our social purpose.

We may be the biggest, but we also want to be the best. We want to be a landlord of choice which is why, as a regulated organisation, obtaining the highest G1 and V1 grading in March 2018 is so encouraging. It demonstrates we have addressed the issues we inherited when we first merged, just as we said we would. We want to continue to improve the quality of our landlord services, so that our customers are proud to live in a Clarion home.

We have simplified our Group structure, combining 10 distinct housing associations into one, allowing us to have simpler, more effective relationships with our residents and key partners. We have also consolidated our three internal repairs providers into a combined service, Clarion Response, and brought more of our repairs services in house.

We are also making a large investment in new systems to revolutionise the way we work and, for the first time, make it possible to have a true digital offer that residents rightly expect, with more self-service for straightforward transactions. When it is needed we will visit residents in their own home, providing a truly local and visible service.

We have made these changes in order to provide our customers with a better service. While embedding new systems and ways of working take time, we are pleased to report that our overall customer satisfaction across the Group achieved the target of 80% this year.

The external environment that we operate in remains challenging. The Chancellor's Budget in November 2017 recognised the undersupply of housing and the Government acknowledges it needs to ensure 300,000 homes a year are built to tackle the backlog and the deepening housing crisis – and we agree. However, with government spending on social housing at a record low, housing associations have had to become more commercial to continue to be able to fulfil their purpose. Commercial housebuilders are driven by their shareholders; consequently they will not build homes they do not think they can sell. Housing associations are able to be flexible in changing market conditions; we can step in and build the right homes in the right places. This makes us ideally placed to help tackle the housing crisis in a way that others cannot.



£2.6 billion

We plan to invest across the country in major regeneration schemes

Introduction

FOREWORD BY THE GROUP CHAIRMAN AND THE GROUP CHIEF EXECUTIVE CONTINUED

We are building our pipeline of new housing and two thirds of our development programme is affordable. In 2017/18 we completed 1,263 new homes across a range of tenures with public subsidy of just 4.4% of costs. We also started to build a further 1,428 new homes and have a further circa 14,000 in the pipeline as we gear up to deliver our ambitious plans of building 50,000 homes over 10 years. Our development strategy provides a framework to realise these ambitions, setting out where we want to develop, what we want to develop, at what price and for whom. To achieve our ambitions we are exploring large scale projects which give us the opportunities for place-making and creating thriving new communities. Just recently, for example, we announced a joint venture with Countryside Properties to create up to 2,600 new homes at Ebbsfleet Garden City.

Our development strategy has been finalised after a detailed review of our current housing stock, which after the merger totalled nearly 125,000 properties across the country. This detailed review is just the start of an extensive, long-term piece of work to identify the location and quality of Clarion homes in the next 20 years. We are creating a new 'Clarion Homes' standard, which will define the physical standard of our homes, and we are looking at the geographical locations where we are best placed to deliver a good, consistent service. This means that in some areas, where it makes sense for both our residents and us, we will transfer properties to other reputable Registered Providers that will be able to retain the homes as social housing and provide a local service. The money raised will be reinvested to enable us to achieve our ambition of building 50,000 homes over 10 years.

Investing in our homes remains a priority. During 2017/18 our asset management programme delivered £119 million worth of improvements to our residents' homes. We fitted 2,262 new bathrooms, 2,610 new kitchens and over 2,880 new central heating systems.

We do not just invest in individual homes. Clarion has considerable experience of estate renewal and regeneration, either on estates we own or those we regenerate in partnership with local councils. Estate regeneration can transform neighbourhoods by creating high quality, well designed places, more homes and opportunities for residents. We plan to invest £2.6 billion across the country to undertake major regeneration schemes in the London Boroughs of Merton, Ealing, and Kensington & Chelsea, and also in Plymouth. Of course it is important to build new homes, but this must not be done at the expense of those residents who live in our existing communities.

It is essential that Clarion's residents live in a safe environment and we take our responsibility as a landlord extremely seriously. The impact of the Grenfell Tower tragedy last summer has, rightly, spread far and wide – raising many questions about the materials used in high rise buildings. Our strategic approach to fire safety was in place prior to the tragedy and our financial strength and the large scale at which we operate enabled us to quickly assemble a highly specialist technical team to accelerate the programme.

On Universal Credit, we were pleased to hear reforms announced which are designed to create a fairer system, with an easier transition and less risk of financial hardship for our residents claiming the benefit. We know, however, that this transition still remains difficult for many. We invest in a range of services to

"This year we launched Clarion Futures, our charitable foundation and one of the largest social investment programmes in the country."

help residents manage their money and are aware there are some instances where Universal Credit payments are not reaching recipients in time, so have been discussing these with the Department for Work and Pensions to try to ensure the full roll out to our residents goes as smoothly as possible.

This year we launched Clarion Futures, our charitable foundation and one of the largest social investment programmes in the country. This will see us investing £150 million over 10 years to improve social mobility in our communities. Over the course of the year we have already helped 3,000 people into jobs and over 200 into apprenticeships, improving the quality of life of our residents and those living in our communities.

All of this represents the start of Clarion Housing Group. There is more to do. We live in uncertain times, faced with an unstable political environment, concerns about economic growth and with Brexit on the horizon. However, the ongoing housing crisis is a problem for today and one Clarion stands ready to tackle.

Neil Goulden
Group Chairman

Ruth Cooke
Group Chief Executive

12 July 2018



£119 million

Worth of improvements
to our residents' homes

BOARD, EXECUTIVE DIRECTORS AND ADVISERS

Board

Neil Goulden

(Group Chairman)
(appointed Group Chairman 1 April 2017)

Sue Killen

(Vice Chair)
(appointed Vice Chair
1 April 2017)

Ruth Cooke

(Group Chief Executive)
(appointed 3 April 2018)

David Avery**Helen Bailey****Tania Brisby****John Coghlan**

(appointed 6 July 2017)

Greg Reed

(appointed 6 July 2017)

Rupert Sebag-Montefiore

(appointed 6 July 2017)

Brian Stewart OBE**Simon Braid**

(resigned 19 July 2017)

Keith Exford CBE

(Group Chief Executive)
(retired 6 April 2018)

Mark Rogers

(resigned 1 April 2017)

Colin Sturgeon

(resigned 12 September 2017)

Mark Washer

(Group Chief Financial Officer)
(resigned 15 June 2018)

Sir Robin Young

(Group Chairman)
(resigned 1 April 2017)

Principal Solicitors

Allen & Overy LLP

One Bishops Square
London
E1 6AD

Winckworth Sherwood LLP

Minerva House
5 Montague House
London
SE1 9BB

Devonshires Solicitors

London
30 Finsbury Circus
London
EC2M 7DT

Trowers & Hamlin LLP

3 Bunhill Row
London
EC1Y 8YZ

Anthony Collins Solicitors LLP

134 Edmund Street
Birmingham
B3 2ES

Executive Directors

Ruth Cooke

(appointed 3 April 2018)

Jonathan Cawthra**Neil McCall****Clare Miller****Austen Reid****Michelle Reynolds****Ian Woosey**

(appointed 30 May 2018)

Keith Exford CBE

(retired 6 April 2018)

Kerry Kyriacou

(resigned 2 August 2017)

Mark Washer

(resigned 15 June 2018)

Company Secretary**Clare Miller**

Bankers

NatWest Bank plc

143 High Street
Bromley
Kent
BR1 1JH

Auditors

KPMG LLP

15 Canada Square
London
E14 5GL

Registered Office

Level 6
6 More London Place
London
SE1 2DA

Our operating context

Even by recent standards, 2017/18 was a turbulent year in the political arena. The snap general election in June 2017 not only resulted in a hung parliament, but pushed back a number of long-expected government announcements on housing. The office of Housing Minister continued to have something of a revolving door, with Gavin Barwell losing his seat in the general election and being replaced by Alok Sharma, who was, in turn, succeeded by Dominic Raab in January 2018. After just seven months in post, Dominic Raab was then appointed Brexit Secretary and was replaced by Kit Malthouse – whose previous role in the Department for Work and Pensions also involved housing.

Housing need has not waned – in fact, the number of homeless families and individuals placed in temporary accommodation increased to 78,000 last year¹, representing a 60% rise since 2012¹. There is an unprecedented need to build more homes.

The tragic fire at Grenfell Tower has already created a significant public and political shift towards ensuring the quality and maintenance of social and affordable housing, alongside an increased weight on tenant voices and rights. Clarion welcomed the publication of the Hackitt Review and its call for a radical rethink of the building regulation framework and how it is applied. As a responsible social landlord and developer, Clarion is committed to delivering quality homes that are safe for people to live in.

In the Autumn Budget, the Chancellor identified the need for 300,000 homes to be built each year. In addition, there were a number of other pertinent policy announcements:

- The Government committed to a future rent settlement for the sector of Consumer Prices Index +1% from 2020.
- £2 billion of additional grant for housing associations.
- Dropping plans to cap housing benefit in the social housing sector at Local Housing Allowance rates.

The Government backed an expansion of the institutional private rented sector as a way of bringing greater diversity to the UK housing market and Clarion too has carried out work over the year to see how it can best contribute to this segment, developing its own 'build to rent' strategy.

Uncertainty about Brexit continues to cause concern about the construction industry workforce. This is particularly so in London and the South East, where a higher percentage of the workforce are EU nationals. This makes resources such as Clarion's construction skills training centre in Tower Hamlets even more crucial.

Despite the election of new metro-mayors in Liverpool, Birmingham and Manchester, the devolution agenda, in particular fiscal devolution, has stalled somewhat. This means while housing remains a key priority for all metro-mayors, they are not yet able to make direct investment in the same way as the Mayor of London.

The Opposition continues to focus on housing, in particular the rights of tenants and renters, and regeneration. The Shadow Secretary for Housing, John Healey MP, ran a sizeable consultation exercise to identify new policy ideas on housing which were published in a housing green paper, 'Housing for the Many'.

At local government level, the results of the elections on 3 May 2018 did not change the political picture hugely in the areas in which Clarion operates, although there were wins for Labour in Tower Hamlets and Plymouth, with Mole Valley changing to No Overall Control and the Liberal Democrats taking South Cambridgeshire. Looking forward, the Greater London Authority's support for resident ballots on regeneration schemes are likely to increase the complexity of these.

¹ The Homelessness Monitor: England 2018.

East City Point
Canning Town

78,000

"Housing need has not waned – in fact, the number of homeless families and individuals placed in temporary accommodation increased to 78,000 last year¹."



Where we operate

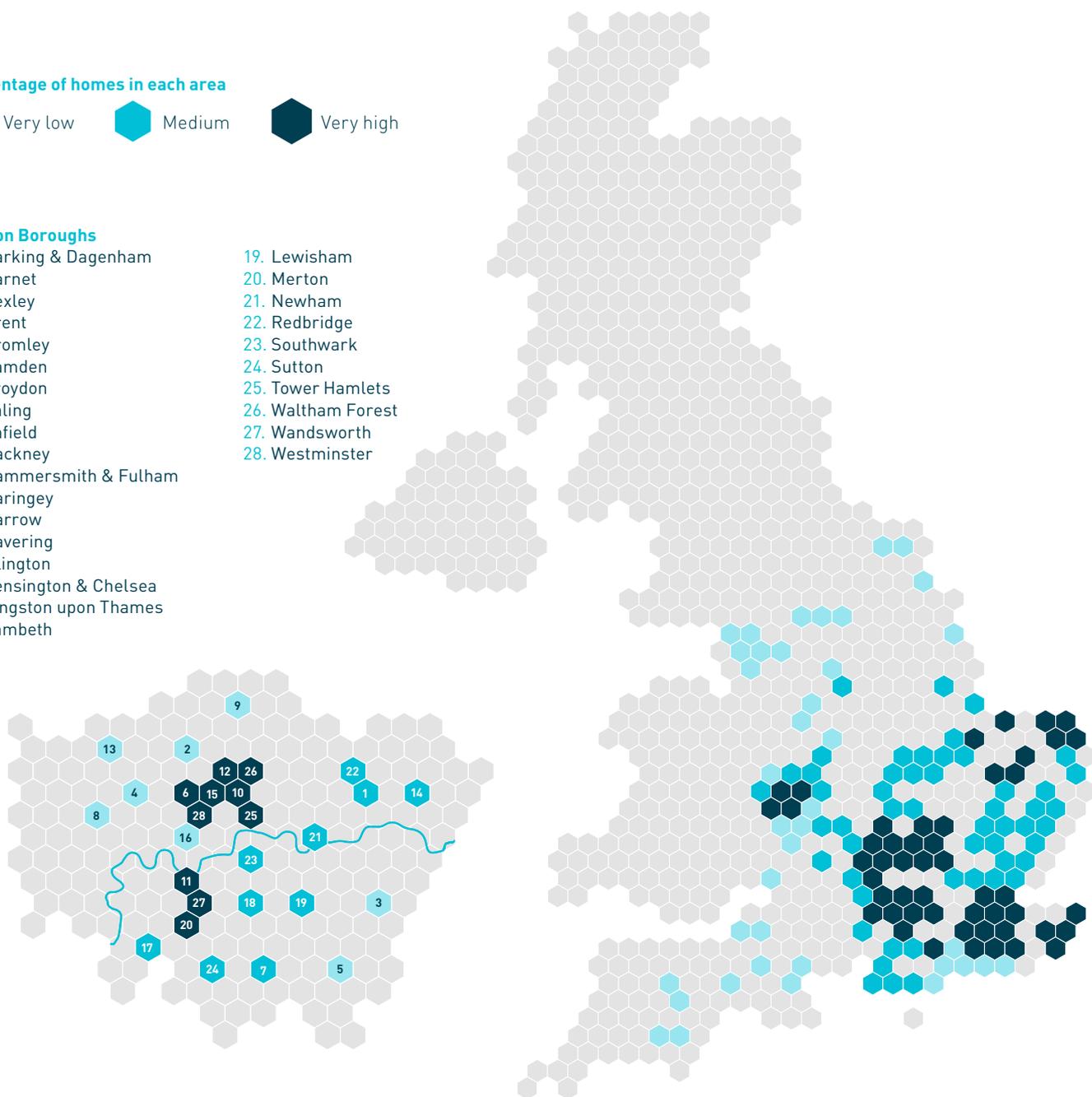
Clarion is a national organisational with homes across the country from Newcastle to Plymouth. It works across 176 local authorities and has 52 offices dispersed across the regions, meaning the business is able to provide a truly local service.

Percentage of homes in each area



London Boroughs

- | | |
|--------------------------|--------------------|
| 1. Barking & Dagenham | 19. Lewisham |
| 2. Barnet | 20. Merton |
| 3. Bexley | 21. Newham |
| 4. Brent | 22. Redbridge |
| 5. Bromley | 23. Southwark |
| 6. Camden | 24. Sutton |
| 7. Croydon | 25. Tower Hamlets |
| 8. Ealing | 26. Waltham Forest |
| 9. Enfield | 27. Wandsworth |
| 10. Hackney | 28. Westminster |
| 11. Hammersmith & Fulham | |
| 12. Haringey | |
| 13. Harrow | |
| 14. Havering | |
| 15. Islington | |
| 16. Kensington & Chelsea | |
| 17. Kingston upon Thames | |
| 18. Lambeth | |



Development highlights



Merton regeneration

London

We gained approval from Merton's Planning Committee for our £1 billion investment to transform three estates in the Borough and create new employment opportunities. The ambitious plans will deliver around 2,800 new homes – rehousing all existing residents and creating retail, leisure, office, work and community space. Building starts later this year.



Barne Barton regeneration

Plymouth

We have plans to invest £22 million to transform this former naval estate, originally built for the Ministry of Defence in the 1960s. Planning permission is due to be submitted shortly to build 228 new homes and create new green spaces, after extensive consultation with current residents.



Ebbsfleet Garden City

Kent

In a joint venture with Countryside Properties PLC we will deliver up to 2,600 new homes at Eastern Quarry, one of the UK's largest residential schemes at Ebbsfleet Garden City. This is in addition to the 500 new homes which are well underway at Castle Hill in Ebbsfleet Garden City.



Prince of Wales Drive

London

We have teamed up with St William – a joint venture between Berkeley Group and National Grid – to deliver 229 homes at the high profile Prince of Wales Drive regeneration in Nine Elms, Battersea.



Conningbrook Lakes

Kent

Following a successful land acquisition, we are working in partnership with Westerhill Homes to develop 300 new homes in Conningbrook Lakes, Ashford. Earlier this year, we launched the first phase of homes at the development, which are for market sale.



Abbey Wharf

London

We are delivering 135 new homes in Alperton, Brent after completing a land deal. Our partnership with Inland Partnerships will create 111 shared ownership homes, 24 homes for affordable rent and two commercial units on a former disused industrial site.



1. Being the housing and service provider of choice

<i>Strategic priorities</i>	Clarion will provide effective, efficient, accessible services, increasingly through digital and self-service channels.	
<i>The challenge</i>	Changing demographics and customer expectations are key challenges. It is essential Clarion provides a consistent standard of service for all its customers across the country, including a responsive repairs service. New ways of getting feedback from residents are also important.	
<i>Our KPIs</i>	<p>Overall customer satisfaction</p> <p>80.0% +3.3%</p> <p>2018 80.0% 2017 76.7% (2018 target: 80.0%)</p> <hr/> <p>Repairs completed on time</p> <p>92.2% -3.4%</p> <p>2018 92.2% 2017 95.6% (2018 target: 92.5%)</p> <hr/> <p>Contact Centre calls answered within 30 seconds</p> <p>82.8% +8.3%</p> <p>2018 82.8% 2017 74.5% (2018 target: 80.0%)</p>	<p>Overall customer satisfaction with repairs</p> <p>88.0% +8.1%</p> <p>2018 88.0% 2017 79.9% (2018 target: 85.0%)</p> <hr/> <p>Properties meeting Decent Homes Standard</p> <p>100.0% Equal</p> <p>2018 100.0% 2017 100.0% (2018 target: 100.0%)</p>

Providing exceptional service

Clarion continues to improve the standard of service it provides to residents and the conditions of the homes they live in. In 2017/18 Clarion achieved overall customer satisfaction of 80.0%, up from 76.7% in 2016/17. This was largely thanks to the enthusiasm and commitment of staff. The business aims to make further improvements over the coming year.

When residents contact Clarion, they want their call answered quickly and expect rapid action to resolve their issues. Operations continue to improve steadily in these areas. This year the Contact Centre handled over 1.5 million incoming customer calls and 82.8% of these were

answered within 30 seconds. Complaint resolution times averaged 13 days for the year, down from 37 days in 2016/17. The level of rent arrears has fallen to 3.4%, from 3.5% last year, which represents a significant achievement considering the current economic climate and the pressure of welfare reform.

A unified service response team

Clarion's in-house repairs service exceeded its targets for the year, with customer satisfaction with last repair running at 88%, and a first-time fix achieved in 89% of cases. The department achieved a trading profit of £1.6 million – money which will be reinvested in the building of more new and much needed affordable homes.

In January 2018, the business combined its three internal repair providers to create Clarion Response, a unified team which delivers services to 70,000 households. Clarion Response has already been accredited with the Investors in People Silver Award and achieved a double gold for the RoSPA Occupational Health and Safety Awards.

Investing in existing properties

Maintaining its homes to a good standard is a core part of Clarion's responsibilities. In 2017/18 1,785 roofs, 2,610 kitchens and 2,262 bathrooms were refurbished. Over 2,880 heating systems were upgraded as well as 2,421 new doors and 801 new windows fitted across the country. Customer satisfaction for planned major works was 92%.

2,086 stock condition surveys were carried out over the year, exceeding the target of 2,000. Electrical testing was completed, along with any necessary upgrades, in over 24,600 properties.

An extensive piece of work has been started to identify the location and quality of Clarion Housing homes over the next 20 years. A new 'Clarion Homes' standard is being created so all Clarion homes across the country provide residents with the same good quality of living.

Ensuring the safety of our residents

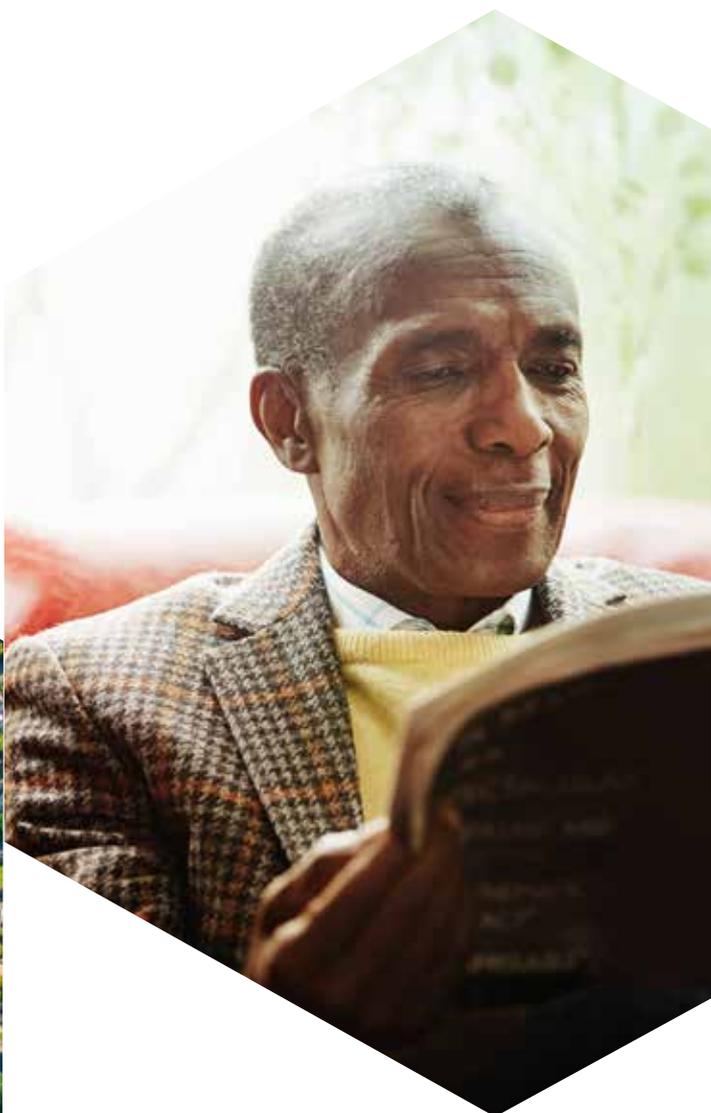
Following the Grenfell Tower tragedy, Clarion used its financial strength and large scale to accelerate the fire safety programme it had been working on since the inception of the new Group. The highly specialist technical team carried out thorough inspections on all 195 of Clarion's buildings of six storeys or higher and reviewed all cladding. The business recognised the absolute importance of providing reassurance to our residents during this time, including issuing very specific fire safety advice.

In the last 12 months Clarion has created new fire safety standards for future developments and completed over 40,000 fire risk remedial actions across its housing stock.

Care and support

Centra, the Group's care and support arm, maintained good financial control throughout the year, generating net funds of £1.1 million, while delivering a good service to its customers who require specialist housing management.

Pulse and Connect, Centra's telecare service, also performed well, increasing tender activity. The service handled a total of 3,984,627 calls, with over 22,000 of these resulting in emergency calls to the fire, police or ambulance services.





2. Building new homes and sustainable communities

<i>Strategic priorities</i>	Clarion's ambition is to build 50,000 new homes over 10 years. It will also deliver one of the country's largest social investment programmes: supporting thousands of people into work or training; helping residents manage their money and improve their digital skills; improving neighbourhoods; and helping young people get a better start in life.	
<i>The challenge</i>	Accessing land at the right price, which is then subject to regulations and planning consents, as well as maintaining construction quality when the industry is short of materials and skilled labour. Managing construction costs and other supply chain pressures is also a continuing challenge. For Clarion's residents, increasing living costs and welfare reforms are having a far-reaching impact.	
<i>Our KPIs</i>	<p>Total new home starts</p> <p>1,428 -23%</p> <p>2018 1,428</p> <p>2017 1,863</p> <hr/> <p>Total home completions</p> <p>1,263 -6%</p> <p>2018 1,263</p> <p>2017 1,340</p> <p>[2018 target: 1,328]</p> <hr/> <p>Sales income</p> <p>£125.3m +15%</p> <p>2018 £125.3m</p> <p>2017 £108.7m</p> <p>[2018 target: £98.2m]</p> <hr/> <p>Number of people helped into employment</p> <p>3,035 +74%</p> <p>2018 3,035</p> <p>2017 1,745</p> <p>[2018 target: 3,000]</p>	<p>Affordable home completions</p> <p>1,038 -14%</p> <p>2018 1,038</p> <p>2017 1,206</p> <p>[2018 target: 1,123]</p> <hr/> <p>Total sales volume</p> <p>549 +6%</p> <p>2018 549</p> <p>2017 516</p> <p>[2018 target: 522]</p> <hr/> <p>Social value of community investment</p> <p>£96m +13%</p> <p>2018 £96m</p> <p>2017 £85m</p>



Creating homes and communities that improve lives

During the year Clarion completed construction of 1,263 new homes of which 1,038 were affordable and social homes. It also started to build a further 1,428 new homes. These numbers are a reflection of the Group's pre-merger schemes and are set to increase during 2018/19. This year it met and exceeded its targets on affordable homes for the Greater London Authority (GLA) and Homes England, both of which have indicated they will increase the level of grants available for the development of rented social housing. Clarion is now a Strategic Partner with the GLA and is working closely with Homes England.

Accelerating our build programme

Clarion's development programme has shifted up a gear this year. Its approved development pipeline has grown to circa 14,000 homes nationally, reflecting the Group's commitment to helping fix the broken housing market. Over 10 years it plans to invest £13 billion in new homes with £2.6 billion set aside for estate regeneration. Spend on new homes grew from £292 million last year to £426 million this year, and the business is set to exceed £700 million in 2018/19.

Clarion has established a joint venture with Countryside Properties PLC to build up to 2,600 homes in Ebbsfleet Garden City, on top of the 500 it is already building in the

area. The regeneration of three estates in Merton received outline planning consent and forms a major part of the Group's commitment to improving its existing estates. It has also made significant progress in addressing legacy defects in projects including Orchard Village in Rainham, where all works are on target to complete by August 2018.

The business has been expanding its regional, commercial and technical, sales and regeneration teams, and now has 195 people in the division, up from 113 at merger. The development team produced regional strategies in line with the overarching New Homes Development Strategy, which was approved by the Group Board in January 2018. The schemes will be delivered through a multi-channel approach including direct contract, joint venture and package arrangements. The team is also looking at how to provide a blend of tenures in order to maximise absorption.

Working for better futures

In addition to building new homes, Clarion makes significant social investments as part of its remit to create sustainable communities. In October 2017, this aspect of its activities officially became 'Clarion Futures', the charitable foundation of Clarion Housing Group. Clarion Futures will deliver £150 million in investment in our communities over the next 10 years.

The Clarion Futures team has enjoyed a strong year, exceeding the majority of its targets and making a positive difference to the lives of thousands of people. This year, it helped 3,035 people find employment and 218 people start apprenticeships. It is also the lead delivery partner for Love London Working, a voluntary employment programme which has helped nearly 3,000 people into work, 70% of them black, Asian and minority ethnic (BAME) Londoners, and more than 55% women.

Clarion Futures helps residents manage their money more effectively, through guidance on budgeting, providing access to high quality debt advice and affordable loans and helping people to manage their use of energy. Last year these services helped save residents a total of £7.5 million.

Across Clarion Futures, its interventions equated to £96 million in social value in the last year, putting it on track to deliver £1 billion in social value over the next decade. Targets for next year are to help 4,000 people find work; to provide 16,000 money guidance support interventions; to save over £8 million for residents through financial guidance; to deliver 10,000 interventions to help people get online; and to achieve 3,000 positive outcomes for young people.



3. Maintaining long-term financial resilience

<i>Strategic priorities</i>	Clarion's priority is maintaining long-term financial resilience so it can continue to provide homes to those in housing need for another 100 years. This means maintaining and protecting its financial strength and improving efficiency while providing customers with the best possible service.													
<i>The challenge</i>	Operating in an increasingly challenging economic environment and the continuing uncertainty of Brexit. Maintaining our rental income throughout a period of change as benefit reforms are introduced.													
<i>Our KPIs</i>	<p>Current rent arrears as a % of rent debit (social housing)</p> <p>3.4% -0.1%</p> <table border="1"> <tr><td>2018</td><td>3.4%</td></tr> <tr><td>2017</td><td>3.5%</td></tr> <tr><td>(2018 target: 4%)</td><td></td></tr> </table>	2018	3.4%	2017	3.5%	(2018 target: 4%)		<p>Rent loss due to voids (social housing)</p> <p>£8.7m -£1.1m</p> <table border="1"> <tr><td>2018</td><td>£8.7m</td></tr> <tr><td>2017</td><td>£9.8m</td></tr> <tr><td>(2018 target: £9.8m)</td><td></td></tr> </table>	2018	£8.7m	2017	£9.8m	(2018 target: £9.8m)	
2018	3.4%													
2017	3.5%													
(2018 target: 4%)														
2018	£8.7m													
2017	£9.8m													
(2018 target: £9.8m)														
	<p>Occupancy rates</p> <p>98.5% +0.1%</p> <table border="1"> <tr><td>2018</td><td>98.5%</td></tr> <tr><td>2017</td><td>98.4%</td></tr> <tr><td>(2018 target: 98.5%)</td><td></td></tr> </table>	2018	98.5%	2017	98.4%	(2018 target: 98.5%)								
2018	98.5%													
2017	98.4%													
(2018 target: 98.5%)														

Ensuring stability and financial health

Once again this year, Clarion has met all of its Financial Golden Rules for the Group – which reflect and underpin its purpose. They ensure solid long-term financial performance, and this financial stability gives Clarion the capacity to achieve its housebuilding and community improvement ambitions for the coming decades.

Maintaining our rental income

Rental income is the main revenue stream for Clarion and maintaining a low arrears level of 3.4% is a very positive achievement, especially given the impact of welfare reforms, changing the way in which people are paid the housing costs element of their benefit. This has reduced from 3.5% in 2016/17 and is thanks to a cross-department effort by the Group's welfare benefits team, collections team and Clarion Futures.

Occupancy rates remained very high at 98.5%. Rent loss due to voids decreased by £1.1 million from the year before, to £8.7 million.

Creating the strategic vision

During the year Clarion accelerated the strategic planning that was a core aim of the merger business plan.

The Group Board approved an overarching asset strategy – a key part of the long-term vision – after a detailed review of current housing stock which has evolved through a series of mergers. This asset strategy, which is aligned with our development strategy, is the start of an extensive piece of work to define the location and quality of Clarion homes in the next 20 years. It will optimise assets through investment and regeneration or, where it makes sense for customers and the Group, transfer

properties to another social, charitable landlord. It will enable the Group to improve services to customers and as a not-for-profit organisation we will reinvest funds from these transfers to meet our target of building 50,000 new homes over 10 years; retaining as many homes as we can in social rented ownership.

It also approved a 'build to rent' strategy which is targeting the creation of 3,000 new homes in five years, in growth areas across London, the South East, the West Midlands and Greater Manchester.

During the year, Clarion created a long-term financial plan and submitted this to the Regulator. The Group made its regulatory return submissions accurately and on time and conducted stress testing to ensure it continues to be a resilient business.

Implementing wide ranging improvements

Now that the core strategies which underpinned the merger business case are in place, Clarion can move on to the implementation phase. This will include completing work on the Clarion Standard, which will determine how the business measures the performance of its assets over the next 20 plus years, underpinning

the importance Clarion places on investing in its homes and providing good quality accommodation. The business also intends to launch the private rented sector management platform and rationalise its existing private rented sector portfolio.

In the coming year Clarion plans to increase its development pipeline and increase commercial activity in Latimer, Clarion's private development company, to assist in the funding and provision of more new affordable housing.

Integrating the Group with powerful new business tools

A core aspect of Clarion's strategy is to improve systems and reporting, in particular focusing on key risks to the development programme. This will be accelerated by the ongoing commitment to a business change programme which includes the implementation of an enterprise resource planning (ERP) platform.

This is a four year change programme and phase 1a has recently been delivered. The next phase will launch in 2019. Once this exercise is complete, the entire organisation will be working in the same way, with the same system, and absolute integration will be complete.

Becoming more efficient

One of the priorities of Clarion at its inception was simplifying the complex legacy structures that existed within Circle Housing Group. On 1 March 2018 the Group completed the consolidation of its asset owning subsidiary landlords, just 15 months after the merger. Clarion Housing Association, which is responsible for services to all of the Group's residents, became the sole landlord in the Group, replacing the 10 housing associations that previously existed. The much simplified structure will ensure better and more effective decision making.



Financial Golden Rules

We continue to operate within a very robust set of Financial Golden Rules. These internally set measures provide a prudential framework for both assessing our historical performance and planning our future strategy. As well as ensuring solid long-term financial performance, they are there to protect our social housing assets from the risks associated with commercial activity.

Under the Financial Golden Rules investment into development activity will not exceed 20% of Housing Association revenue reserves. The Financial Golden Rules will also ensure development activities are able to withstand significant market shocks, for example reductions in house prices or land values.

Our Financial Golden Rules are all being met across our long-term financial plan. More information on how the Group performed against its key financial performance indicators can be read on page 35.





4. Being a great place to work

<i>Strategic priorities</i>	Being an employer of choice, attracting, retaining and developing people who are committed and able to achieve organisational, and personal success, by focusing on customer needs.
<i>The challenge</i>	The sector is undergoing a huge amount of change which will only continue. This means Clarion needs a dynamic workforce with an increasing breadth and depth of skills and experience.

Creating a Clarion culture

Creating one culture, with positive values and buy-in from staff, is vital to a successful merger. This year Clarion has come together as one team, working towards the same objectives, and putting customer focus at the heart of everything it does.

Clarion has created a vision for how it provides exceptional services – The Clarion Way. It gives a clear guide for how it provides services and added value for its residents. The Clarion Way Steering Group has ensured each directorate is focused on creating a meaningful action plan, and has enabled the message to be spread throughout the organisation. The Clarion Way is rapidly becoming established in how Clarion operates and interacts internally, with residents and other stakeholders.

Encouraging learning and development for all

To maintain and improve standards during the transition phase, Clarion developed training which targets the specific needs of the organisation. In January 2017, it implemented a Group-wide induction programme which includes an event hosted by the Group Chief Executive and other executive members. This has been invaluable for new staff, equipping them with an in-depth understanding of our business right from the start.

Clarion has also introduced a mandatory induction programme for new managers. Around 40 managers have completed the 26 week programme so far, achieving a 100% pass rate. In May 2017 Clarion launched a single Learning Management System to manage the process of inductions, certificated learning and other key programmes. It gives all staff access to a range of training, so they can take ownership of their learning and development to build the skills they need in their role.

Clarion apprenticeships enhance the skills of our people

Clarion has made good use of the new Apprenticeship Standards, providing targeted development programmes for both new and existing staff to enhance skills and knowledge for around 80 people in areas such as housing management, surveying, community investment and repairs, and allowed the business to recoup £85,000 from the Apprenticeship Levy.

Leadership development

Together with Ashridge Executive Education, Clarion has implemented two higher level apprenticeship programmes at Degree and Masters levels to develop and grow its strategic leadership capability. 40 existing managers and leaders are now progressing with these programmes. Clarion has also provided a new accredited management development programme to help build a healthy talent pool for our next generation of frontline managers. So far, around 70 aspiring managers having successfully completed the programme. These investments will help Clarion to build a stronger business, and attract and retain high quality staff in the future.



Staff survey

An integral part of delivering great service to customers is being a great employer. In 2018 Clarion will be partnering with The Happiness Index to find out from employees what it is like to work for the organisation. The survey results will give a good understanding of what is going well and where improvements can be made.



5. Building a successful, respected and influential business

Strategic priority

Clarion's priority is to promote the contribution it makes to the communities where it operates. Clarion will work with government, partners and organisations who share its view, to promote a professional, customer-focused housing sector.

Influencing opinions and policy

Clarion works hard to ensure it can influence the debate on the future of housing and the direction of government policies. It draws on its experience and expertise, and its close knowledge of what matters most to its customers, to steer and inform policy-making.

This year, Clarion submitted 31 evidence-based responses to consultations on a wide variety of topics run by central and local government and the Regulator. Clarion actively aims to improve decision making across the sector, through sharing its practical learning, continuing to use and promote the Housing Associations' Charitable Trust (HACT) Social Values. Having applied these values to measure the impact of regeneration on residents' wellbeing, Clarion discussed the concept with MPs, the Town and County Planning Association, the National Housing Federation and Public Health England at a House of Commons Sustainable Housing Roundtable.

Together with Network Homes and L&Q, Clarion has established a commission to consider how the housing association sector will evolve over the next 10 years. The commission's findings, 'Building Homes, Building Trust', launched at the Chartered Institute of Housing's annual conference.

Research into current issues

Ways to improve the quality of the expanding private rented sector is a critical current area of inquiry. In January 2018, Clarion launched a report called 'Understanding what social landlords can offer private tenants'. The paper's findings were cited in related research by the London School of Economics (LSE) – 'Private Renting: Can social landlords help?'. This documented the contribution of social landlords, local authorities and others to making the private rented sector work better for all concerned.

Clarion's Group Director of Commercial Services, Michelle Reynolds, presented Clarion's emerging vision for mid-market 'build to rent' homes at an LSE roundtable attended by officials from the Ministry of Housing, Communities and Local Government and the Department for Work and Pensions.

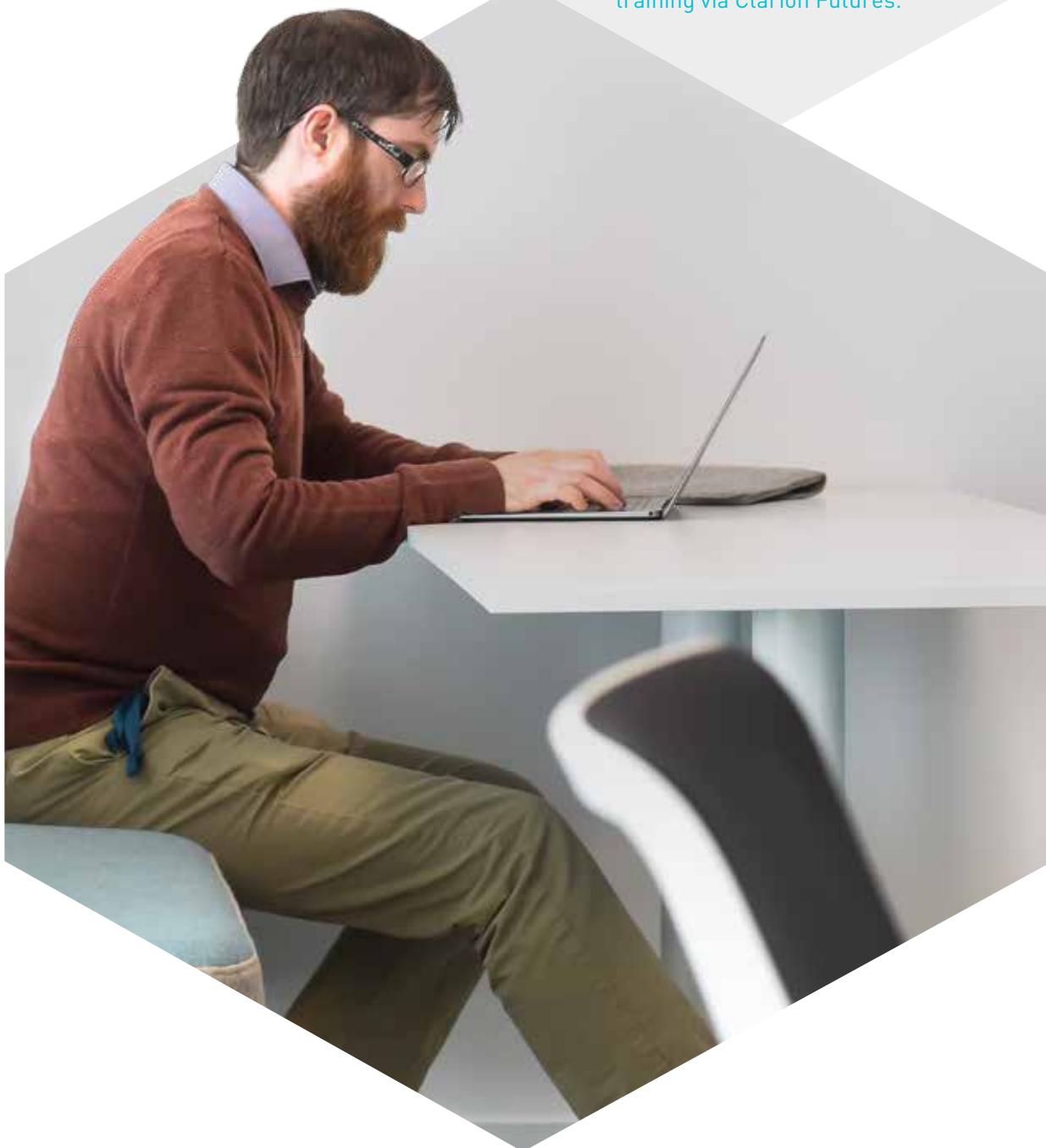
Providing advice and feedback

Clarion continues to be seen as a trusted research partner – working directly with other housing associations, academics and thinktanks across the political spectrum. The newly formed UK Collaborative Centre for Housing Evidence (CaCHE) is using Clarion and RUSH (Research Users in Social Housing – a network of housing association research professionals founded by Clarion) as a sounding board on the state of the overall housing sector. Clarion shares CaCHE's aim of improving housing policy and practice through better use of evidence and is engaging to help it allocate its £6.1 million research funding, contributing to its practical understanding of social housing.



No. 10 roundtable

In May 2018, Clarion's Group Chief Executive, Ruth Cooke, attended a Downing Street construction skills roundtable with the Prime Minister's then special adviser on housing, Jamie Cowling. Ruth highlighted Clarion's strong track record on employment and skills and its ambitious increase in training via Clarion Futures.



A new CSR strategy to guide the organisation

As a newly merged organisation Clarion felt it important to articulate its commitment to Corporate Social Responsibility (CSR) as part of its business goals. The business set key objectives to shape how it cares for people, communities and the environment. Clarion will provide:

- a place to call home that is warm, comfortable and affordable;
- a range of possibilities for breaking out of the cycle of disadvantage;
- a social purpose that commits to leaving communities better than we found them; and
- a celebration of our past, using our founding principles to build a brighter future.

These principles guide its actions and determine the kind of projects it will pursue. Clarion will invest only in sustainable projects that add value.

Darel Bryan Foundation – adopted as Clarion's official charity

In 2017, Clarion adopted the Darel Bryan Foundation as its corporate charity until 2020, to help raise funds for brain tumour research. Darel was a Clarion housing officer who died tragically of a brain tumour at the age of only 34. Brain tumours kill more people under 40 than any other cancer, yet just 1% of national spending on cancer research has been allocated to this devastating disease.

The Foundation was created by his family to raise money to fund research. The organisation was nominated to be Clarion Charity of the Year by his colleagues in Clarion's Bromley office, and was a hugely popular choice among our staff, who have now raised over £35,000. Clarion has matched this figure, so the Foundation has received £70,000, with more fundraising events planned for the future.

Celebrating Black History Month

Clarion staff were involved in a wide range of events to mark Black History Month, including blog posts, poetry events, world food days and exhibitions of African art. Clarion also participated in a BAME networking event involving representatives from a range of different housing groups.

Taking Pride

Clarion staff and residents were at Pride events in Brighton, Norwich, Manchester and London in solidarity against homophobia, biphobia and transphobia. It has continued its partnership with the Albert Kennedy Trust, providing a property at peppercorn rent for its Purple Door Project – a refuge for young LGBTQ people who have fled domestic abuse.

In association with the University of Surrey, Goldsmiths and HouseProud, Clarion Housing Group spearheaded the largest research study of its kind to understand LGBTQ experiences of social housing. The findings will enable housing associations to adopt a new standard, or 'Pledge Card', as a commitment to improved standards.

Sustainability

This year, Clarion created a new sustainability strategy covering the whole of the Group and its approach to environmental sustainability. Over the next five years it will focus on: improving the least efficient homes of our stock; ensuring new builds meet new sustainability standards; reducing fuel poverty; increasing the use of hybrid/electric vehicles; helping employees to be active participants in 'green' living; and reducing direct carbon emissions and non-recyclable waste from its operations.

Clarion's core sustainability objectives are closely linked to its overall aims to develop sustainable and affordable homes; to promote biodiversity, green living and working; and to enable the health and wellbeing of its communities.



Taking Pride

Clarion staff and residents were at Pride events in Brighton, Norwich, Manchester and London in solidarity against homophobia, biphobia and transphobia.

Strong financial performance

Overview

In the first full financial year since merger, Clarion Housing Group increased its operating surplus by £15 million (5%) to £305 million, delivering a headline operating margin of 37% (2017: 36%). This is a strong financial performance. As well as higher turnover (2018: £829 million; 2017: £796 million), both one-off and underlying operating costs were lower than the previous year – in total operating costs came in at £479 million (2017: £495 million).

We continued to grow the development pipeline and increased investment in existing homes. During the year we invested £439 million, 2.8 times our surplus (2017: £318 million, 1.8 times) in new and existing social housing assets (Figure 1) and maintained our Debt to Turnover ratio at 3.9, lower than our Financial Golden Rule's maximum benchmark of 4.5.

In line with expectations, the net surplus of £157 million was £16 million lower than the previous year. This is primarily due to significant gains from the revaluation of investment property (£17 million) and surpluses achieved from the sale of the Group's German market rent portfolio (£6 million) in the prior year.

With a strong underlying financial performance and having attained the highest regulatory judgement for viability (V1) from the Regulator of Social Housing, the Group has established a robust platform from which to deliver its objectives.

2015/16 was the first year in which the Group prepared its accounts under Financial Reporting Standard 102 (FRS 102), having previously reported under UK Generally Accepted Accounting Policies (UK GAAP). Figures reported for 2014/15 onwards are presented under FRS 102 but older years are as originally reported (with the exception that operating surplus now includes disposal of properties).

All figures presented are the combined position of the Affinity Sutton and Circle Housing Groups.



£439m

Total investment in social housing, which was 2.8 times our surplus

"We have continued steady growth in our development pipeline and increased investment in existing homes."

Table 1: Summary of the Group's Statement of Comprehensive Income

	2017/18 £m Group	2016/17 £m Group
Turnover	829	796
Cost of sales	(74)	(48)
Operating costs	(479)	(495)
Surplus on disposal of properties	29	37
Operating surplus	305	290
Gain on revaluation of investment properties	2	17
Surplus on disposal of operations	-	7
Share of (deficit)/surplus of jointly controlled entities (JCEs) and associates	(1)	6
Net interest and other financial income	(144)	(140)
Movement in fair value of financial instruments	(3)	(4)
Other	(2)	(3)
Surplus for the year	157	173

Statement of Comprehensive Income (Table 1)

1. Operating surplus

At 37%, we achieved a 1% increase in our full year operating margin compared with the previous financial year and are back in line with the higher margin level achieved pre-merger in 2015/16 (Figure 2). Operating surplus at £305 million is 23% higher than that achieved in 2014 and £18 million (6%) higher

than our five year combined average. The key drivers of the rise in operating margin were a £33 million (4%) increase in turnover coupled with a £16 million (3%) reduction in operating costs. These were partially offset by an increase in cost of sales and a reduction in surpluses generated from property sales (£26 million increase and £8 million reduction, respectively).

Figure 1: Surplus vs investment in social housing



Figure 2: Operating margin and operating surplus over five years



1.1 Turnover (Figure 3)

£26 million of the £33 million increase in turnover relates to sales, with the remaining £7 million generated through the core business.

Open market sales have seen an £18 million increase in proceeds, the result of a 74% increase in sales volumes (106 units, 2017: 61 units) reflecting prevailing market conditions and demand.

At £55 million, proceeds from first tranche sales have increased by £3 million (6%) on the prior year. 410 units were sold this year at an average sales price per unit of £134,000, 8% higher than 2017.

During the year we generated £7 million of income through fixed price contracts for development activity undertaken on behalf of other landlords, a £5 million increase on 2017.

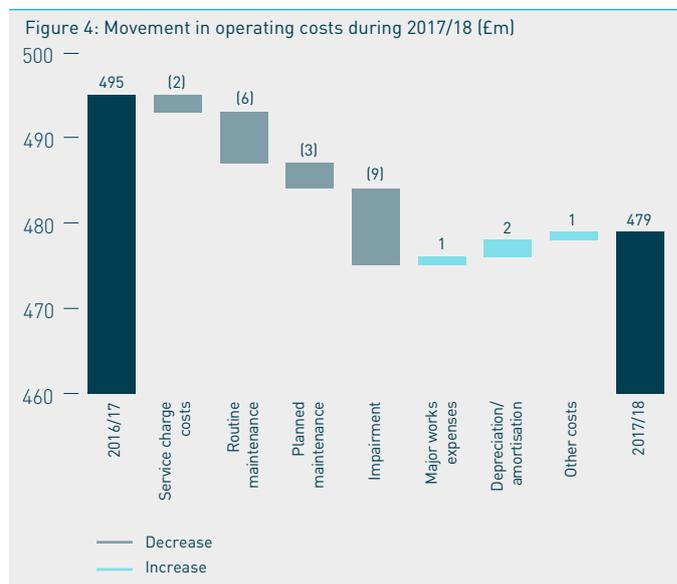
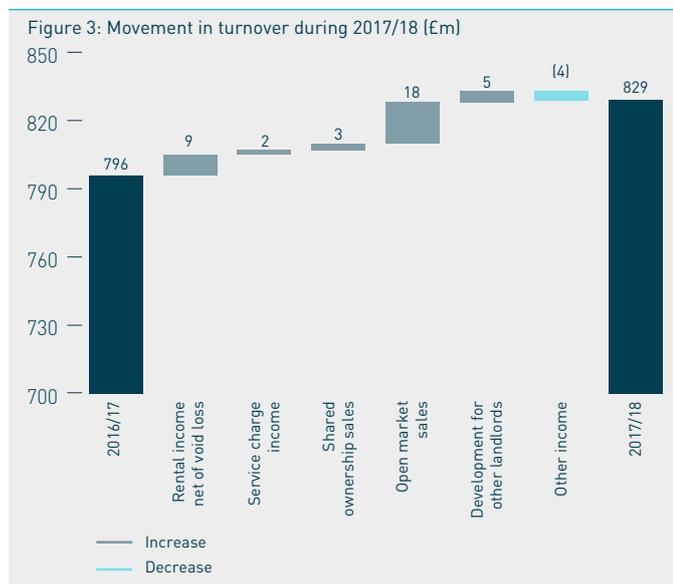
Core rental income increased £9 million on the prior year to £606 million. This is the combined effect of an increase in unit numbers from both social and affordable homes and a reduction in void loss which more than compensates for the continued impact of the Government imposed 1% rent reduction.

1.2 Operating costs (Figure 4)

At £479 million, operating costs were £16 million (3%) lower than the prior year resulting in an operating cost per unit (OCU) of £4,432 (2017: £4,623). This is mostly due to one-off costs linked to merger (including impairment), less reliance on agency staff and lower spend on day to day repairs.

There were also some further one-off costs and operational business challenges in the year, particularly in light of the Grenfell Tower tragedy, in response to which the Group put in place a specialist fire safety team and rapidly mobilised its contractors to deliver a thorough programme of fire and electrical testing. Other one-off costs included those related to the consolidation of our landlord and repairs entities which will provide future operational and financial efficiencies.

Excluding one-off costs in both years, underlying operating costs reduced by £4 million (1%) resulting in an OCU of £4,189 versus £4,266 in the prior year and a target of £4,296 representing an underspend against target of £107 (2%).



1.3 Surplus on disposal of properties

At £29 million the surplus on sales was down £8 million versus the prior year. Over half of this reduction is explained by the one-off sale of 120 market rent properties in 2016/17 which generated a surplus of £5 million. The remainder relates to a reduction in surpluses generated on subsequent shared ownership staircasing sales and other asset disposals.

Whilst a reduction, this is still significant additional subsidy for building new affordable homes to replace the reducing level of government grants.

2. Gain on revaluation of investment properties

Due to their popular locations within London and East Anglia, where there is a good demand for properties for sale and rent, the majority of our market rent portfolio has continued to increase in value during 2017/18 with a further gain of £5 million, although this was partially offset by a reduction in the market value of one scheme in South-East London.

In terms of the remaining portfolio, our commercial units saw a £2 million increase driven by our Chelsea stock whilst the units held by our leasehold management company saw a £1 million reduction following a change in the year end assumptions.

3. Share of (deficit)/surplus of JCEAs

Our share of joint venture results has seen a reduction on the prior year as we come to the end of two joint venture arrangements with Mount Anvil: 261 City Road Developments LLP ('City Road') and 72 Farm Lane Developments LLP ('Farm Lane'). During the year the freehold and final commercial unit at City Road completed (2017: 18 units sold). No further sales were seen at Farm Lane (2017: 9 units and the freehold sold).

4. Net interest and other financial income

At £144 million, net interest increased by £4 million on the prior year. This is the combined effect of accounting adjustments applied to debt in order to convert it to an effective interest rate (as required under FRS 102), an increase in our drawn debt balance and LIBOR rates, partially offset by a reduction in fees and charges as the Group faces fewer one-off costs in the year following merger.

Statement of Financial Position (Table 2)

Our Statement of Financial Position metrics remain strong with net assets increased by £209 million (16%) to £1,519 million. The increase is primarily explained by a £288 million increase in tangible fixed assets, a £22 million increase in other intangibles and a £92 million increase in stock, partially offset by a £193 million increase in creditors due in over one year.

Table 2: Summary of the Group's Statement of Financial Position

	2017/18 £m Group	2016/17 £m Group
Tangible fixed assets	7,069	6,781
Net current assets	475	382
Creditors due in over one year	(6,102)	(5,909)
Other	77	56
Total net assets	1,519	1,310
Income and expenditure account	1,856	1,705
Cash flow hedge and other reserves	(337)	(395)
Total capital and reserves	1,519	1,310

5. Tangible fixed assets

During 2017/18 we spent £426 million on new homes (2017: £292 million), including £320 million on new social housing (2017: £243 million). A further £3,320 million is committed at the year end (2017: £1,186 million), including £647 million of contractual commitments (2017: £696 million). This reflects our continued progress towards the Group's ambition of delivering 50,000 homes over 10 years with circa 14,000 homes in the development pipeline at the year end.

In addition to the above, we invested a further £119 million (2017: £75 million) in our existing homes. The increased investment in 2017/18 included works carried forward from the prior financial year and those relating to the acceleration of our fire safety programme.

Our total investment in social housing was £439 million (2017: £318 million) which was 2.8 times our surplus (2017: 1.8 times our surplus) as illustrated in Figure 1.

6. Other intangible assets

Other intangible assets increased by £22 million in the year. This was primarily driven by continued investment in our ERP platform, the first phase of which launched in April 2018.

7. Creditors due in over one year

The investment in tangible and other intangible assets has been funded by a mixture of cash generated from operations and debt, with bank loans and bonds due in over one year increased by £276 million. Gearing at 46.4% remains comfortably lower than our financial covenant target of less than 70%.

The increase in long-term debt was partially offset by a reduction in the fair value of our derivative financial liabilities to 31 March 2018, bringing the total increase in creditors due in over one year to £193 million.



Table 3: Key Group Financial Indicators

	Financial Golden Rules								
	Clarion Group			Housing Association			Latimer		
	Actual	Target/ budget	Status	Actual	Target/ budget	Status	Actual	Target/ budget	Status
EBITDA MRI cash interest cover ¹	1.61	>1.5	✓	1.53	>1.5	✓	1.59	>1.5	✓
Operating margin ²	33.3%	>30%	✓	35.4%	>35%	✓			
Net debt to full year turnover incl. JVs	3.89	<4.5	✓						
Sales as a percentage of turnover	14.7%	<40%	✓						
Social housing interest cover				1.67	>1.3	✓			
Housing Association investment in Latimer ³				14.8%	<20%	✓			
Maximum development for sale work in progress							£164m	<£600m	✓
Value at Risk coverage ⁴							7.25	>1.5	✓

1 Measures the ratio of earnings before interest, tax, depreciation/amortisation, grant amortisation, surplus on existing property sales and major repairs investment against net interest paid.

2 Excludes sales of existing property.

3 Measures the Housing Association's equity or debt invested in Latimer as a proportion of Housing Association revenue reserves.

4 Measures the impact of a 35% fall in house prices against Latimer's equity and reserves.

Key Group Financial Indicators (Table 3)

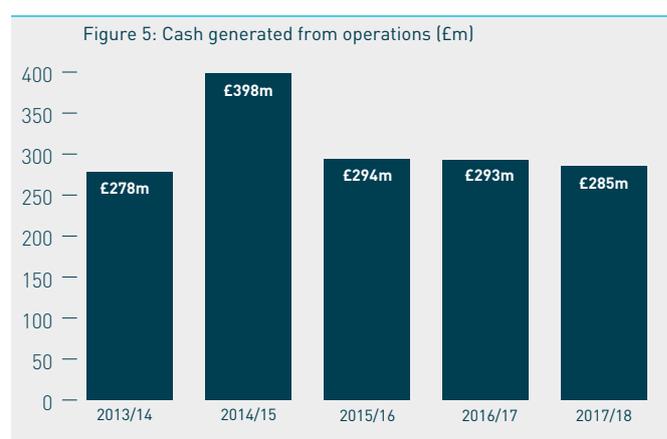
Table 3 highlights the Group's performance against its Financial Golden Rules. These rules are an internal measure and create a framework for maintaining financial resilience and credit strength while allowing the Group to realise its objectives. They recognise the differing parts of Clarion Housing Group and isolate the risks of its commercial business (in particular from a sudden downturn in the housing market) from our core social housing activity which we seek to protect against adverse shocks and market movements.

The Group remains compliant with all its Financial Golden Rules. We have been able to utilise our financial strength and accelerate our fire safety programme and still maintain Housing Association EBITDA MRI cash and overall interest cover above target.

Our private sales exposure is managed by ensuring that our work in progress balance does not exceed £600 million; that development sales do not exceed 40% of turnover; that the Housing Association's investment in Latimer does not exceed 20% of its revenue reserves; and that Latimer has at least £1.50 of equity and revenue reserves for every £1.00 it could potentially lose if house prices fell by 35% (the 'Value at Risk' ratio). All rules have comfortably been met in the year.

Cash generation from operations is a critically important measure since it provides an indication of the Group's ability to meet underlying obligations of its properties without recourse to debt finance and without reliance on existing property sales. Positive cash generation provides vital support for the Group's investment in social housing, including the development of new homes, while keeping debt levels within acceptable limits.

As shown in Figure 5, cash generated from operations remains high. At £285 million it far exceeds our investment in existing social homes (£119 million) and provides a significant contribution to our investment in new homes. As a result, at a multiple of 3.9 times, our net debt to full year turnover Financial Golden Rule remains comfortably within its 4.5 threshold.



Maintaining long-term capacity

The Group's capital resources come from three main sources – its retained income and expenditure reserves, capital grant and debt funding.

As at 31 March, the Group had £4.02 billion of committed debt funding (2017: £4.10 billion), with drawn funding totalling £3.55 billion (2017: £3.29 billion). The increase in drawn funding was driven by the planned increase in housing capital expenditure with the balance of funding requirement being met by cash generated from operations. All undrawn funding is committed and is available at very short notice.

The Group continues to maintain a diversified loan portfolio from a number of funding sources. During the period the Group established a secured Euro Medium Term Note programme to ensure that it benefits from efficient access to the capital markets. A further issuance under the programme was successfully completed in April 2018 raising £250 million.

As at 31 March 33% of committed funding was from the capital markets and 66% from bi-lateral loans with nine banks and building societies (see Figures 1 and 2).

The Group has limited refinancing risk in the next five years with over two thirds of the Group's debt maturing after 10 years (see Figure 3). As at 31 March, the Group maintained total liquidity of £636 million, represented by £169 million of available cash and £467 million of committed undrawn revolving credit facilities (see Figure 4).

The Group continues to be risk averse in its approach to interest rate management. Borrowing related to cash in hand is held at floating rates of interest, which is consistent with the interest profile of the Group's cash investments. The Group targets a flexible policy of hedging 80% to 100% of its net debt with predominantly fixed rate instruments, with flexibility to depart from these parameters if circumstances make this more appropriate. At the year end the portfolio was 85% fixed rate and 15% floating rate (see Figure 5). The Group maintains its desired interest rate profile through a mixture of embedded instruments (including fixed rate bank loans).

The Group's capital expenditure plans will continue to be funded by the strong levels of cash generated from core landlord activities, supplemented predominantly by further debt funding. The overall level of debt funding is constrained by the Group Financial Golden Rules, which ensure that the Group has sufficient debt service capacity under a broad range of adverse scenarios.

Figure 1: Committed facility mix

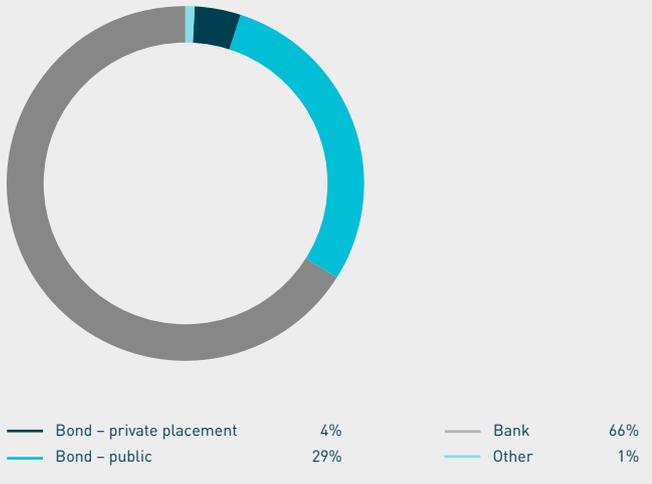


Figure 4: Liquidity

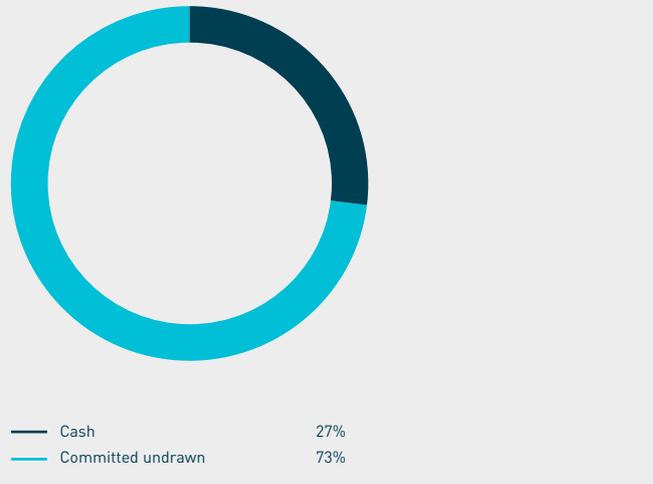


Figure 2: Total committed funding

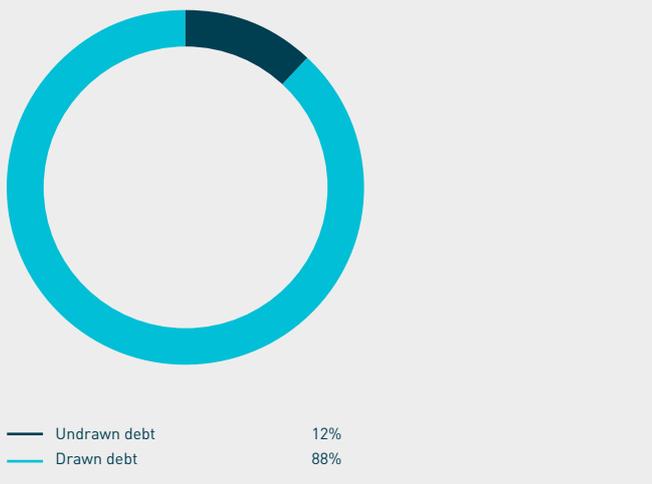


Figure 5: Hedging activity

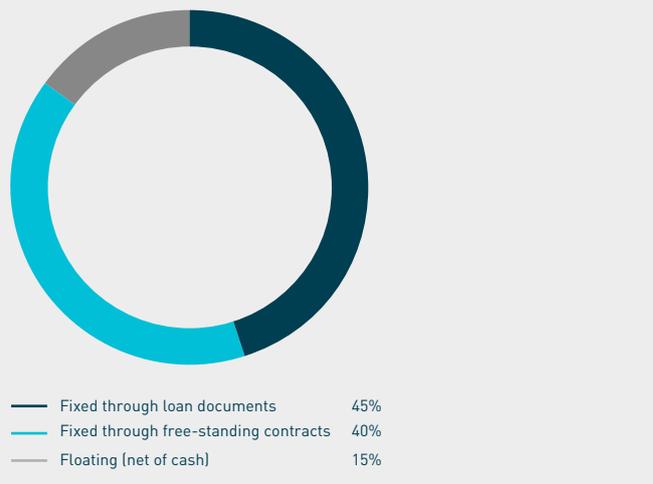
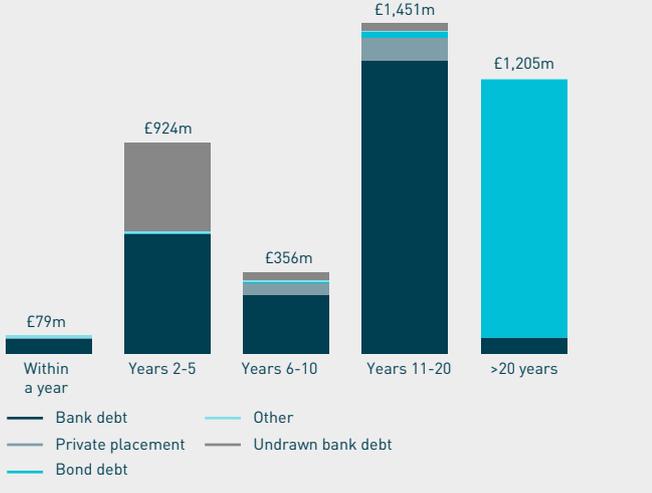


Figure 3: Debt repayment profile



Driving economies of scale

At Clarion we are committed to providing the best possible services for our residents while ensuring we continue to provide value for money. Every penny of our surplus and more is reinvested in our core business activities, which provides the incentive for the business to be as cost effective as possible. This year specific efficiency initiatives across the Group resulted in savings of more than £16 million. Many of these directly benefit our residents by maximising their take-up of benefits and reducing poverty.

At Clarion we maintain a year on year focus to keep operating costs under control and to forecast no real growth in underlying costs. Our headline social housing cost per unit was £4,510 in the year ended 31 March 2018. We have set a target to reduce our operating costs by 12% in real terms by 2021. Much of this will come from efficiencies in working practices as we integrate the business post merger. Our transformational change programme will also deliver real savings as we move increasingly to a streamlined digital offering for our residents.

We run our business on commercial lines, with a keen eye on efficiency effectiveness and delivering value for money, and clear distinction between commercial and charitable activity. It is because of this that we are able to channel so much of the money we make into delivering social benefits for the communities in which we operate.

The work we have produced with HACT to develop a set of financial values which can be attributed to particular interventions is increasingly being adopted by other landlords in the sector. In 2017/18 we achieved a social benefit of £96 million, a significant increase from £85 million in the previous year, reflecting our emphasis on this work post merger.

Clarion's investment has a significant direct impact on improving the lives of our residents and their communities. Post merger the Board agreed to prioritise an increase in our spending on communities from just under £7 million of our own resources growing to £10 million this year and continuing at that level. This will enable the Group to offer a comprehensive service for all our residents wherever they live.

An important element of our community investment programme is our employment service. We believe that finding our residents work is the best route we can offer to financial independence and reduced dependency on welfare. Over the last year we have also been the lead agent for a group of housing associations that have rolled out employment services across London with funding from the GLA and the European Social Fund. This year the service helped a record 3,000 people to find work. In addition to this, we also achieved another record by providing over 200 apprenticeships, helping those young people to learn vital work skills.

Our charitable foundation, Clarion Futures, has prioritised future investment in young people who are residents and the children of residents. Over the next few years we expect to be helping 15,000 young people annually to fulfil their potential through apprenticeships, training support and bursaries.

The Group continues to prioritise financial inclusion work and debt advice services, which are more in demand than ever. Helping our residents to access affordable loans saved an estimated £16 million in reduced payments and debt write-offs.

We have also continued to invest in welfare advice services for our residents, helping them to claim benefits which they are entitled to. This work alone has benefitted our residents by securing an extra £7 million in income they would otherwise have forgone.

New homes

Clarion aims to be a developer of homes at a significant scale. Over the last year we have built 1,263 new homes across a range of tenures. Central to our development programme is ensuring we are able to focus on those who are failed by the market. Those homes were developed with just 4.4% of public subsidy. Supporting a programme of this scale has required us to undertake commercial activities to generate returns to fill the gap left by shrinking public funds.

This year's financial surplus of £157 million should be seen in the context of the £439 million long-term investment we made in social housing over the last 12 months. We invested £320 million into the construction of new social housing properties. More than twice our annual surplus was applied to our core social housing activity through a programme of planned improvements, as well as the development of new social housing.

Procurement

The Group maintains a savings register which is independently verified and lists all savings achieved through procurement. We strive to consistently realise savings in procurement on a year on year basis, delivering value through both tender processes and contract management.

Procuring long-term suppliers to deliver better core services has been a focus of our work since merger. This has involved the bringing together of differently legacy arrangements to deliver consistent services across our homes. Total savings achieved in 2017/18 which offer significant levels of savings in future years stand at £7.8 million compared with existing costs. Procurement aims to ensure value for money, which is achieved at the awarding of contracts and extends to strategic delivery. We expect to deliver additional value from the tender process as well as ongoing contract management.

Clarion Housing Group – Sector Scorecard

	2017/18	2016/17
Operating margin (excluding disposals)	33.3%	31.7%
Operating margin (social housing lettings)	36.2%	34.5%
Interest cover – EBITDA MRI	152.1%	173.3%
New supply delivered: absolute (social and non-social)	1,263	1,340
New supply percentage (social and non-social)	1.07%	1.14%
Gearing	50.4%	48.7%
Customer satisfaction	80.0%	76.7%
Reinvestment	8.0%	5.4%
Investment in communities	£10.8m	£7.9m
Return on capital employed	4.0%	4.0%
Occupancy	98.5%	98.4%
Ratio of responsive repairs to planned maintenance	63.6%	84.7%
Headline social housing cost per unit	£4,510	£4,371
Management cost per unit	£750	£758
Service charge cost per unit	£530	£558
Maintenance cost per unit	£1,558	£1,657
Major repairs cost per unit	£229	£225
Capitalised major repairs cost per unit	£1,089	£696
Other social housing costs cost per unit	£355	£478
Rent collected	99.8%	99.8%
Overheads as a percentage of adjusted turnover	10.5%	11.8%

A number of the above measures are as defined by the Regulator of Social Housing and so may not agree to our own internal measures or financial covenants quoted elsewhere in the report.

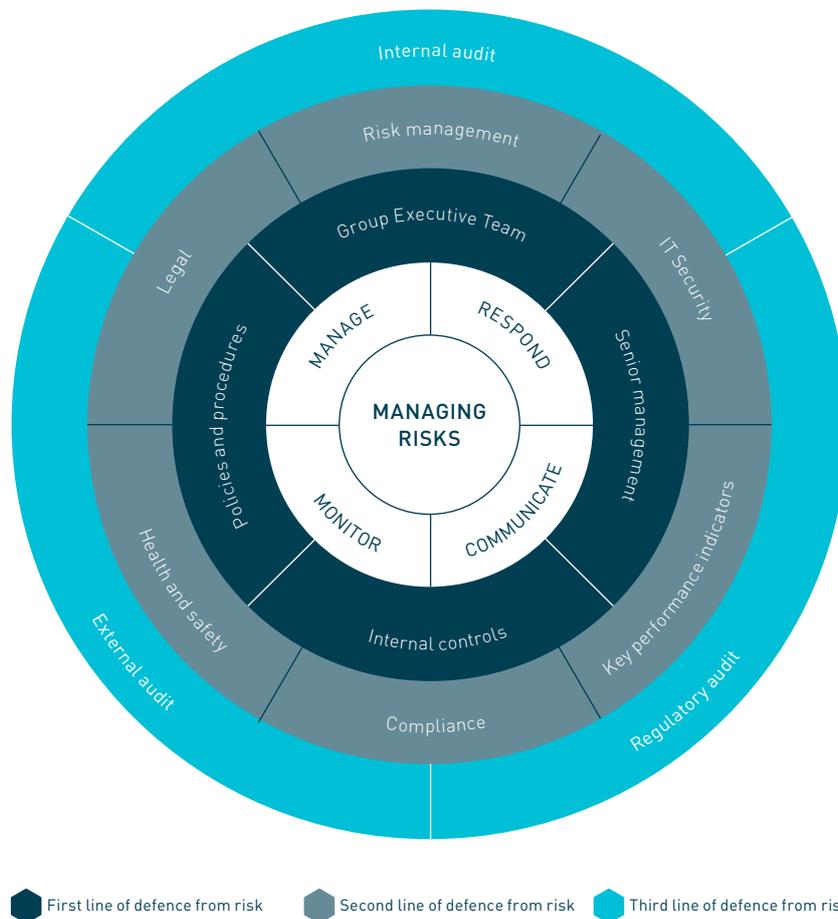
Risk management in delivering our strategic ambitions

Successful risk management is fundamental to the achievement of our strategic objectives. We are a business that manages long-term assets as a landlord performing its own management across the board, and direct repairs services for the majority of the homes we own.

We seek a sustainable long-term return to enable us to fulfil our charitable objectives of helping those who cannot meet their housing needs in the market place. We focus on the management of risks facing our business which might otherwise frustrate our strategic goals and threaten the Group’s financial strength to deliver new homes and invest in our existing homes.

Risk management framework

The Group Board has overall responsibility for risk management with a particular focus on the degree and type of risk it is prepared to take in achieving its overall objectives. This is set within the context of the rapidly changing external environment in which housing associations are operating, subject to policy change and market change which can have a fundamental impact on our business. The Board determines our appetite for, and tolerance of, risk.



	Risk description	Impact	Mitigation	Change in year
1	Failure to improve services	<ul style="list-style-type: none"> • Reputational impact • Customer service fails to meet regulatory requirements • Loss of customer confidence • Impact on our regulatory standing 	<ul style="list-style-type: none"> • Dedicated resources devoted to improving core services • Active involvement of Group Executive Team and Board in resolution • Suite of reporting metrics focused on rectification • Business continuity arrangements 	<p>The risks apparent last year have reduced as we have implemented our performance improvement plan. However, there is more to do to tackle the legacy of underinvestment in the former Circle homes and to complete our programme of fire safety improvements.</p> <p style="text-align: center;"></p>
2	Failure to comply with health and safety regulations	<ul style="list-style-type: none"> • Serious incident involving death or injury • Criminal and/or civil proceedings 	<ul style="list-style-type: none"> • Regular Board reporting • Dedicated specialist personnel • Fire improvement plan • Routine compliance testing and checking 	<p>Our compliance check performance has improved, with the exception of one area, where we have replaced a contractor. The focus on fire safety has increased and a dedicated programme of remedial work is in place to tackle issues.</p> <p style="text-align: center;"></p>
3	Failure to deliver new homes in line with our agreed development strategy	<ul style="list-style-type: none"> • Adverse operational and financial impact • Negative reputational impact 	<ul style="list-style-type: none"> • Investment strategy agreed • Over 14,000 homes approved since merger • Skilled and competent team recruited 	<p>Progressing in line with agreed plans.</p> <p style="text-align: center;"></p>
4	Massive financial shock	<ul style="list-style-type: none"> • Increased cost of funds • Lack of available debt • Increased counterparty risk • Hedging arrangements ineffective 	<ul style="list-style-type: none"> • Market scanning and stress testing undertaken • Investor relationship management • Specialist Treasury Committee and advice for Board 	<p>Stable.</p> <p style="text-align: center;"></p>

Key

No change



Reduced risk



Increased risk

Strategic Report

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

	Risk description	Impact	Mitigation	Change in year
5	<i>Failure to deliver transformational change</i>	<ul style="list-style-type: none"> Increased cost base Failure to deliver customer expectations Inability to use customer intelligence 	<ul style="list-style-type: none"> Specialist team and contractors Dedicated business involvement Audit and Risk Committee oversight Regular gateway checks 	<p>Stable.</p> <p>We have gone live on the first phase of our systems and aim to be rolling out the second phase in 2019.</p> 
6	<i>Failure to achieve efficiencies</i>	<ul style="list-style-type: none"> Increased cost base Costs higher than competitors Inability to deliver value for money 	<ul style="list-style-type: none"> Simplification of corporate structures Team and corporate savings targets Board ownership and oversight 	<p>Stable.</p> 
7	<i>Succession</i>	<ul style="list-style-type: none"> Change leads to instability Loss of skills and knowledge Capacity of the business to absorb change 	<ul style="list-style-type: none"> Remuneration and Nominations Committee oversight Specialist advisers Long-term planning and talent management 	<p>Stable.</p> 
8	<i>IT security and cyber attack threat</i>	<ul style="list-style-type: none"> Loss of customer confidence Loss of stakeholder confidence Loss of income 	<ul style="list-style-type: none"> Security review Routine penetration testing Staff training Audit and Risk Committee oversight 	<p>Heightened risk generally in the market.</p> 

Key



No change



Reduced risk



Increased risk

The Audit and Risk Committee oversees the effectiveness of the assurance arrangements, systems and processes adopted by the Group to manage risk. The Committee also provides specialist advice to the Board on particular risks and whether they would threaten the delivery of our objectives or undermine the financial strength of the business. The Group Executive Team is responsible for the delivery of the Group's strategy and managing risk, having day to day responsibility for operational performance and the management of risk within the business.

Effective risk management relies on the engagement of all parts of the business. This approach is an integral part of the way we work. Teams at all levels know and understand their contribution to risk management and they maintain risk registers which are reviewed regularly, allowing for their escalation within the business for consideration as appropriate.

Once risks have been identified their impact and probability are determined and scored before mitigation (gross) and after (net). A risk scoring methodology is used to ensure a consistent approach is taken to assessing any potential impact and likelihood.

Risk appetite

Our risk appetite is determined by the Board and is influenced by the actions we are or are not prepared to take in furthering our strategic goals. The most significant judgements affect our assessment of return for the risk we take in investing in particular property schemes, our asset strategy and reinvestment priorities, our customer offer, our obligations under regulation and legislation and our financial stability. We have a low level of appetite for risk which would impact our record on regulatory compliance, health and safety record, and reputational damage. We have a higher level of appetite for new business and opportunities, and growth.

We regularly monitor our effectiveness in managing risk through key performance indicators to ensure we remain within the appetite levels determined by the Board. This ensures that our exposure to particular risks is informed by changes in the external environment, taking swift and appropriate action to maintain an overall approach which does not adversely affect our ability to deliver our strategic ambitions.

Risk focus this year

The Board considers the business is well placed to manage the risks it faces. We have made significant steps in improving the service standard and mitigating the attendant risks. However, these improvements have been offset by further risks emerging, particularly from the programme of work undertaken as a result of the tragedy at Grenfell Tower. The Board is of the view that the business has a solid asset base and operationally is resilient in the longer term. The inherent financial strength of the Group has meant we have been able to resource the recovery of the service. We were delighted that the Regulator awarded us the highest compliant grades for governance and financial viability following their in-depth assessment.

A central business priority is to continue to provide much needed new homes and we understand the financial strength required to withstand the risk of building at scale. Our investment appraisal methodology means we are careful about the projects we select and we are demanding of the financial return. We firmly believe we are temporary custodians of a charity which will still be delivering homes and services for many years to come. We aim to leave the organisation in at least as strong a position as we inherited it.

Experience and expertise to deliver



Neil Goulden
Chairman of Group Board
First appointed: July 2010

Neil was appointed Chairman of Clarion Housing Group in April 2017. Prior to that he had been chairman of the Affinity Sutton Board since joining in 2010 and became Deputy Chairman of the Clarion Shadow Board on merger.

In addition to his role at Clarion Housing Group, he is pro chancellor and chairman of governors at Nottingham Trent University and a government appointed member of the Horserace Betting Levy Board. He is also vice chairman of Ambitious About Autism and chairs the Finance Committee for Sue Ryder. In the commercial world, Neil is a senior independent director on the Board of Marstons plc and chairman of Jackpotjoy plc. He also sat on the Low Pay Commission for eight years until 2015.



Sue Killen
Chair of Clarion Futures Board and Vice Chair of Group Board
First appointed: April 2012

Until recently Sue was the chief executive of St John Ambulance (SJA). Before joining SJA in September 2007 she was a director general at the Department for Transport. Previous government roles include leading work to tackle drug abuse and practical preparations for the single currency. She also worked on the privatisation of a number of major companies.

From September 2006 to June 2007 Sue led an independent review of children and young people's palliative care. She has been a board member of Addaction, the national treatment agency, and FYF, which supports the rural poor in Southern Africa and India.



John Coghlan
Chairman of Audit and Risk Committee
First appointed: July 2017

John is a chartered accountant and has a valuable background in financial and general management across a variety of sectors. Currently John is also chairman of the Audit Committee at Severn Trent plc, a director of Associated British Ports and chairman of its Audit Committee, and chairman of the Freight Transport Association Ireland.

Previously, John was a director of Exel plc for 11 years to 2006, where he was Deputy Chief Executive and Group Finance Director.



David Avery
Chairman of the Clarion Housing Association Board
First appointed: October 2015

David has over 10 years' experience serving on housing association boards with more than six years as chairman. He was appointed Chairman of the Clarion Housing Association Board in May 2017.

Previously, David has held a variety of executive and management roles. He was most recently President of European Operations for Novellus Systems Inc, a Fortune 500 company. David has also been a governor of an independent school in West Sussex and a non-executive director of an NHS Trust.



Rupert Sebag-Montefiore
Chairman of Latimer
First appointed: July 2017

Rupert is Chairman of Latimer Developments Limited. Rupert retired from Savills plc in 2017 where he was on the main board, followed by the group executive board, for 21 years. Rupert is chairman of Prime Purchase Limited, a trustee of Salisbury Arts Theatre and the Orchestra of the Age of Enlightenment, and a member of the Investment Committees of Winchester College and Christ Church, Oxford.



- G** Chairman of the Group Board
- A** Audit and Risk Committee
- H** Clarion Housing Association Board
- F** Clarion Futures Board
- L** Latimer Board
- R** Remuneration and Nominations Committee
- T** Treasury Committee
-  Denotes Board/Committee Chair



Helen Bailey
Chair of Remuneration and Nominations Committee
 First appointed: April 2012

Helen is an experienced chief executive who has worked in national, local and London government. She is currently an adviser to iMPower, a consultancy which solves complex social problems through behaviour change.

Prior to joining iMPower Helen has been the chief executive of a London Borough, Director of Public Services at HM Treasury and headed up the Mayor's Office for Policing and Crime.



Greg Reed
 First appointed: July 2017

Following a 20-plus year international career in banking, in 2012 Greg joined HomeServe Membership, the biggest business in the HomeServe Group, as its UK chief marketing officer, becoming CEO in June 2017. Greg now leads a business of over 3,000 people, including 1,000 field engineers. In 2016, HomeServe Membership was recognised as one of the three best places to work in the UK; in the same year, the Institute of Customer Service judged HomeServe to have the most improved customer satisfaction of any business in the UK services sector. Greg's undergraduate degree was in Finance from Pennsylvania State University and he also holds a doctorate in Law from Widener University School of Law.



Tania Brisby
Chair of Treasury Committee
 First appointed: March 2011

Tania joined Circle Housing Group's board in 2011, serving on the Audit & Risk and Remuneration & Succession Committees. Her background is in financial services in investment banking and more recently she was a non-executive director of the Wesleyan Assurance Society. In consultancy services, she was a former director of Cardew Group, a city financial public and investor relations firm, and has her own corporate advisory practice specialising in emerging markets.

In the public sector, Tania was seconded to manage a European Commission restructuring and privatisation programme in Eastern Europe in the 1990s and advised the NHS on commercial dispute resolution until April 2013 as chair of the NHS Midlands and East Competition Panel and more recently as an adviser to the NHS South East Commissioning Support Unit. She is a Tribunal Panel member on disciplinary hearings for the Financial Reporting Council.



Brian Stewart OBE
 First appointed: July 2010

Brian is a portfolio non-executive director and consultant, following a career in local and regional government. He was the chief executive of two Scottish local authorities and the East of England Regional Assembly. He has experience as a non-executive director of an NHS Foundation Trust, various charity trustee roles and consultancy.

His current portfolio includes chairing the Sizewell C Community Forum, sitting on the HS2 Phase 2 Exceptional Hardship Scheme panel and acting as a trustee and vice chairman of Ormiston Families – a major regional children's charity in East Anglia.



Ruth Cooke, Group Chief Executive is also a member of the Group Board but her biography is included with the Group Executive Team.

Delivering Clarion's strategy and social mission



Ruth Cooke
Group Chief Executive

Ruth joined Clarion Housing Group in April 2018 as Group Chief Executive.

She joined Clarion from Midland Heart where she served as chief executive officer since 2012, having previously been the organisation's finance director. While at Midland Heart, she transformed the organisation's financial and operational performance, delivering significant reductions in operating costs allied with improvements in customer satisfaction. Prior to Midland Heart, Ruth, a qualified accountant and corporate treasurer, was group director of resources at Knightstone Housing Association and chief finance officer at Anchor Trust.



Jonathan Cawthra
Group Director of HR and Corporate Services

Jonathan is responsible for creating a culture in which all staff have the opportunity and commitment to make a real contribution to the success of Clarion Housing Group. Before joining Affinity Sutton in 2003, he held a number of senior roles at Royal Mail, latterly as communications director.



Neil McCall
Housing Association Chief Executive Officer

Neil is the Chief Executive Officer of the Group's housing association, Clarion Housing, the largest housing association in the country.

He has overall responsibility for the delivery of landlord services – focusing on asset management, customer services, housing management and resident involvement across our 125,000 properties.



Clare Miller
Group Director of Governance and Compliance

Clare leads on governance and compliance across the Group. She was previously Affinity Sutton's group director of governance and compliance.

Prior to this Clare held a number of roles with the social housing regulator. She is a chartered accountant, qualifying with Coopers & Lybrand.



Austen Reid
Group Director of Development

Austen leads Clarion's development business with an ambition to build 50,000 homes over 10 years and a current pipeline of circa 14,000 homes.

Austen was previously the chief operating officer at Circle prior to the merger with Affinity Sutton. He possesses significant real estate experience having held senior positions in large housing associations and Savills.



Michelle Reynolds

Group Director of Commercial Services

Michelle heads up the Group's commercial and charitable arms, which include Centra care and support; repairs business, Clarion Response; property management company, Grange; property exchange service, House Exchange; and Clarion Futures, the Group's charitable foundation.

With over 25 years' experience, Michelle's previous roles include directorships at Affinity Sutton and William Sutton, and chief executive of Aashyana, the South West's first Asian-led housing association.



Ian Woosey

Chief Information Officer

Appointed to the Group Executive Team in May 2018

Ian joined Clarion Housing Group in February 2018 as the Group's first Chief Information Officer. He has worked in technology leadership, consulting and retail operations roles during his career, often leading large scale programmes. Prior to joining the Group, Ian was chief information officer for the food distribution company Brakes and previously at Carpetright.

A process to appoint a permanent Chief Financial Officer is underway and in the meantime Steve Humes has been appointed as interim Chief Financial Officer. Steve attends Board meetings without being a Director.

Governance

CORPORATE GOVERNANCE

The Group Board is responsible for the effective governance of the Group while day to day management is delegated to the Group Executive Team.

The Group Board has nine Non-Executive Directors and one Executive Director who bring a broad range of skills, experience and knowledge to their roles, including expertise in finance, business and public administration. The Board has the collective skills to fulfil its responsibilities under the National Housing Federation Code of Governance, which it has adopted. The Code is based on clear requirements and commitments which enable the Board to demonstrate compliance with best practice in the housing sector.

The Group routinely self-examines performance against the main requirements of the Code and undertakes an externally led review of effectiveness every three years. The next such review will take place during 2018. Following the merger of Affinity Sutton and Circle, the Board has adopted clear terms of reference and has delegated appropriate responsibilities to a series of specialist Committees. Recruitment to all positions is competitive and we use external assistance as necessary.

The Group Executive Team has day to day oversight of the management of the business. The Group Executive Team has eight members, most of whom have extensive experience within the UK housing association sector. They have operational responsibility for the management of risk across the business and provide the first line of defence in the management of corporate risk.

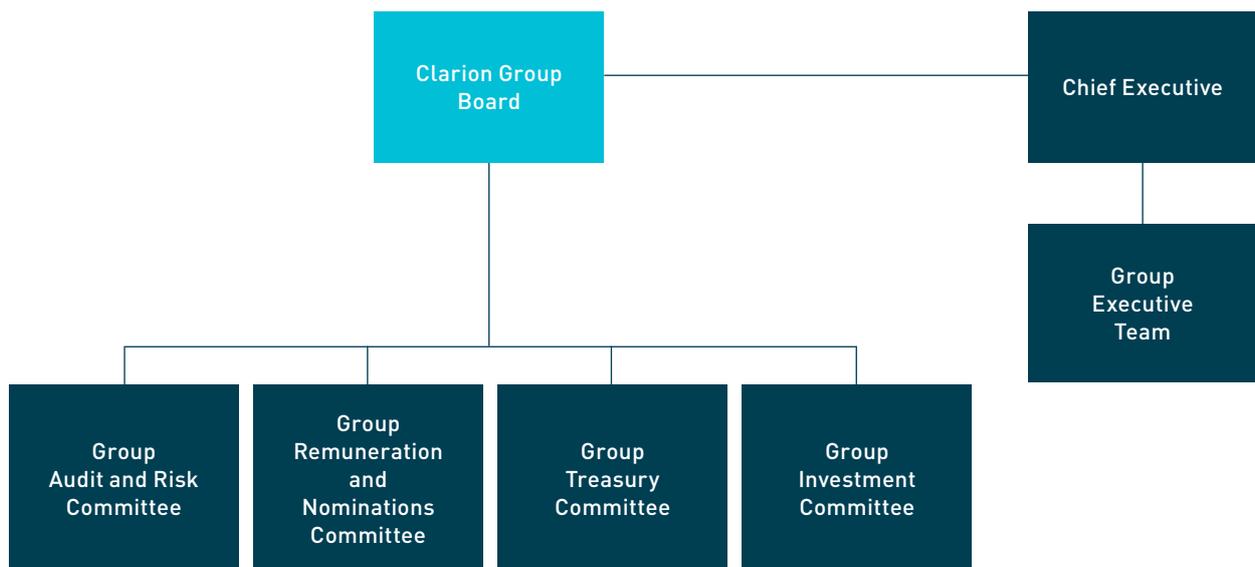
The Group has simplified the structures it inherited at merger; a single housing association, Clarion Housing, owns all of the Group's social housing assets and delivers all services to residents. The Board considers that simple structures provide better and more effective decision making. It has three key business streams: the landlord, Clarion Housing; the development company, Latimer Developments Limited; and the charitable foundation, Clarion Futures.

The Board continues to facilitate resident involvement in the decision making structures of the Group. It allows residents to engage at different levels, from the very local through to regional and national decision making forums. The Board values resident input and has actively encouraged resident scrutiny and accountability measures which have added value to the business. All residents have the opportunity to be involved in ways that are accessible and which meet their needs.

The key responsibilities of the Group Board are to lead, control and monitor the overall performance of the Group. The Group Board approves the budgets and business plans of its subsidiary companies and retains control through the ability to appoint and remove subsidiary board members. The Group delegates specific responsibilities to Group Committees under approved terms of reference.

HCA Governance and Financial Viability Standard

The Group received a G1 and V1 rating from the HCA in March 2018 following an in-depth assessment. The ratings represent the highest compliance ratings for governance and financial viability. The Board has considered its obligations under regulation and is satisfied that it complies in all material respects with the standards.



REPORT OF THE REMUNERATION AND NOMINATIONS COMMITTEE

Membership of the Committee

*Helen Bailey (Chair), Neil Goulden,
Sue Killen, Brian Stewart OBE.*

The Group has a combined Remuneration and Nominations Committee. Our role is to ensure that the Board has the skills and members to operate effectively, and to agree remuneration policies which are appropriate for the organisation's needs, balancing our absolute requirement to have the right staff with our social purpose.

Board members are appointed for a maximum nine year term and we think that the experience gained over that time is invaluable. As a long-term investor in homes and property we value the experience and knowledge Board members acquire over their term of office. Our Board understands the property market and the cycles it displays, which helps to manage and mitigate the risks of the business.

Board members are appraised annually. Appraisals are carried out by the Chair.

The Committee approves the annual pay remit for staff, and sanctions the bonus payments for all staff and senior executives. This takes into account the performance of the Group and whether the performance metrics for bonus have been met such as the financial performance of the Group and customer satisfaction with service delivery. The Committee maintains a watching brief on the market for recruitment and this influences its thinking in agreeing the annual pay remit. We aim to pay staff in line with market conditions, recognising that for some roles and in some locations we create the market.

The Committee is aware of its responsibility to create conditions which encourage and promote a diverse workforce. In line with the guidance published by the Equalities and Human Rights Commission we published details of the gender pay gap for the Group. This revealed a very small gap between the pay of men and women, compared with other employers.

The Committee adopts the Group Code of Conduct.

Helen Bailey

Chair of Remuneration and Nominations Committee

Membership of the Committee

John Coghlan (Chairman from 19 July 2017), David Avery, Kirstin Baker (appointed 6 July 2017), Tania Brisby, Aruna Mehta and Simon Braid (Chairman, resigned 19 July 2017).

The Committee has met regularly during the year. Our focus is to ensure that there are sound and effective systems of internal control and risk management.

We scrutinise the financial statements and propose them to the Group Board for approval. We examine in detail the work of internal audit, and the risk framework, advising the Board of any new and emerging risks of which we consider the Board should be aware. A particular area of focus has been the implementation of our new systems, the first phase of which went live in April 2018. The Committee has been focused on ensuring that the programme of change was well managed and governance arrangements were robust.

Internal audit

Clarion has its own internal audit and risk function, which is supplemented by professional firms which carry out specific internal audit reviews utilising their specialist surveying, IT and treasury skills. We believe this model gives us a suitably skilled and flexible resource which we can deploy to best effect. Following the external audit tender, we have re-tendered internal audit and appointed Ernst and Young.

The focus of the audit programme this year has been following up on work done to remedy the areas of concern in the Regulatory Notice issued to Circle in December 2016 such as repairs, complaints, safety check compliance and underlying asset records. Routine work in key controls, IT including data protection, contract management, and allocations and lettings has also been completed. We were delighted to receive the Regulator's judgement in March 2018 discharging the Regulatory Notice and confirming the Group meets the highest regulatory standards.

External audit

We tendered for external audit services this year and KPMG has been reappointed as auditor of the Group.

Committee effectiveness

The Committee plays an important role ensuring that the appropriate controls and assurance processes are embedded in the business, contributing to a governance environment which is robust and rigorous.

The year ahead

The future prospects for Clarion Housing Group are good. We are ambitious to grow and to use our enhanced capacity to further our charitable mission. The policy environment is one of constant change and the Committee's role remains vital in advising the Board and working closely with management to secure the best outcomes for those who benefit from our services. We aim to deliver the second phase of our systems changes this year, bringing the whole organisation on to a common platform. This will be a significant milestone in delivering a fully integrated business post merger.

John Coghlan

Chairman of Audit and Risk Committee

BOARD STATEMENT ON THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL CONTROL FOR THE PERIOD ENDING 31 MARCH 2018

The Board of Clarion Housing Group Limited is the ultimate governing body for the Group and is committed to the highest standards of business ethics and conduct, and seeks to maintain these standards across all of its operations.

The Board is responsible for ensuring that sound systems of internal control exist across the Group which focus on the significant risks that threaten the Group's ability to meet its objectives, and provide reasonable – but not absolute – assurance against material misstatement or loss.

The key means of identifying, evaluating and managing the systems of internal control are as follows:

- Corporate governance arrangements.
- Written Group-wide financial regulations and delegated authorities, which were subject to review during the year.
- Policies and procedures for all key areas of the business. These are reviewed periodically to ensure their continued appropriateness.
- A Group-wide internal audit function, structured to deliver the Audit and Risk Committee's risk-based audit plan. As well as having an in-house team, the Group uses the services of professional firms of auditors and other specialists as necessary. All audit reports are reviewed by the Audit and Risk Committee, which also receives updates on the implementation of agreed external and internal audit recommendations. Detailed reports on the Group's and subsidiaries' activities are also presented to senior managers so that recommendations for strengthened controls and improvement can be implemented promptly.
- A Group-wide health and safety function.
- Management structures providing balance and focus within the Group.
- A Group-wide risk management process, which enables management to manage risk so that residual risk, after appropriate mitigation, can be absorbed without serious permanent damage to the Group or its subsidiaries. This includes a formal risk management approach to new business and major development initiatives and action plans to mitigate the worst effects of the risks. Risk management is considered at each Group Audit and Risk Committee meeting, through reviews of individual risk areas and/or risk maps, as well as considered regularly by the Board.

- The Group and its subsidiaries have annual budgets and long-term business plans. Throughout the year, boards and managers regularly monitored performance against budgets, value for money and other quality indicators. An important tool in this process is the Group's Sector Scorecard which identifies performance against key performance indicators, underpinned by supporting performance indicators and management information.
- Regulatory requirements and service objectives with managers ensuring that variances are investigated and acted upon.
- An anti-fraud and anti-bribery culture which is supported by a policy and procedure for dealing with suspected fraud, bribery and whistleblowing. The Group participated in the 2016/17 National Fraud Initiative, sponsored by the Cabinet Office.
- All housing investment decisions and major commitments were subject to appraisal and approval by the Group Investment Committee and, when appropriate, the Group Executive Team and the relevant board, in accordance with the Group's financial regulations.
- A Group-wide treasury management function reporting at least three times a year to the Group Treasury Committee.

The Group Chief Executive and senior subsidiary managers have reviewed the internal control and assurance arrangements by reference to checks on the above and a report has been made to the respective boards on the effectiveness of the control systems for the year ended 31 March 2018 and up to the date of approval of the Annual Report and Financial Statements. The Group Audit and Risk Committee and the Group Board have expressed their satisfaction with these arrangements.

Status

No weaknesses were found in internal controls which resulted in material losses, contingencies or uncertainties that require disclosure in the financial statements, for the year ended 31 March 2018 and up to the date of approval of the financial statements.

Governance

STATEMENT OF BOARD'S RESPONSIBILITIES IN RESPECT OF THE BOARD'S REPORT AND THE FINANCIAL STATEMENTS

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

Co-operative and Community Benefit Society law requires the Board to prepare financial statements for each financial year. Under those regulations the Board has elected to prepare the financial statements in accordance with UK accounting standards, including Financial Reporting Standard (FRS) 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

The financial statements are required by law to give a true and fair view of the state of affairs of the Group and the association and of the income and expenditure of the Group and the association 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 UK accounting standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless it either intends to liquidate the Group or the association or to cease operations, or has no realistic alternative but to do so.

The Board is responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the association and enable them to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. It is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the association and to prevent and detect fraud and other irregularities.

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

Going Concern

After reviewing the Group's budget for 2018/19 and those of its subsidiaries, the Group's 30-year business plan, and based on normal strategic business planning and control procedures, the Board has a reasonable expectation that Clarion Housing Group Limited has adequate resources to continue in operational existence for at least twelve months from the date of approval of the financial statements.

Disclosure of Information to Auditor

The Board members who held office at the date of approval of this Report of the Board confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditor is 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 auditor is aware of that information.

Auditor

KPMG LLP have expressed their willingness to continue in office as the Group's auditor. Accordingly, a resolution to reappoint them as auditor will be proposed at the forthcoming Annual General Meeting.

By order of the Board

Neil Goulden
Group Chairman

12 July 2018

Financial statements

INDEPENDENT AUDITOR'S REPORT TO CLARION HOUSING GROUP LIMITED

Opinion

We have audited the financial statements of Clarion Housing Group Limited ("the association") for the year ended 31 March 2018 which comprise the Group and Association Statements of Comprehensive Income, the Group and Association Statements of Financial Position, the Group and Association Statements of Changes in Capital and Reserves and the Group Statement of Cash Flows and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view, in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, of the state of affairs of the group and the association as at 31 March 2018 and of the income and expenditure of the group and the association for the year then ended;
- comply with the requirements of the Co-operative and Community Benefit Societies Act 2014; and
- have been properly prepared in accordance with the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group and the association in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other information

The association's Board is responsible for the other information, which comprises the Report of the Board. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

Matters on which we are required to report by exception

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

- the association has not kept proper books of account; or
- the association has not maintained a satisfactory system of control over transactions; or
- the financial statements are not in agreement with the association's books of account; or
- we have not received all the information and explanations we need for our audit.

We have nothing to report in these respects.

Board's responsibilities

As more fully explained in their statement set out on page 52, the association's Board is responsible for the preparation of financial statements which give a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to liquidate the group or the association or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the association in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014 and section 128 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to the association those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the association as a body, for our audit work, for this report, or for the opinions we have formed.

Andrew Sayers (Senior Statutory Auditor) for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square, London, E14 5GL

16 July 2018

Financial statements
GROUP STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2018

	Notes	2018 £m	2017 £m
Turnover	4a	828.6	795.6
Cost of sales	4a	(73.4)	(48.2)
Operating costs	4a	(478.9)	(495.2)
Surplus on disposal of properties	4a	29.1	37.3
Operating surplus	4a	305.4	289.5
(Deficit)/surplus on disposal of other fixed assets	4a	(2.2)	0.6
Surplus on disposal of operations	34	-	6.6
Share of (deficit)/surplus of JCEAs	17	(0.6)	5.5
Gain on revaluation of investment properties	15	1.6	17.2
Interest receivable	7	3.0	5.1
Interest payable and financing costs	8	(147.2)	(144.9)
Movement in fair value of financial instruments	9	(2.5)	(3.6)
Surplus on ordinary activities before taxation	10	157.5	176.0
Tax charge on surplus on ordinary activities	11	(0.9)	(2.7)
Surplus for the year		156.6	173.3
Actuarial gains/(losses) on pension schemes	28	20.7	(9.5)
Movement in fair value of financial instruments	9	58.9	(9.2)
Foreign exchange rate gains		-	0.8
Loss on transfer of SHPS	28	(26.6)	-
Tax charge on other comprehensive income	11	(0.1)	(1.5)
Total comprehensive income for the year		209.5	153.9

All operations are continuing.

The financial statements were approved by the Board and were signed on their behalf by:

Neil Goulden
Group Chairman

Sue Killen
Vice Chair

Clare Miller
Company Secretary

12 July 2018

PARENT STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2018

	Notes	2018 £m	2017 £m
Turnover	4a	113.9	158.6
Cost of sales	4a	(11.6)	(11.1)
Operating costs	4a	(99.9)	(144.8)
Operating surplus	4a	2.4	2.7
Deficit on disposal of other fixed assets		(1.6)	-
Interest receivable	7	3.3	6.7
Interest payable and financing costs	8	(5.0)	(5.5)
(Deficit)/surplus on ordinary activities before taxation and Gift Aid	10	(0.9)	3.9
Gift Aid payment to subsidiary		(0.4)	(2.6)
(Deficit)/surplus on ordinary activities before taxation		(1.3)	1.3
Tax charge on surplus on ordinary activities	11	-	(1.3)
Deficit for the year		(1.3)	-
Actuarial losses on pension schemes	28	-	(6.1)
Tax charge on other comprehensive income	11	-	(1.5)
Total comprehensive income for the year		(1.3)	(7.6)

All operations are continuing.

The financial statements were approved by the Board and were signed on their behalf by:

Neil Goulden
Group Chairman

Sue Killen
Vice Chair

Clare Miller
Company Secretary

12 July 2018

Financial statements
GROUP STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2018

	Notes	2018 £m	2017 £m
Fixed assets			
Goodwill	12	4.5	6.3
Other intangible assets	13	55.1	33.2
Social housing properties	14	6,786.7	6,503.2
Investment properties	15	231.6	228.3
Non-housing fixed assets	16	51.1	49.0
Interests in JCEAs	17	85.4	92.0
Other fixed asset investments	18	13.8	14.5
		7,228.2	6,926.5
Current assets			
Stock	19	264.0	171.6
Debtors: amounts falling due within one year	20	83.9	80.1
Debtors: amounts falling due after more than one year	20	125.1	140.1
Current asset investments	21	112.5	111.2
Cash and cash equivalents		182.9	168.5
		768.4	671.5
Current liabilities			
Creditors: amounts falling due within one year	22	(293.4)	(289.5)
		475.0	382.0
Net current assets			
		7,703.2	7,308.5
Total assets less current liabilities			
Creditors: amounts falling due after more than one year	23	(6,102.2)	(5,909.2)
Provisions for liabilities and charges	27	(81.9)	(89.7)
		1,519.1	1,309.6
Total net assets			
Capital and reserves			
Non-equity share capital	32	-	-
Cash flow hedge reserve		(336.5)	(395.4)
Income and expenditure reserve		1,855.6	1,705.0
		1,519.1	1,309.6
Total capital and reserves			

The financial statements were approved by the Board and were signed on their behalf by:

Neil Goulden
Group Chairman

Sue Killen
Vice Chair

Clare Miller
Company Secretary

12 July 2018

PARENT STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2018

	Notes	2018 £m	2017 £m
Fixed assets			
Other intangible assets	13	54.2	32.1
Non-housing fixed assets	16	20.3	21.7
Other fixed asset investments	18	1.3	1.3
		75.8	55.1
Current assets			
Debtors: amounts falling due within one year	20	66.8	76.5
Debtors: amounts falling due after more than one year	20	35.7	98.2
Cash and cash equivalents		120.0	104.7
		222.5	279.4
Current liabilities			
Creditors: amounts falling due within one year	22	(132.6)	(155.9)
		89.9	123.5
Net current assets			
		165.7	178.6
Total assets less current liabilities			
Creditors: amounts falling due after more than one year	23	(174.6)	(184.4)
Provisions for liabilities and charges	27	(0.8)	(2.7)
		(9.7)	(8.5)
Total net liabilities			
Capital and reserves			
Non-equity share capital	32	-	-
Income and expenditure reserve		(9.7)	(8.5)
		(9.7)	(8.5)
Total capital and reserves			

The financial statements were approved by the Board and were signed on their behalf by:

Neil Goulden
Group Chairman

Sue Killen
Vice Chair

Clare Miller
Company Secretary

12 July 2018

Financial statements
STATEMENTS OF CHANGES IN CAPITAL AND RESERVES
FOR THE YEAR ENDED 31 MARCH 2018

Group

	Share capital £m	Cash flow hedge reserve £m	Income and expenditure reserve £m	Total capital and reserves £m
At 31 March 2016	-	(386.2)	1,541.9	1,155.7
Surplus for the year ending 31 March 2017	-	-	173.3	173.3
Other comprehensive income for the year	-	(9.2)	(10.2)	(19.4)
At 31 March 2017	-	(395.4)	1,705.0	1,309.6
Surplus for the year ending 31 March 2018	-	-	156.6	156.6
Other comprehensive income for the year	-	58.9	(6.0)	52.9
At 31 March 2018	-	(336.5)	1,855.6	1,519.1

Parent

	Share capital £m	Income and expenditure reserve £m	Total capital and reserves £m
At 31 March 2016	-	(16.4)	(16.4)
Other comprehensive income for the year ending 31 March 2017	-	(7.6)	(7.6)
Distribution-in-kind from Group undertaking (see note 28)	-	15.5	15.5
At 31 March 2017	-	(8.5)	(8.5)
Surplus for the year ending 31 March 2018	-	(1.3)	(1.3)
Distribution-in-kind from Group undertaking (see note 28)	-	0.1	0.1
At 31 March 2018	-	(9.7)	(9.7)

GROUP STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2018

	2018 £m	2017 £m
Surplus for the year	156.6	173.3
<i>Adjustment for working capital movements</i>		
Increase in stock	(63.3)	(35.3)
Increase in operating debtors	(3.6)	(7.2)
Increase/(decrease) in operating creditors	10.5	(4.5)
Pension contributions in excess of expense	(10.2)	(6.0)
	(66.6)	(53.0)
<i>Adjustment for non-cash items</i>		
Amortisation of government grants	(23.8)	(22.8)
Deferred tax (credit)/charge	(0.1)	2.5
Amortisation of intangible assets	4.7	6.8
Depreciation charge	100.0	93.6
Impairment charge	0.7	9.4
Gain on revaluation of investment properties	(1.6)	(17.2)
Other non-cash (decrease)/increase in provisions	(5.4)	6.9
	74.5	79.2
<i>Adjustment for financing or investment activities</i>		
Surplus on disposal of properties	(29.1)	(37.3)
Deficit/(surplus) on disposal of other fixed assets	2.2	(0.6)
Surplus on disposal of operations	-	(6.6)
Share of deficit/(surplus) of JCEAs	0.6	(5.5)
Net financing costs	146.7	143.4
	120.4	93.4
Net cash from operating activities	284.9	292.9
<i>Cash flows from investing activities</i>		
Proceeds from disposal of properties	56.0	90.0
Proceeds from disposal of other fixed assets	1.0	0.7
Interest received	3.0	5.1
Purchase of subsidiary (net of cash acquired)	(24.3)	-
Acquisition of intangible assets	(25.6)	(24.4)
Acquisition of social housing properties	(392.9)	(282.0)
Acquisition of non-housing fixed assets	(11.2)	(12.4)
Acquisition of investment properties	-	(3.1)
Repayment of investment by/(investment in) JCEAs	4.2	(25.2)
Distributions from JCEAs	1.8	17.2
Proceeds from disposal of other fixed asset investments	0.7	1.4
Increase in current asset investments	(1.3)	(9.1)
Social housing property grants received	9.5	7.6
Proceeds from disposal of operations (net of cash disposed)	-	38.0
Net cash from investing activities	(379.1)	(196.2)
<i>Cash flows from financing activities</i>		
Interest paid	(149.5)	(156.7)
Net borrowing of loans and bonds	259.4	66.6
Capital transaction costs paid	(1.3)	(4.4)
Net cash from financing activities	108.6	(94.5)
Net increase in cash and cash equivalents	14.4	2.2
Cash and cash equivalents at 1 April	168.5	166.3
Cash and cash equivalents at 31 March	182.9	168.5

The comparatives have been restated to move £71.1 million of cash inflows relating to the disposal of properties from operating activities to investing activities. See note 24 for the reconciliation of net debt.

Financial statements

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

1. Accounting policies

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including FRS 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland (March 2018) ("FRS 102"), the Housing SORP 2014: Statement of Recommended Practice for Social Housing Providers ("the SORP"), the Accounting Direction for Private Registered Providers of Social Housing 2015 ("the Accounting Direction") and the Co-operative and Community Benefit Societies Act 2014.

Clarion Housing Group Limited, and a number of its subsidiaries (see note 34) are public benefit entities.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to Clarion Housing Group Limited's consolidated ("Group") and individual ("Parent") financial statements.

Basis of preparation

The financial statements are prepared on an accruals basis and under the historical cost convention, with the exception of investment properties and certain financial instruments (as specified elsewhere) which are held at their fair value.

Going concern

On the basis of its assessment of the Group's financial position and resources, the Board believes that the Group is well placed to manage its business risks. Therefore the Group's Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for at least twelve months from the date of approval of the financial statements. Thus it continues to adopt the going concern basis in preparing the annual financial statements.

The Group, through its subsidiaries, has provided confirmation of support to Affinity Sutton Investments Limited ("ASIL"), Anglia Maintenance Services Limited, Downland Regeneration Limited, Latimer Green Lanes Limited and Leamington Waterfront LLP, and one of its joint ventures, Linden/Downland Graylingwell LLP. This confirmation of support is for at least twelve months after their financial statements for the year ended 31 March 2018 are signed, or until the company is struck off if earlier in the case of ASIL.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of all entities controlled by Clarion Housing Group Limited as at the reporting date, using aligned reporting periods and accounting policies, and using merger or acquisition accounting where appropriate.

Jointly controlled entities ("JCEs") and associates are separate legal entities. For JCEs, the Group shares control with other parties and strategic financial and operating decisions require unanimous consent. For associates, the Group has the right to participate in these decisions, but its consent is ultimately not required. Both are accounted for using the equity method, which reflects the Group's share of their profit or loss, other comprehensive income and equity.

Intra-group balances and transactions, including unrealised profits arising from intra-group transactions, are eliminated in full on consolidation.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the reporting date and the gains or losses on translation are included in the Income Statement.

Where foreign currency borrowings have been used to finance, or provide a hedge against, Group equity investments in foreign enterprises, exchange gains or losses on the borrowings, which would otherwise have been taken to the Income Statement, are offset as reserve movements against exchange differences arising on the re-translation of the net investments. This policy is applied to the extent that:

- a. in any accounting period, the exchange gains and losses arising on foreign currency borrowings are offset only to the extent of the exchange differences arising on the net investments in foreign enterprises; and
- b. the foreign currency borrowings, whose exchange gains or losses are used in the offset process, do not exceed, in aggregate, the total amount of cash that the net investments are expected to be able to generate.

On disposal of the foreign operation, the cumulative gain or loss on the hedging instrument relating to the effective portion of the hedge that has been accumulated in equity shall not be reclassified from equity to profit or loss.

Value Added Tax

For the majority of the Group's members, VAT affairs are dealt with under a Group registration in the name of Clarion Housing Group Limited. Turnover and other income are shown net of any VAT charged. As most of the Group's income comes from renting out residential property, which is exempt from VAT, the Group only recovers a small proportion of the input VAT it incurs, and expenditure is shown inclusive of irrecoverable VAT.

Leased assets

Where the Group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a "finance lease". A fixed asset is recognised while the future instalments due under the lease, net of interest payable, are included within creditors. Rentals payable are apportioned between the finance element, which is included in interest payable, and the capital element which reduces the outstanding creditor. This treatment likewise applies to sale and leaseback transactions where the Group sells an asset but then enters into a lease under which it retains substantially all the risks and rewards of ownership of said asset.

All other leases (including 'Temporary Market Rent Housing' leases) are accounted for as operating leases. The total rental payable is recognised on a straight-line basis over the lease term, with the exception that for some leases which commenced prior to transition to FRS 102 the lease incentives are recognised over the period ending on the first review date.

Turnover

Rent and service charge income is recognised on an accruals basis. Charges for support services funded under Supporting People are recognised as they fall due under the contractual arrangements with administering authorities. Other income is recognised as receivable on the delivery of services provided.

Social housing property grant is amortised over 100 years, starting from when the property is completed, in line with the Group's depreciation policy for the structure of rental-only social housing properties. This 100-year period also applies to grants relating to shared ownership properties, even though these properties are not depreciated. Grants receivable in respect of revenue are recognised in the same period(s) as the expenditure to which they relate.

Sales of properties are recognised on legal completion. Turnover includes receipts from the sale of properties developed for outright sale as well as the first tranches of shared ownership properties (see the 'Social housing properties, investment properties and stock' policy); subsequent staircasing receipts are included in disposals. Both the first tranche and staircasing receipts are calculated as the proportion of the property sold, multiplied by the market value determined at the time.

Cost of sales

Cost of sales comprises the cost of stock sold, as well as all marketing costs incurred in the year; the cost of further staircasing is included in disposals.

Depreciation and amortisation

With the exception of goodwill, all depreciation and amortisation is accounted for on a straight-line basis, reducing the cost of each asset to its residual value over its useful economic life, from the date the asset is available for use.

No depreciation is provided in respect of land or investment properties.

Goodwill:

Goodwill is amortised on a systematic basis over its useful life, with both the basis and life depending on the business combination which gave rise to the goodwill.

Other intangible assets

ERP system	10 years
Other computer software	4 years

Social housing properties

The cost of rental-only social housing properties (net of land) is split between the structure and the following other components which require periodic replacement. The cost of the existing components is depreciated over the following useful economic lives:

Structure	100 years
Bathrooms	30-35 years
Boilers	15 years
Other heating	30 years
Electrics	30-35 years
Kitchens	20-25 years
Lifts	15-25 years
Roofs – flat	15-20 years
Roofs – pitched	50-60 years
Windows and doors	30-35 years
Other	5-25 years

"Other" components include paving, fences, playgrounds, door entry systems, CCTV, insulation and solar panels.

For social housing properties held under leases, the remaining lease term is used as the useful life if this is shorter.

When components are replaced, the remaining net book value is expensed as depreciation, and the asset is disposed.

Shared ownership social housing properties are not broken down into components as their tenants are liable for any repairs, and they are not depreciated due to their high residual value.

Non-housing fixed assets

Freehold offices	100 years
Leasehold office properties	Over the period of the lease
Office furniture, fixtures and fittings	4-10 years
Computer equipment	4 years

Financial statements

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2018

1. Accounting policies continued

Impairment

Stock is stated at the lower of cost and estimated sales proceeds less selling costs and remaining construction costs.

Tenant and other debtors are assessed for recoverability at each reporting date.

For other assets an impairment review is undertaken when there is an indication that an asset may be impaired. Impairment is recognised when it is assessed that the carrying amount of that asset (or the cash generating unit, including goodwill, it belongs to) is higher than the recoverable amount, which is the higher of fair value less costs to sell and value in use. Where this is the case the higher of these two values is taken to be the new book value, and the difference is the impairment loss.

The Group's social housing properties are held for their social benefit rather than solely for the cash inflows they generate, therefore value in use is likely to be based on service potential rather than cash flows. However, those properties which are deemed not to be providing the Group with service potential, for example due to being in a poor condition or in an area of low demand, are not valued based on service potential.

After an impairment loss has been recognised, the recoverable amount of an asset or cash-generating unit may increase because of changes in: economic conditions; the circumstances that previously caused the impairment; or, the expected use of the asset(s). As a result, the carrying amount is adjusted to the lower of the new recoverable amount and the carrying amount that would have been determined had the original impairment not occurred, with the exception that the impairment of goodwill is not reversed.

Impairment relating to stock is included in cost of sales; impairment relating to other assets is included in operating costs.

Interest receivable, interest payable and financing costs

Interest receivable is only recognised to the extent that it is probable that it will be recoverable when due.

Interest payable is recognised over the term of the debt using the effective interest rate method so that the amount charged is at a constant rate on the carrying amount.

Transaction costs relating to the refinancing of existing debt are expensed as incurred unless there is a substantial modification of the terms. Transaction costs relating to financial instruments held at fair value are also expensed as incurred.

When social housing properties and stock are under active construction, interest payable is capitalised using the interest rate of the funds specifically used to finance the development, such as in the case of the properties developed by the Group's JCEs; otherwise, the weighted average interest rate of the Group's general borrowings is used.

Corporation tax

Many members of the Group almost wholly undertake charitable activities which are exempt from corporation tax. The remaining members, and the jointly controlled entities and associates in which the Group has a share, are liable to corporation tax at the prevailing rate of taxation.

Deferred tax is provided for in full on differences between the treatment of certain items for taxation and accounting purposes, unless the Group is able to control the reversal of the timing difference and it is probable that the timing difference will not reverse in the foreseeable future. Deferred tax is calculated using the tax rates and laws which have been enacted (given Royal Assent) or substantively enacted (passed by the House of Commons) by the reporting date and are expected to apply to the reversal of the timing difference.

With the exception of changes arising on the initial recognition of a business combination, the tax charge(/credit) is presented either in the Income Statement, Other Comprehensive Income or equity depending on the transaction that resulted in the tax charge(/credit).

Deferred tax assets are only recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax assets and liabilities are offset only where allowed by FRS 102, and likewise they are not discounted.

Goodwill

Goodwill arising on business combinations is initially measured as the acquisition cost less the share of the net amount of the acquiree's identifiable assets, liabilities and contingent liabilities, with fair values used where required and reliable. Following initial recognition, goodwill is measured at cost less accumulated amortisation and impairment losses.

Social housing properties, investment properties and stock

The Group generates revenue from properties in a number of ways, and the accounting treatment of the costs incurred varies accordingly:

- a. Most of the Group's housing properties are held for social benefit and the rent charged to the tenants is below or even significantly below market rates. These properties are shown as rental-only social housing properties .
- b. However, some housing properties are held to earn income at market rates and/or for capital appreciation, and these are treated as investment properties .
- c. The Group also develops housing properties for open market sale and these are shown as non- social stock .
- d. Housing properties developed for sale to another Registered Provider are shown as social stock .
- e. Shared ownership (also known as "low cost home ownership", or LCHO) is where, initially, a long lease on a property is granted through a sale to the occupier, in return for an initial payment (the "first tranche"). The occupier then has the right, but not the obligation, to purchase further shares ("staircase") until they own 100% of the property; they pay a subsidised rent on the portion of the property they don't own. The cost of the expected first tranche proportion of shared ownership properties is shown as social stock with the remainder included in shared ownership social housing properties .
- f. Non-residential properties such as retail units or offices, which are sometimes built as part of a residential development, are treated as investment properties if they are held for rental, or as non- social stock if they are developed for sale on a long lease (i.e. a premium is paid on completion, followed by a nominal rent).
- g. Mixed tenure schemes where the precise mix is yet to be finalised; investment properties under construction; and land without planning consent or grant allocation ("land bank") are included in social housing properties under construction .

In all cases, properties are initially stated at their directly attributable cost: this includes the cost of land, construction works and professional fees, as well as capitalised staff costs for those employees attributable to the development activity and interest. No staff or interest costs are capitalised on land banks.

The cost of completed rental-only social housing properties is split into components (see 'Depreciation and amortisation' policy). Major repairs are capitalised on a component level, to the extent that they are either a full replacement of the previous component, or an enhancement to the existing component which will reduce future repair costs, extend the life of the component or result in increased rental income. Major repairs are expensed as incurred in other circumstances. No provision is recognised for future planned and routine maintenance of these properties.

Investment properties are adjusted to fair value at each reporting date. Further expenditure relating to these properties, even if capital in nature, is expensed.

Interests in jointly controlled entities and associates

These are initially recognised at the amount of the investment made, including transaction costs, and subsequently adjusted to reflect the Group's share of the investee's net assets.

Public benefit concessionary loans

As a "public benefit entity group" (as defined by FRS 102), loans which are made as part of the Group's social housing objectives, at below-market rates of interest, and are not repayable on demand, qualify for treatment as public benefit entity concessionary loans. They are initially recorded at the amount lent and subsequently adjusted for accrued interest receivable less any impairment loss.

This treatment applies to the Group's equity loans (including those under the Homebuy scheme), where the amount to be repaid by the homeowner scales with the subsequent movement in the value of their property. It also applies to the arrangements which the Group has made with some tenants for payment of rent and service charge arrears, which are effectively loans granted at a zero interest rate.

Local authority housing transfers

Where an opportunity for the regeneration of local authority ("LA") social housing properties arises after a transfer request from tenants, the Group may seek to maximise the resources available for the regeneration by entering into a VAT shelter arrangement with the LA. In this circumstance, the transactions are accounted for on a gross basis: the Group's remaining obligation to refurbish the properties is shown as a creditor while the LA's remaining obligation to have the properties refurbished is included in debtors. The split between amounts due within one year and amounts due after more than one year reflects the expected timing of the remaining refurbishment works.

Social housing property grants

These grants - which have been provided by central and local government to part-fund the construction of the Group's social housing properties - are treated as deferred income, and amortised as per the 'Turnover' policy; the amount due to be amortised in the following year is included in creditors due within one year. The original amount granted may become repayable if the conditions of the grant are not complied with: for example, if the related properties cease to be used for the provision of affordable rental accommodation, or are sold on the open market. If there is no obligation to repay the grant on disposal of the assets, the remaining unamortised grant is credited against the cost of the disposal.

Grant in respect of shared ownership properties is allocated against the amount retained after the first tranche is sold.

Social housing property grants which the Group is entitled to and is reasonably certain of receiving are included in debtors while those received but not yet allocated to a development project are included in creditors.

Financial statements

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2018

1. Accounting policies continued

HomeBuy grants

Under the HomeBuy scheme, the Group received grants in order to advance interest-free loans to homebuyers. In the event that the homeowner sells the property, or otherwise wishes to repay the loan, the related grant is transferred to the Recycled Capital Grant Fund. However, if there is a fall in the value of the property and the Group receives back less than it lent, the difference is offset against the amount of grant transferred, so that the Group does not incur a loss.

Recycled Capital Grant Fund ("RCGF") and Disposal Proceeds Fund ("DPF")

The Group has the option to recycle social housing property grants - which would otherwise be repayable to either Homes England ("HE") or the Greater London Authority ("GLA"), depending on the location of the disposed property - to the RCGF. Likewise, it has the opportunity to recycle proceeds from sales under the Voluntary Purchase Grant Scheme, a substantial amount of which would otherwise be repayable, to the DPF. If the amounts set aside in this manner are not used to fund the development of new social housing within a three-year period, they again become repayable, with interest, unless a time extension or a waiver is received.

The amounts held within the funds which are not anticipated to be recycled, or become repayable, within one year are included under 'creditors due after more than one year'. The remainder is included under 'creditors due within one year'.

As a result of changes made by the Housing and Planning Act 2016, from 6 April 2017 the Group is no longer required to recycle any further proceeds to the DPF.

Non-derivative financial instruments

The Group applies the recognition and measurement provisions of IFRS 9 Financial Instruments, as allowed by FRS 102.

All investments, short-term deposits and loans held by the Group are initially measured at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs. The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price.

Where contractual cash flows meet the recognition requirements of IFRS 9, investments, short-term deposits and loans are subsequently measured at amortised cost, unless the difference between the historical cost and amortised cost basis is deemed immaterial. Amortised cost is calculated using the effective interest method which applies a rate of interest that exactly discounts estimated future cash payments or receipts (including any associated premium, discount or transaction costs) through the expected life of the financial instruments to the net carrying amount of the financial asset or liability. The current rate of LIBOR at the reporting date is used and assumed to be constant for the life of the loan. Loans and investments that are payable or receivable in one year are not discounted.

Where contractual cash flows do not meet the recognition requirements of IFRS 9, loans, investments and short-term

deposits are subsequently measured at fair value with gains or losses taken to the Income Statement.

Where loans and other financial instruments are redeemed during the year, a redemption penalty is recognised in the Income Statement of the year in which the redemption takes place, where applicable.

Tenant and other debtors and creditors are initially recognised at the transaction price, unless the arrangement constitutes a financing transaction and does not qualify for treatment as a concessionary loan, in which case the present value of the future receipts discounted at a market rate of interest is used.

Cash and cash equivalents include cash balances and call deposits, as well as short-term investments with an original maturity of three months or shorter. It also includes those overdrafts which are repayable on demand and form an integral part of the Group's cash management strategy.

Derivative financial instruments and hedge accounting

To manage interest rate risk, the Group manages its proportion of fixed to variable rate borrowings within approved limits and, where appropriate, utilises interest rate swap agreements. Amounts payable and receivable in respect of these agreements are recognised as adjustments to interest payable over the period of the agreement.

These derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Where considered appropriate, the Group applies hedge accounting and has designated each of the swaps against either existing drawn debt or against highly probable future debt. Hedges are classified as either:

- a. fair value hedges when hedging exposure to changes in the fair value of a recognised asset or liability; or
- b. cash flow hedges when hedging exposure to variability in cash flows that is attributable to either a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

Hedge relationships are formally designated and documented at inception, together with the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged, and how the Group will assess the hedging instrument effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.

*Derivative financial instruments and hedge accounting continued**Accounting for fair value hedges:*

The change in fair value of a hedging derivative is recognised in the Income Statement. The change in the fair value of the hedged item attributable to the risk being hedged is recorded as part of the carrying value of the hedged item and is also recognised in the Income Statement. The Group applies fair value hedge accounting when hedging interest rate risk on fixed rate borrowings. If the criteria for hedge accounting are no longer met, the accumulated adjustment to the carrying amount of a hedged item at such time is then amortised to the Income Statement over the remaining period to maturity.

Accounting for cash flow hedges:

To the extent the hedge is effective, movements in fair value adjustments, other than adjustments for own or counterparty credit risk, are recognised in Other Comprehensive Income and presented in a separate Cash Flow Hedge Reserve. Any movements in fair value relating to ineffectiveness and adjustments for own or counterparty credit risk are recognised in the Income Statement.

Where hedge accounting for a cash flow hedge is discontinued and the hedged future cash flows are still expected to occur, the amount that has been accumulated in the cash flow hedge reserve remains there until those future cash flows occur. If the hedged future cash flows are no longer expected to occur, that amount is immediately reclassified to the Income Statement.

Fair value:

All financial assets or liabilities at fair value are calculated using measurements based on inputs that are observable for the asset either directly or indirectly from prices.

Fair value is determined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. To calculate fair value, the Group uses:

- a. where they exist, quoted market prices in an active market for an identical asset or liability; or
- b. if a market for a financial instrument is not active, the Group will use a valuation technique that makes maximum use of market inputs and includes recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis, and option pricing models where in each case it is an acceptable valuation technique that incorporates all factors that market participants would consider in setting a price.

Derivative financial instruments are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates. As required by IFRS 13, there is also a bilateral credit valuation adjustment made in order to adjust for the credit worthiness of the counterparties involved in the trade.

Provisions and contingent liabilities

A provision is recognised where a present obligation has arisen as a result of a past event for which settlement is probable and can be reliably estimated. The amount recognised is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value using a pre-tax discount rate, and the subsequent unwinding of the discount is recognised as a finance cost.

A contingent liability, where settlement is not probable and/or cannot be reliably estimated, is not recognised unless it is identified as part of a business combination.

Pensions

The Group participates in a number of defined benefit and defined contribution pension schemes. The assets of these schemes are held separately to those of the Group.

For defined benefit schemes accounted for as defined benefit schemes, the net liability (or asset, to the extent it is recoverable) is calculated by estimating the amount of future benefit that employees have earned to date, discounted to present value, and deducting the fair value of the scheme's assets. Changes in this net defined benefit liability arising from employee service, introductions, benefit changes, curtailments and settlements during the period are recognised in operating costs. The net interest expense (or income) on the net liability (or asset) for the period is recognised as other finance cost (or income). Remeasurement of the net liability (or asset) is recognised as actuarial gains/losses in Other Comprehensive Income.

For multi-employer defined benefit plans where sufficient information was not available to use defined benefit accounting, defined contribution accounting was instead followed i.e. contributions are recognised as an expense as they fall due. Where such a scheme was in deficit and the Group had agreed to a deficit- funding arrangement, the Group recognised a liability for the net present value of the agreed deficit- funding contributions. The unwinding of this liability was recognised as a finance cost.

Other employee benefits

The Group recognises an accrual for unused annual leave which employees are entitled to carry forward and use within the next 12 months. This is measured at the salary cost payable for the period of absence.

Reserves

Where funds received by the Group are subject to external restrictions which specify how the funds must be used, a separate restricted reserve is recognised.

Financial statements

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2018

2. Significant judgements and accounting estimates

Significant judgements

With the exception of those relating to accounting estimates and uncertainty, the following significant judgements have been made in applying the Group's accounting policies:

- 1 The allocation of property development costs between tenures, between components for rental-only social housing properties, and between social housing properties and stock for shared ownership.
- 2 Determining which properties, which would otherwise be shown as social housing properties or non-housing fixed assets, meet the definition of investment properties.

The Group holds two material classes of investment properties:

- "market rent" residential properties which earn rental income at market rates; and
- non-residential properties, such as retail units or offices.

The Group's social housing properties are not classified as investment properties as they are held for their social benefit i.e. they are rented out at subsidised rates to eligible tenants.

Accounting estimates

The nature of estimation means that actual outcomes could differ from the estimates made. The following accounting estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities - and therefore the income and expenses recognised - within the next financial year:

- 1 The useful economic lives ("UELs") of rental-only social housing properties.

The Group believes that the UELs used are reasonable based on its experience. The most material assumptions are the UELs of rental-only social housing property components: these were reviewed in early 2017 as a result of the merger, with the input of the Group's repairs and maintenance staff, and were benchmarked against the UELs disclosed by other English Registered Providers.

Using these UELs, the accumulated depreciation at the reporting date was £879.2 million. Were each of the UELs shorter by one year, this figure would be approximately £907.9 million, reducing the NBV of social housing properties by £28.7 million.

Conversely, included in liabilities is £2,107.4 million of social housing property grants. As their amortisation rate is matched to the UEL of the structure component, a reduction of one year would have reduced the liability by £3.1 million, leading to a net reduction in assets of £25.6 million (1.7% of net assets).

- 2 The valuation of residential investment properties.

At the reporting date, the Group holds £170.5 million of residential investment properties, of which £150.9 million relates to market rent properties valued by Savills plc.

The most significant assumptions made for the properties valued by Savills are:

- Vacant possession values: a 10% fall in these would reduce the value of these properties by £12.2 million.
- Market rents: a 10% fall in these would reduce the value of these properties by £9.9 million.
- Discount rates: the rate used ranged between 7% and 7.25%. Increasing this range by 0.5% would reduce the value of these properties by £3.4 million.

- 3 The fair value of derivative financial instruments.

At the reporting date, the Group has a £320.8 million net liability in respect of interest rate swaps. These have been valued using discounted cash flow models, for which the main assumption is the interest rate yield curve used.

The curve used has been based on the government yield curve at the reporting date, plus an appropriate credit spread, giving a range of 2.09% to 6.13%. Decreasing this curve by 100 basis points would increase the net liability by £135.7 million (8.9% of net assets).

Note: as most of the Group's derivatives are accounted for as cash flow hedges, almost all of the in-year impact of any change would be included in other comprehensive income, depending on the effectiveness of the hedging relationship.

- 4 The valuation of defined benefit pension scheme obligations.

A number of critical underlying assumptions are made when measuring a defined benefit obligation, including standard rates of inflation, mortality, discount rates and the anticipation of future salary levels.

The range of assumptions used by the individual schemes of which the Group is a member are shown in note 28. Combining sensitivity analysis which most of the schemes' actuaries have provided, the estimated impact of changing the material assumptions would be as follows:

- Decreasing the discount rate by 0.1% would increase the obligation by £7.9 million;
- Increasing the pension increase assumption by 0.1% would increase the obligation by £7.6 million; and
- Increasing the assumed life expectancy by 1 year would increase the obligation by £11.0 million.

Note: as these are changes in actuarial assumptions, almost all of the in-year impact of any change would be included in other comprehensive income.

3. Units under management

<i>Group</i>	At 1 April 2017	Handed over	Net conversion to affordable	Other movements	At 31 March 2018
<i>Social housing</i>					
Social rent	77,022	31	(21)	109	77,141
Affordable rent	11,373	539	24	(41)	11,895
General needs	88,395	570	3	68	89,036
Supported	1,542	-	-	92	1,634
Housing for older people	7,392	-	-	(43)	7,349
Shared ownership	7,239	468	-	(187)	7,520
Intermediate rent	786	-	(3)	(4)	779
Keyworker	738	-	-	12	750
Social leaseholders	9,710	-	-	99	9,809
Staff accommodation	150	-	-	(7)	143
Social homes under management	115,952	1,038	-	30	117,020
<i>Non-social housing</i>					
Market rent	869	-	-	(25)	844
Non-social leaseholders	5,642	199	-	83	5,924
Homes under management	122,463	1,237	-	88	123,788
<i>Non-housing</i>					
Garages and car parking spaces	11,074	-	-	(359)	10,715
Commercial leaseholders	230	-	-	67	297
Community centres	76	-	-	(2)	74
Units under management	133,843	1,237	-	[206]	134,874
Units owned but not managed	2,109	26	-	[45]	2,090

Other movements primarily relate to disposals.

Financial statements
NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2018

4. Turnover, cost of sales, operating costs, surplus on disposal of properties and operating surplus/deficit

4a. Particulars of turnover, cost of sales, operating costs, surplus on disposal of properties and operating surplus/deficit

<i>Group</i>	2018					2017	
	Turnover £m	Cost of sales £m	Operating costs £m	Surplus/ (deficit) on disposal £m	Operating surplus/ (deficit) £m	Turnover £m	Operating surplus/ (deficit) £m
<i>Social housing activities</i>							
Social housing lettings (note 4b)	681.7	-	(435.0)	-	246.7	669.9	231.1
Shared ownership first tranche sales	54.9	(37.6)	(0.8)	-	16.5	51.9	22.3
Other social housing activities							
Care and support services	17.3	-	(15.7)	-	1.6	18.4	0.8
Development for other landlords	7.0	(7.0)	-	-	-	2.3	-
Development costs not capitalised	-	-	(6.3)	-	(6.3)	-	(7.1)
Community investment	1.0	-	(10.8)	-	(9.8)	1.1	(6.8)
Other	4.5	-	(4.0)	-	0.5	5.1	(13.1)
Total	29.8	(7.0)	(36.8)	-	(14.0)	26.9	(26.2)
Surplus on disposal of social housing properties	-	-	-	29.2	29.2	-	32.6
Total social housing activities	766.4	(44.6)	(472.6)	29.2	278.4	748.7	259.8
<i>Non-social housing activities</i>							
Open market sales	42.3	(28.8)	(1.0)	-	12.5	24.4	7.4
Other non-social housing activities							
Market rent lettings	9.7	-	(2.4)	-	7.3	13.2	8.4
Garage lettings	2.9	-	(1.2)	-	1.7	2.8	1.7
Commercial lettings	3.4	-	(1.0)	-	2.4	3.8	1.4
Reversal of JCE loan impairment	-	-	-	-	-	-	4.4
Other	3.9	-	(0.7)	-	3.2	2.7	1.7
Total	19.9	-	(5.3)	-	14.6	22.5	17.6
(Deficit)/surplus on disposal of investment properties	-	-	-	(0.1)	(0.1)	-	4.7
Total non-social housing activities	62.2	(28.8)	(6.3)	(0.1)	27.0	46.9	29.7
Total social and non-social housing activities	828.6	(73.4)	(478.9)	29.1	305.4	795.6	289.5
Analysis of disposals							
Social housing properties	60.8	(31.1)	(0.5)	29.2	29.2	74.4	32.6
Investment properties	-	-	(0.1)	(0.1)	(0.1)	23.8	4.7
Other fixed assets	0.3	(2.5)	-	(2.2)	(2.2)	1.1	0.6

Parent

Turnover includes corporate recharges to operating companies (see note 35) and other revenue grants.

The cost of providing repairs to other Group members is shown as cost of sales.

4b. Particulars of income and expenditure from social housing lettings

<i>Group</i>	General needs housing £m	Supported housing/ housing for older people £m	Shared ownership accommodation £m	Other £m	Total 2018 £m	Total 2017 £m
Income						
Rent receivable net of identifiable service charges	523.5	44.4	26.3	11.6	605.8	596.9
Service charge income	20.7	11.3	7.4	12.1	51.5	49.1
Amortisation of government grants	20.3	1.8	1.3	0.4	23.8	22.8
Other revenue grants/income	0.4	0.1	0.1	-	0.6	1.1
Turnover from social housing lettings	564.9	57.6	35.1	24.1	681.7	669.9
Expenditure						
Management	(61.9)	(14.5)	(1.5)	(3.8)	(81.7)	(81.8)
Service charge costs	(23.7)	(13.4)	(8.0)	(12.6)	(57.7)	(60.2)
Routine maintenance	(109.6)	(9.1)	(0.3)	(2.8)	(121.8)	(127.7)
Planned maintenance	(46.0)	(1.4)	(0.3)	(0.2)	(47.9)	(51.2)
Major works expensed	(23.3)	(1.3)	(0.2)	(0.1)	(24.9)	(24.3)
Bad debts	(3.8)	(0.3)	-	(1.1)	(5.2)	(4.5)
Depreciation of housing properties	(86.2)	(6.1)	-	(0.9)	(93.2)	(88.3)
Impairment of housing properties	(0.7)	-	-	-	(0.7)	-
Other costs	(0.5)	(0.1)	(0.1)	(1.2)	(1.9)	(0.8)
Operating costs on social housing lettings	(355.7)	(46.2)	(10.4)	(22.7)	(435.0)	(438.8)
Operating surplus on social housing lettings	209.2	11.4	24.7	1.4	246.7	231.1
Void losses	5.4	2.3	0.2	0.8	8.7	9.8

Other includes intermediate rent, keyworker, and social leaseholders.

The amounts for 2017 have been restated to separate out "major works expensed", which was previously included in "planned maintenance".

Enil (2017: £0.1 million) of depreciation relating to garages is included in note 4a.

Void losses represent rental income lost as a result of an available-for-letting property not being let.

Financial statements
NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2018

5. Employees

The average monthly number of full-time equivalents ("FTEs") employed during the year, including members of the Group Executive Team, was as follows:

	Group 2018 Number	2017 Number	Parent 2018 Number	2017 Number
FTEs	3,527	3,544	742	1,209

FTEs are based on a standard working week, which varies between 35 and 42 hours, but is 36 hours for most employees, including most of the Parent's. The reduction in the Parent's FTEs from the prior year is due to the intragroup transfer of employees to Clarion Housing Association Limited which took place in the prior year.

	Group 2018 £m	2017 £m	Parent 2018 £m	2017 £m
<i>Staff costs</i>				
Wages and salaries	128.0	123.8	28.1	42.5
Compensation for loss of office	1.7	7.3	0.3	5.1
Social security costs	12.8	12.4	3.0	4.4
Pension costs	9.4	8.3	1.6	3.0
	151.9	151.8	33.0	55.0

A number of subsidiaries employ some of their staff directly; the remaining employees are employed by the Parent and their costs recharged (see note 35). As stated above, most of the staff previously employed by the Parent are now employed by Clarion Housing Association Limited.

The number of employees, including Executive Directors, whose total remuneration (excluding employer pension contributions, or pay in lieu thereof, but including compensation for loss of office) exceeds £60,000 per annum is as follows:

	Group 2018 Number	2017 Number
£60,000 to £69,999	57	67
£70,000 to £79,999	42	48
£80,000 to £89,999	48	41
£90,000 to £99,999	16	10
£100,000 to £109,999	5	19
£110,000 to £119,999	3	11
£120,000 to £129,999	8	4
£130,000 to £139,999	4	1
£140,000 to £149,999	5	1
£150,000 to £159,999	1	2
£160,000 to £169,999	-	2
£170,000 to £179,999	1	-
£180,000 to £189,999	-	1
£190,000 to £199,999	2	2
£200,000 to £209,999	1	-
£220,000 to £229,999	1	2
£230,000 to £239,999	-	1
£240,000 to £249,999	-	2
£250,000 to £259,999	1	-
£260,000 to £269,999	1	-
£300,000 to £309,999	-	1
£370,000 to £379,999	-	1
£390,000 to £399,999	1	-
Total	197	216

Financial statements
NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2018

6. Key management personnel

The Directors are defined as members of the Board, and any other person who is a member of the Group Executive Team.

	2018 £'000	2017 £'000
Non-Executive Directors	313	261
<i>Executive Directors</i>		
Salary and other benefits	1,819	2,568
Compensation for loss of office	229	171
Pension contributions, or pay in lieu thereof, in respect of services as directors	160	247
	2,208	2,986
	2,521	3,247
	2018 £	2017 £
The remuneration of current Non-Executive Directors is as follows:		
Neil Goulden	45,000	35,500
Sue Killen	34,000	14,333
David Avery	33,457	16,300
Helen Bailey	22,500	10,625
Tania Brisby	23,000	18,227
John Coghlan	16,558	-
Greg Reed	13,246	-
Rupert Sebag-Montefiore	33,115	-
Brian Stewart OBE	23,000	19,547
	2018 £	2017 £
Remuneration of highest paid Director (excluding pension contributions, or pay in lieu thereof but including benefits in kind)	397,576	376,199
Pension contributions, or pay in lieu thereof, in respect of the highest paid Director	16,908	14,548

The Directors are considered the key management personnel for the purposes of FRS 102.

7. Interest receivable

	Group		Parent	
	2018 £m	2017 £m	2018 £m	2017 £m
Interest receivable on bank deposits	1.1	1.1	0.3	0.6
Interest receivable from Group undertakings	-	-	3.0	6.1
Interest receivable from participating interests	1.9	2.0	-	-
Other interest receivable	-	2.0	-	-
	3.0	5.1	3.3	6.7

8. Interest payable and financing costs

	Group		Parent	
	2018 £m	2017 £m	2018 £m	2017 £m
Interest payable on loans	35.6	30.4	-	-
Interest payable on bonds and similar instruments	73.2	73.2	-	-
Interest payable on derivatives	44.2	42.1	-	-
Interest payable on finance leases	0.5	0.5	-	-
Interest payable to Group undertakings	-	-	4.7	3.8
Interest payable relating to pensions (see notes 27 and 28)	2.1	2.2	-	0.2
Other interest payable	-	0.4	-	-
Loan breakage costs	-	0.2	-	-
Other charges	3.3	6.9	0.3	1.5
	158.9	155.9	5.0	5.5
Interest payable capitalised	(11.7)	(11.0)	-	-
	147.2	144.9	5.0	5.5

The Group's weighted average interest rate for general borrowings was 3.84% (2017: 4.44%).

Interest payable on the Group's private placements is now included in "bonds and similar instruments", and the 2017 figures have been restated to move the £5.0 million interest charge on these instruments from "loans".

Financial statements
NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2018

9. Movement in fair value of financial instruments

<i>Group</i>	2018 £m	2017 £m
<i>Included in income and expenditure</i>		
<i>Fair value gains on</i>		
Borrowings treated as fair value hedging item	2.3	-
Derivatives treated as fair value hedging instruments	-	3.4
Derivatives not in hedging relationships	-	0.4
	2.3	3.8
<i>Fair value losses on</i>		
Borrowings treated as fair value hedging item	-	(4.6)
Derivatives treated as fair value hedging instruments	(3.3)	-
Derivatives treated as cash flow hedging instruments - due to changes in credit risk	(0.4)	(2.8)
Derivatives not in hedging relationships	(1.1)	-
	(4.8)	(7.4)
	(2.5)	(3.6)
	2018 £m	2017 £m
<i>Included in other comprehensive income</i>		
<i>Fair value gains on</i>		
Derivatives treated as cash flow hedging instruments - effective	58.9	-
<i>Fair value losses on</i>		
Derivatives treated as cash flow hedging instruments - effective	-	(9.2)
	58.9	(9.2)

See note 26 for an explanation of the Group's hedging activities.

10. Surplus/deficit on ordinary activities before taxation

	Group		Parent	
	2018 £m	2017 £m	2018 £m	2017 £m
<i>Surplus/deficit on ordinary activities before taxation is stated after charging/ (crediting):</i>				
<i>Amortisation</i>				
Goodwill	1.4	0.3	-	-
Other intangible assets	3.3	6.8	2.9	6.5
	4.7	7.1	2.9	6.5
<i>Depreciation</i>				
Social housing properties	93.2	88.4	-	-
Non-housing fixed assets	6.8	7.0	5.2	5.1
	100.0	95.4	5.2	5.1
<i>Impairment: charge/(reversal)</i>				
Other intangible assets	-	13.8	-	13.8
Social housing properties	0.7	-	-	-
Other fixed asset investments	-	(4.4)	-	-
	0.7	9.4	-	13.8
Operating lease rentals	7.2	7.3	5.5	5.3
	2018 £m	2017 £m	2018 £m	2017 £m
<i>Auditor's remuneration (exclusive of VAT)</i>				
- for statutory audit services	0.4	0.4	0.1	-
- for other services	0.1	0.3	-	0.2
	0.5	0.7	0.1	0.2

Financial statements
NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2018

11. Taxation

	Group		Parent	
	2018	2017	2018	2017
	£m	£m	£m	£m
<i>Analysis of charge in period</i>				
Current tax:				
Current tax on income for the period	1.0	0.3	-	0.1
Adjustment in respect of prior periods	-	(0.1)	-	-
	1.0	0.2	-	0.1
Deferred tax:				
Change in tax rate	-	(0.2)	-	-
Adjustments in respect of prior periods	-	4.2	-	2.7
	-	4.0	-	2.7
	1.0	4.2	-	2.8
Recognised in income and expenditure	0.9	2.7	-	1.3
Recognised in other comprehensive income	0.1	1.5	-	1.5
	1.0	4.2	-	2.8

The tax charge for the Group for the period is less than 19% (2017: less than 20%), the rate of corporation tax in the UK. The tax charge for the Parent for the period is greater than 19% (2017: greater than 20%), the rate of corporation tax in the UK. The differences are explained below:

	Group		Parent	
	2018	2017	2018	2017
	£m	£m	£m	£m
<i>Reconciliation of tax recognised in income and expenditure</i>				
Surplus/(deficit) on ordinary activities before taxation	157.5	176.0	(1.3)	1.3
Tax charge/(credit) at 19% (2017: 20%)	29.9	35.2	(0.2)	0.3
Effects of:				
Charitable surpluses not taxed	(29.0)	(31.7)	0.2	(0.7)
Other Group members not subject to UK corporation tax	-	0.2	-	-
Depreciation in excess of capital allowances	-	(3.7)	-	(3.7)
Deferred tax asset not recognised on losses carried forward	-	6.9	-	5.2
Adjustment in respect of prior periods	-	(0.1)	-	-
Deferred tax transfer to income and expenditure	-	(0.1)	-	-
Tax due on share of JCEA profits	-	-	-	0.2
Remeasurement of deferred tax due to change in UK tax rate	-	(0.2)	-	-
Divestment from shares in Group	-	(3.8)	-	-
	0.9	2.7	-	1.3

During the prior year, Circle Anglia Limited (which later merged with Affinity Sutton Group Limited to form the Parent) gained charitable status. As a result of this, the Parent's tax reconciliation for the current year is much simpler. Additionally, the Group's divestment from Landericus took place in the prior year.

The change in the rate of UK corporation tax to 17% from 1 April 2020 was substantively enacted by the reporting date.

	Group 2018 £m	2017 £m	Parent 2018 £m	2017 £m
<i>Deferred tax</i>				
<i>Deferred tax assets</i>				
Employee benefits (including pensions)	0.3	0.4	-	-
Unused tax losses	-	0.1	-	-
Other	0.1	0.1	-	-
	0.4	0.6	-	-
<i>Deferred tax liabilities</i>				
Unrealised gains on revaluation of investment properties	(1.0)	(1.2)	-	-
	(0.6)	(0.6)	-	-

Deferred tax liabilities have been recognised for the difference between the fair value and the historic cost of Grange Management (Southern) Limited's Investment properties, as it does not have charitable status and so the disposal of these properties will give rise to a tax charge based on the historic cost. The amount of deferred tax which will reverse in the following year depends on the future movement in the valuation and the properties disposed, neither for which a reliable estimate can be made.

12. Goodwill

Group

	£m
At 1 April 2017	6.3
Recognised on acquisitions	(0.4)
Amortisation	(1.4)
At 31 March 2018	4.5

Goodwill relates to the acquisitions of Leamington Waterfront LLP and Latimer Green Lanes Limited ("LGL"), and is being amortised over the life of the development schemes as properties are sold.

The Group acquired the entire issued share capital of LGL on 7 April 2017, generating £0.4 million of negative goodwill (which is immaterial and so has been offset against positive goodwill):

	Book value £m	Adjustment £m	Fair value £m
Stock	19.3	5.1	24.4
Debtors due within one year	0.3	-	0.3
Total identifiable net assets	19.6	5.1	24.7
Consideration for shares			3.5
Loan from Group to LGL to settle LGL's existing borrowings			20.3
Directly attributable costs			0.5
Total consideration			24.3

Following acquisition, LGL has not contributed any material amounts to the Group Statement of Comprehensive Income.

Financial statements
NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2018

13. Other intangible assets

Group

	Enterprise resource planning system £m	Other computer software £m	Total £m
Cost			
At 1 April 2017	23.6	37.4	61.0
Additions	24.2	1.7	25.9
Reclassification between categories	0.1	(0.1)	-
Transfer to non-housing fixed assets	-	(0.4)	(0.4)
Disposals	-	(18.0)	(18.0)
At 31 March 2018	47.9	20.6	68.5
Amortisation			
At 1 April 2017	-	(27.8)	(27.8)
Amortisation charge for the year	-	(3.3)	(3.3)
Eliminated on disposals	-	17.7	17.7
At 31 March 2018	-	(13.4)	(13.4)
Net book value			
At 31 March 2018	47.9	7.2	55.1
Net book value			
At 31 March 2017	23.6	9.6	33.2

During the year £16.6 million of fully-depreciated assets were written off through disposals.

Parent

	Enterprise resource planning system £m	Other computer software £m	Total £m
Cost			
At 1 April 2017	23.6	30.6	54.2
Additions	24.2	1.4	25.6
Reclassification between categories	0.1	(0.1)	-
Transfer to non-housing fixed assets	-	(0.4)	(0.4)
Disposals	-	(16.4)	(16.4)
At 31 March 2018	47.9	15.1	63.0
Amortisation			
At 1 April 2017	-	(22.1)	(22.1)
Amortisation charge for the year	-	(2.9)	(2.9)
Eliminated on disposals	-	16.2	16.2
At 31 March 2018	-	(8.8)	(8.8)
Net book value			
At 31 March 2018	47.9	6.3	54.2
Net book value			
At 31 March 2017	23.6	8.5	32.1

During the year £15.0 million of fully-depreciated assets were written off through disposals.

Financial statements
NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2018

14. Social housing properties

<i>Group</i>	Completed		Under construction		Total £m
	Rental-only £m	Shared ownership £m	Rental-only £m	Shared ownership £m	
<i>Cost</i>					
At 1 April 2017	6,482.1	601.8	147.4	85.3	7,316.6
Construction/redevelopment of properties	-	-	165.6	106.2	271.8
Major repairs to completed properties	118.6	-	-	-	118.6
Other additions	17.8	-	-	-	17.8
Completed construction	117.6	73.2	(117.6)	(73.2)	-
Reclassification between tenures	-	-	10.8	(10.8)	-
Transfer to investment properties	-	-	(1.7)	-	(1.7)
Transfer to stock	-	-	(0.9)	-	(0.9)
Components replaced	(13.3)	-	-	-	(13.3)
Other disposals	(10.3)	(16.2)	(2.8)	(0.5)	(29.8)
At 31 March 2018	6,712.5	658.8	200.8	107.0	7,679.1
<i>Depreciation and impairment</i>					
At 1 April 2017	(799.0)	(13.5)	(0.9)	-	(813.4)
Depreciation charge for the year	(93.2)	-	-	-	(93.2)
Impairment charge for the year	(0.7)	-	-	-	(0.7)
Completed construction	(0.9)	-	0.9	-	-
Eliminated on components replaced	13.3	-	-	-	13.3
Eliminated on other disposals	1.3	0.3	-	-	1.6
At 31 March 2018	(879.2)	(13.2)	-	-	(892.4)
Net book value					
At 31 March 2018	5,833.3	645.6	200.8	107.0	6,786.7
Net book value					
At 31 March 2017	5,683.1	588.3	146.5	85.3	6,503.2

Completed properties with a combined net book value of £3,900.3 million (2017: £3,780.2 million) are held as security against debt and derivatives (see notes 24 and 26), £12.9 million (2017: £12.1 million) of which relates to assets held under finance leases.

15. Investment properties

Group

	Residential properties £m	Non- residential properties £m	Freeholds £m	Total £m
At 1 April 2017	169.4	53.7	5.2	228.3
Transfer from social housing properties	-	1.7	-	1.7
Revaluation	1.1	0.9	(0.4)	1.6
At 31 March 2018	170.5	56.3	4.8	231.6

All residential properties, the majority of the commercial properties, and all freeholds were valued as at 31 March 2018 by either Jones Lang LaSalle or Savills, Chartered Surveyors, on the basis of Market Value, as defined in "RICS Valuation - Professional Standards" (July 2017).

The value of the remaining commercial properties has been estimated internally, using Jones Lang LaSalle's valuation results as a guide, as £2.2 million (2017: £2.2 million).

Investment properties with a combined fair value of £145.4 million (2017: £146.1 million) are held as security against debt and derivatives (notes 24 and 26).

16. Non-housing fixed assets

Group

	Freehold and leasehold offices £m	Office furniture, fixtures and fittings £m	Computer hardware £m	Total £m
Cost				
At 1 April 2017	39.6	34.5	39.4	113.5
Additions	5.2	2.3	3.9	11.4
Reclassification between categories	(0.2)	0.7	(0.5)	-
Transfer from other intangible assets	-	-	0.4	0.4
Disposals	(2.5)	(15.4)	(22.0)	(39.9)
At 31 March 2018	42.1	22.1	21.2	85.4
Depreciation				
At 1 April 2017	(13.2)	(20.4)	(30.9)	(64.5)
Depreciation charge for the year	(0.9)	(2.6)	(3.3)	(6.8)
Reclassification between categories	0.3	(0.1)	(0.2)	-
Eliminated on disposals	1.8	13.5	21.7	37.0
At 31 March 2018	(12.0)	(9.6)	(12.7)	(34.3)
Net book value				
At 31 March 2018	30.1	12.5	8.5	51.1
Net book value				
At 31 March 2017	26.4	14.1	8.5	49.0

During the year £34.9 million of fully-depreciated assets were written off through disposals.

Financial statements
NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2018

16. Non-housing fixed assets continued

Parent

	Freehold and leasehold offices £m	Office furniture, fixtures and fittings £m	Computer hardware £m	Total £m
Cost				
At 1 April 2017	2.8	20.1	24.3	47.2
Additions	0.1	2.2	4.5	6.8
Reclassification between categories	-	(0.5)	0.5	-
Transfer from other intangible assets	-	-	0.4	0.4
Transfer to other Group members	-	-	(0.3)	(0.3)
Disposals	(0.3)	(7.8)	(11.2)	(19.3)
At 31 March 2018	2.6	14.0	18.2	34.8
Depreciation				
At 1 April 2017	(1.2)	(7.5)	(16.8)	(25.5)
Depreciation charge for the year	(0.3)	(1.8)	(3.1)	(5.2)
Reclassification between categories	0.1	0.2	(0.3)	-
Eliminated on disposals	-	6.1	10.1	16.2
At 31 March 2018	(1.4)	(3.0)	(10.1)	(14.5)
Net book value				
At 31 March 2018	1.2	11.0	8.1	20.3
Net book value At 31 March 2017	1.6	12.6	7.5	21.7

During the year £14.9 million of fully-depreciated assets were written off through disposals.

17. Interests in JCEs and associates

Group

As detailed in note 34, the Group is a member of a number of jointly controlled entities ("JCEs"). It also had one associate (Mayfield Market Towns Limited), but during the year the Group increased its interest from 30% to 50%, making it another JCE.

The amounts included in respect of the Group's share of JCEs and associates comprise the following:

	2018 £m	2017 £m
Turnover	21.1	32.4
Cost of sales	(21.0)	(26.9)
Operating surplus	0.1	5.5
Interest payable	(0.7)	(0.6)
(Deficit)/surplus for the year	(0.6)	4.9
Assets	128.5	131.2
Liabilities	(133.8)	(129.0)
Net (liabilities)/assets	(5.3)	2.2
Investment in JCEs and associates	90.7	89.8
Interest in JCEs and associates	85.4	92.0

The format of the Group's Statement of Comprehensive Income ("SOI") has been amended and now shows the Group's share of the surplus/deficit of JCEAs, as required by FRS 102. In prior years, as suggested by the SORP, the Group's share of the operating surplus/deficit was included, with the Group's share of JCEAs' interest and tax consolidated on a line-by-line basis. Because in the prior year these non-operating items were restricted to an immaterial £0.6 million of interest payable, the prior year has not been restated, and the prior year figure in the SOI corresponds to operating surplus.

In accordance with FRS 102, the results for the year have been adjusted to eliminate any amounts in relation to sales of properties to other members of the Group. Likewise, the amounts above are also adjusted as necessary to be in line with Group accounting policies: in the case of Farm Lane and City Road, sales are only recognised on legal completion; in the case of York Road, Graylingwell, Ramsden and Wilmington, eligible interest costs are capitalised; and in all cases, prepaid marketing costs are expensed as incurred.

Included in 'Investment in JCEs and associates' are loans from the Group totalling £89.9 million (2017: £89.6 million).

These loans include £33.9 million (2017: £35.4 million) for amounts lent to Linden/Downland Graylingwell LLP, on which interest is currently charged at the Bank of England base rate plus 3.5%. However, since 1 April 2012 no interest has been recognised by the Group based on its assessment of the recoverability of the capital and interest, and the cumulative amount not included in the above balance is £24.2 million (2017: £21.7 million). Additionally, the amounts lent to this LLP are stated net of a £6.2 million impairment which was recognised in previous years (2017: £6.2 million); £nil of impairment was reversed this year as a result of reviewing the LLP's profit forecasts (2017: £4.4 million).

Development agreements for the construction of residential property are in place between the Group and some of its JCEs and associates. The amount of construction works provided in the year was £3.2 million (2017: £3.0 million) and £0.1 million is included in creditors at the reporting date (2017: £0.3 million).

During the year, the Group received profit distributions of £1.8 million from its JCEs and associates (2017: £17.2 million).

Financial statements
NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2018

18. Other fixed asset investments

<i>Group</i>	2018 £m	2017 £m
Equity loans including HomeBuy	13.6	14.4
Other investments	0.2	0.1
	13.8	14.5

Equity loans are secured against the properties to which they relate. Where interest is charged, this is at 1.75% from the fifth anniversary, increasing annually by RPI plus 1%. With the exception of some loans, where repayment is required between the 10th and 25th anniversary, repayment is deferred until the related property is sold, or the homeowner decides to make voluntary repayment.

<i>Parent</i>	2018 £m	2017 £m
Igloo Insurance PCC Limited (Cell ASG2)	0.4	0.4
Circle Anglia Social Housing plc	0.1	0.1
Clarion Housing Association Limited	0.8	0.8
	1.3	1.3

The Parent's investment in Circle Thirty Three Housing Trust Limited is now an investment in Clarion Housing Association Limited following the amalgamation which took place on 2 January 2018.

19. Stock

<i>Group</i>	Under construction		Completed properties		Total £m
	Social £m	Non-social £m	Social £m	Non-social £m	
At 1 April 2017	40.2	101.3	14.2	15.9	171.6
Additions	48.1	105.9	-	-	154.0
Properties completed	(35.9)	(43.2)	35.9	43.2	-
Transfer from social housing properties	0.9	-	-	-	0.9
Properties sold	-	-	(35.1)	(27.4)	(62.5)
At 31 March 2018	53.3	164.0	15.0	31.7	264.0

Non-social additions includes £24.4 million relating to the acquisition of Latimer Green Lanes Limited (see note 12).

20. Debtors

	Group		Parent	
	2018 £m	2017 £m	2018 £m	2017 £m
<i>Amounts falling due within one year</i>				
Rents and service charges arrears	60.9	50.7	-	-
Impairment	(24.2)	(17.5)	-	-
	36.7	33.2	-	-
Amounts due from Group undertakings: loans and cash pooling	-	-	51.7	32.7
Local authority housing transfers	14.2	12.5	-	-
Prepayments and accrued income	21.8	17.1	8.2	7.3
Deferred tax assets (see note 11)	-	0.6	-	-
Amounts due from Group undertakings: trading	-	-	6.5	34.7
Other debtors	11.2	16.7	0.4	1.8
	83.9	80.1	66.8	76.5
<i>Amounts falling due after one year</i>				
Amounts due from Group undertakings: loans	-	-	35.6	98.1
Local authority housing transfers	116.1	128.2	-	-
Derivative financial assets (see note 26)	7.3	11.8	-	-
Deferred tax assets (see note 11)	0.4	-	-	-
Other debtors	1.3	0.1	0.1	0.1
	125.1	140.1	35.7	98.2

21. Current asset investments

<i>Group</i>	2018 £m	2017 £m
Collateral deposits	111.2	108.5
Cash held on deposit	1.3	2.7
	112.5	111.2

Collateral deposits represent cash that the Group has had to place with derivative counterparties, as a result of the derivative fair values being sufficiently "out of the money" that the Group's liability exceeds an agreed amount.

Funds held by Igloo, the Group's insurance vehicle, have been invested on a short-term basis. At the reporting date, £1.3 million (2017: £2.7 million) is invested in various Certificates of Deposit, which mature over the course of 2018.

Financial statements
NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2018

22. Creditors: amounts falling due within one year

	Group		Parent	
	2018	2017	2018	2017
	£m	£m	£m	£m
<i>Debt (see note 24)</i>				
Bank loans and bonds	68.5	79.2	-	-
Obligations under finance leases	0.1	0.1	-	-
Amounts due to Group undertakings: loans and cash pooling	-	-	107.7	133.7
	68.6	79.3	107.7	133.7
<i>Capital grants (see note 25)</i>				
Social housing property grants	23.1	23.0	-	-
Recycled Capital Grant Fund	7.8	7.2	-	-
Disposal Proceeds Fund	2.2	3.1	-	-
	33.1	33.3	-	-
<i>Other creditors</i>				
Trade creditors	11.9	6.6	2.0	1.4
Local authority housing transfers	14.2	12.5	-	-
Derivative financial liabilities (see note 26)	-	1.2	-	-
Rents and service charges received in advance	24.0	21.7	-	-
Other accruals and deferred income	122.3	104.6	16.3	15.9
Corporation tax	1.1	0.1	-	-
Other taxation and social security	0.6	0.2	0.2	0.1
Amounts due to Group undertakings: trading	-	-	1.7	-
Other creditors	17.6	30.0	4.7	4.8
	191.7	176.9	24.9	22.2
	293.4	289.5	132.6	155.9

The Group has a cash pooling arrangement whereby cash held by subsidiaries is pooled into the Parent's bank accounts. As a result the Group's subsidiaries hold very little cash and instead have an interest-bearing intercompany balance with the Parent.

The Group comparatives have been restated to move £11.8 million of interest accruals and £4.7 million of deferred income from 'other creditors' to 'other accruals and deferred income'.

23. Creditors: amounts falling due after more than one year

	Group 2018 £m	2017 £m	Parent 2018 £m	2017 £m
<i>Debt (see note 24)</i>				
Bank loans and bonds	3,528.2	3,252.3	-	-
Obligations under finance leases	6.5	6.4	-	-
Amounts due to Group undertakings: loans	-	-	174.6	184.4
	3,534.7	3,258.7	174.6	184.4
<i>Capital grants (see note 25)</i>				
Social housing property grants	2,084.3	2,096.9	-	-
HomeBuy grants	11.8	12.3	-	-
Recycled Capital Grant Fund	13.4	13.4	-	-
Disposal Proceeds Fund	3.1	5.4	-	-
	2,112.6	2,128.0	-	-
<i>Other creditors</i>				
Local authority housing transfers	116.1	128.2	-	-
Derivative financial liabilities (see note 26)	327.6	385.0	-	-
Other accruals and deferred income	-	1.6	-	-
Other creditors	11.2	7.7	-	-
	454.9	522.5	-	-
	6,102.2	5,909.2	174.6	184.4

Financial statements
NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2018

24. Debt analysis

<i>Group</i>	2018 £m	2017 £m
<i>Debt is repayable as follows</i>		
Due within one year	68.6	79.3
Due between one and two years	173.2	52.5
Due between two and five years	372.7	394.7
Due after more than five years	2,988.8	2,811.5
	3,603.3	3,338.0

The Group's funding is provided by the following entities, through a mixture of facilities which are drawn as follows. Additionally, there are a number of accounting adjustments to these notional amounts.

	2018 £m	2017 £m
<i>Notional amounts drawn</i>		
Clarion Treasury Limited		
- Loans	2,201.7	1,939.9
Circle Anglia Social Housing PLC		
- Bond issuance	635.0	635.0
Affinity Sutton Capital Markets PLC		
- Bond issuance	500.0	500.0
Circle Anglia Social Housing 2 PLC		
- Private placement	150.0	150.0
Clarion Housing Association Limited		
- Bonds and loans	55.4	57.8
- Finance leases	5.9	5.9
	3,548.0	3,288.6
<i>Accounting adjustments</i>		
Fair value adjustment due to		
- Acquisitions of Mercian Housing Association Limited and Russet Homes Limited	16.4	18.7
- Hedging of private placement	10.6	12.9
Effective interest rate adjustment	28.3	17.8
	55.3	49.4
	3,603.3	3,338.0

The fair value adjustment relating to acquisitions is amortised over the life of the related loans and £2.3 million has been released in this period (2017: £1.2 million).

The following tables show the maturity and margins on the Group's principal borrowings:

	Within one year £m	Between one and two years £m	Between two and five years £m	After five years £m	Total £m
<i>Maturity of notional amounts drawn</i>					
Term	36.6	36.8	205.6	775.4	1,054.4
Revolver	27.7	130.8	151.8	837.0	1,147.3
Bond	0.9	0.9	3.2	1,166.5	1,171.5
Private placement	-	-	-	150.0	150.0
Finance lease	0.1	0.1	0.3	5.4	5.9
Other	1.5	1.7	5.7	10.0	18.9
At 31 March 2018	66.8	170.3	366.6	2,944.3	3,548.0
At 31 March 2017	54.8	45.9	384.4	2,803.5	3,288.6

	Within one year £m	Between one and two years £m	Between two and five years £m	After five years £m	Total £m
<i>Maturity of facilities (notional amounts)</i>					
Term	36.6	36.8	205.6	775.4	1,054.4
Revolver	39.6	142.5	527.6	904.8	1,614.5
Bond	0.9	0.9	3.2	1,166.5	1,171.5
Private placement	-	-	-	150.0	150.0
Finance lease	0.1	0.1	0.3	5.4	5.9
Other	1.5	1.7	5.7	10.0	18.9
At 31 March 2018	78.7	182.0	742.4	3,012.1	4,015.2
At 31 March 2017	83.7	77.3	871.5	3,067.8	4,100.3

	At 1 April 2017 £m	Cash flows £m	Changes in fair value £m	Other non-cash changes £m	At 31 March 2018 £m
<i>Analysis of changes in net debt</i>					
Cash and cash equivalents	168.5	14.4	-	-	182.9
Debt	(3,338.0)	(258.1)	2.3	(9.5)	(3,603.3)
Derivatives	(374.4)	-	54.1	-	(320.3)
Net debt	(3,543.9)	(243.7)	56.4	(9.5)	(3,740.7)

Financial statements
NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2018

24. Debt analysis continued

Group continued

	Fixed rate £m	Floating rate £m	Total £m
<i>Interest rate analysis</i>			
Term	952.1	102.3	1,054.4
Revolver	631.3	516.0	1,147.3
Bond	1,171.5	-	1,171.5
Private placement	-	150.0	150.0
Finance lease	5.9	-	5.9
Other	17.9	1.0	18.9
Borrowings at 31 March 2018	2,778.7	769.3	3,548.0
Cash and cash equivalents	(3.6)	(179.3)	(182.9)
Collateral and other deposits	(1.3)	(111.2)	(112.5)
Cash and deposits at 31 March 2018	(4.9)	(290.5)	(295.4)
Net borrowings at 31 March 2018	2,773.8	478.8	3,252.6
Net borrowings at 31 March 2017	2,927.3	96.0	3,023.3

The Group's debt has a weighted average maturity of 15 years (2017: 16 years) and a weighted average cost of 4.23% (2017: 4.43%). In order to minimise the Group's exposure to variable interest rate risk, 85% of the Group's portfolio is fixed, either directly or as a result of interest-rate swaps which convert variable interest rates to fixed interest rates (2017: 94%).

25. Capital grants

Group

	HomeBuy grants £m	Social housing property grants £m
At 1 April 2017	12.3	2,119.9
New grant recognised	-	9.5
RCGF/DPF utilised	-	9.1
Amortisation	-	(23.8)
Recycled on disposals	(0.5)	(6.5)
Disposals not required to be recycled	-	(0.8)
At 31 March 2018	11.8	2,107.4
Amounts falling due within one year	-	23.1
Amounts falling due after more than one year	11.8	2,084.3
	11.8	2,107.4

	HE £m	GLA £m	Total £m
<i>Recycled Capital Grant Fund</i>			
At 1 April 2017	11.0	9.6	20.6
Additions to fund due to disposals	4.0	3.4	7.4
Utilised against new properties	(1.8)	(4.1)	(5.9)
Transfers to other private Registered Providers	(0.9)	-	(0.9)
At 31 March 2018	12.3	8.9	21.2
Amounts falling due within one year			7.8
Amounts falling due after more than one year			13.4
			21.2
Amounts three years old or older which may need to be repaid	2.2	-	2.2

	HE £m	GLA £m	Total £m
<i>Disposal Proceeds Fund</i>			
At 1 April 2017	4.0	4.5	8.5
Utilised against new properties	(0.4)	(2.8)	(3.2)
At 31 March 2018	3.6	1.7	5.3
Amounts falling due within one year			2.2
Amounts falling due after more than one year			3.1
			5.3
Amounts three years old or older which may need to be repaid	1.1	-	1.1

Financial statements
NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2018

26. Financial instruments

Group

The following financial derivative contracts are in place:

	Active £m	Forward starting £m	2018 Total £m	Active £m	Forward starting £m	2017 Total £m
<i>Notional</i>						
Interest-rate swaps - option	160.0	-	160.0	160.0	-	160.0
Interest-rate swaps - pay fixed	1,355.1	100.0	1,455.1	1,381.3	100.0	1,481.3
Interest-rate swaps - receive fixed	100.0	-	100.0	100.0	-	100.0
	1,615.1	100.0	1,715.1	1,641.3	100.0	1,741.3
<i>Fair value</i>						
Interest-rate swaps - option	0.5	-	0.5	1.6	-	1.6
Interest-rate swaps - pay fixed	(319.5)	(8.1)	(327.6)	(377.9)	(8.3)	(386.2)
Interest-rate swaps - receive fixed	6.8	-	6.8	10.2	-	10.2
	(312.2)	(8.1)	(320.3)	(366.1)	(8.3)	(374.4)

Forward starting swaps represent hedging activity entered into in line with the Group's Treasury Risk Management Policy based on the forecast debt profile to protect against future interest rate increases.

For those interest-rate swaps where cash flow hedge accounting is used, the net undiscounted cash flows are expected to occur as follows:

	2018 £m	2017 £m
Due within one year	40.7	43.7
Due between one and two years	36.9	40.7
Due between two and five years	79.3	93.3
Due after more than five years	248.6	272.4
	405.5	450.1

In order to better understand the assumptions behind the nature of measuring the fair values of the Group's swap portfolio, the values have been placed into a hierarchy similar to that under IFRS 13.

All of the Group's derivatives at the reporting date are Level 2 (2017: all are Level 2).

27. Provisions for liabilities and charges

	Group		Parent	
	2018 £m	2017 £m	2018 £m	2017 £m
Net pension liabilities	70.9	57.2	-	-
Deferred tax liabilities	1.0	1.2	-	-
SHPS deficit funding payments	-	15.9	-	0.1
Other	10.0	15.4	0.8	2.6
	81.9	89.7	0.8	2.7

For further details of the Group's and Parent's pension arrangements, see note 28.

Group

	Deferred tax liabilities £m	SHPS deficit funding payments £m	Other £m	Total £m
<i>Deferred tax liabilities, SHPS and other provisions</i>				
At 1 April 2017	1.2	15.9	15.4	32.5
Additions	-	-	3.2	3.2
Amounts utilised	-	(1.2)	(6.1)	(7.3)
Transfer to net pension liabilities	-	(14.9)	-	(14.9)
Unused amounts reversed	(0.2)	-	(2.5)	(2.7)
Unwinding of discounted amount	-	0.2	-	0.2
At 31 March 2018	1.0	-	10.0	11.0

See note 11 for an explanation of the deferred tax liabilities.

The Group was a member of the defined benefit section of the Social Housing Pension Scheme ("SHPS") and had made a provision for the deficit funding payments it had agreed to make in the future. The interest cost on unwinding was £0.2 million (2017: £0.6 million). During the year, the Group exited SHPS and the provision was transferred to net pension liabilities. See note 28.

Up until 31 March 2017, the Group had an agreement with Thames Water to pay the water and sewage charges for some 17,000 of its housing properties, as part of which the Group billed those properties' tenants. As part of this agreement, the Group received a credit from Thames Water as an administration fee as well as to account for credit risk and some properties being void. A High Court judgement in March 2016 against Southwark Council – which had a similar arrangement with Thames Water - decided that the council should have passed on this credit to its residents. The Group was not party to this case, and whatever course of action Southwark Council has chosen to take, subsequent to the ruling, applies only to its own tenants. The Group, along with other housing associations and local authorities, is considering its position with regard to its own tenants, as part of which it has recognised a provision for £5.0 million (2017: £6.5 million).

Other provisions also includes, amongst other amounts, £3.4 million (2017: £5.4 million) for remedial structural works required at Queen Mary Gate, South Woodford and £0.7 million (2017: £1.7 million) for dilapidations at leased offices that the Group has decided to vacate.

Financial statements
NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2018

27. Provisions for liabilities and charges continued

Parent

	SHPS deficit funding payments £m	Other £m	Total £m
<i>Deferred tax liabilities, SHPS and other provisions</i>			
At 1 April 2017	0.1	2.6	2.7
Additions	-	0.7	0.7
Amounts utilised	-	(1.5)	(1.5)
Transfer to net pension liabilities	(0.1)	-	(0.1)
Unused amounts reversed	-	(1.0)	(1.0)
At 31 March 2018	-	0.8	0.8

The Parent was a member of the defined benefit section of SHPS and had made a provision for the deficit funding payments it had agreed to make in the future. During the year, the Group exited SHPS and the provision was effectively transferred to Clarion Housing Association Limited. See note 28.

Other provisions also includes, amongst other amounts, £0.7 million (2017: £1.7 million) for dilapidations at leased offices that the Parent has decided to vacate.

28. Pensions

Social Housing Pension Scheme (defined benefit section)

The Group previously participated in this multi-employer scheme, which provides benefits to some 500 non-associated employers. As it was not possible for the Group to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme, it accounted for it as a defined contribution scheme.

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

Tier	Period	Total contribution per annum
1	From 1 April 2016 to 30 September 2020	£40.6 million (increasing by 4.7% each 1st of April)
2	From 1 April 2016 to 30 September 2023	£28.6 million (increasing by 4.7% each 1st of April)
3	From 1 April 2016 to 30 September 2026	£32.7 million (increasing by 3.0% each 1st of April)
4	From 1 April 2016 to 30 September 2026	£31.7 million (increasing by 3.0% each 1st of April)

The Group previously recognised a provision for its share of these deficit funding payments (see note 27). On 30 September 2017, the Group exited the defined benefit section of SHPS, transferring its share of assets and liabilities to the William Sutton Housing Association Final Salary Scheme (now known as the Clarion Housing Group Pension Scheme), a defined benefit scheme which the Group also accounts for as such. This transfer triggered a change in accounting treatment of that specific part of the Group's pension scheme portfolio and the £26.6 million shortfall between the £14.9 million provision at the date of the transfer and the £41.5 million net defined benefit liability recognised is included in Other Comprehensive Income.

As the full liability for pension arrangements transferred from SHPS are now accounted for by Clarion Housing Association Limited, the transfer of the Parent's £0.1 million provision at the date of the transfer has been treated as a distribution-in-kind. Following the transfer, the Parent continues to pay contributions in respect of its active employees, and accounts for these on a defined contribution basis.

Other defined benefit schemes

The Group now participates in the following defined benefit schemes, which it accounts for as defined benefit schemes:

Scheme	Date of the most recent comprehensive actuarial valuation
Cambridgeshire County Council Pension Fund	31 March 2016
Clarion Housing Group Pension Scheme	30 September 2015
Downland Housing Group Pension & Assurance Scheme	31 March 2015
Hertfordshire County Council Pension Fund	31 March 2016
Kent County Council Pension Fund	31 March 2016
London Borough of Bromley Pension Fund	31 March 2016
London Borough of Merton Pension Fund	31 March 2016
London Pensions Fund Authority Pension Fund	31 March 2016
Norfolk County Council Superannuation Fund	31 March 2016
Surrey County Council Pension Fund	31 March 2016

In the prior year, Affinity Sutton Homes Limited (now Clarion Housing Association Limited) replaced the Parent as the Group's admitted body for the Norfolk County Council Superannuation Fund, taking on its £14.1 million net liability. This was accounted for as a distribution-in-kind. Earlier in the prior year, the Parent replaced Anglia Maintenance Services Limited as the admitted body for its share, and received a £1.4 million net asset.

Financial statements
NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2018

28. Pensions continued

These most recent comprehensive actuarial valuations have been used by the scheme actuaries to estimate the amounts recognised by the Group/Parent. These amounts are, in aggregate, as follows:

Reconciliation of opening and closing pension assets and liabilities:

	Group		Parent	
	2018	2017	2018	2017
	£m	£m	£m	£m
<i>Fair value of scheme assets</i>				
At the beginning of the year	276.8	237.2	-	28.8
Interest income	7.8	8.3	-	0.8
Actual return on scheme assets less interest income	7.0	37.6	-	0.4
Contributions by employer	14.7	7.1	-	1.0
Contributions by members	0.5	0.4	-	0.1
Benefits paid	(10.7)	(10.2)	-	(1.0)
Transfer in of SHPS assets	81.9	-	-	-
Cessation of schemes	(20.1)	(3.6)	-	-
Transfer to other Group member	-	-	-	(30.1)
At the end of the year	357.9	276.8	-	-
<i>Defined benefit obligation</i>				
At the beginning of the year	334.0	288.1	-	38.4
Current service cost	3.8	2.0	-	0.2
Past service cost, curtailments and settlements	0.3	1.2	-	0.5
Interest expense	9.7	9.9	-	1.0
Actuarial (gains)/losses in respect of liabilities	(13.7)	47.1	-	6.5
Contributions by members	0.5	0.4	-	0.1
Benefits paid	(10.7)	(10.2)	-	(1.0)
Transfer in of SHPS liabilities	123.4	-	-	-
Cessation of schemes	(18.5)	(4.5)	-	-
Transfer to other Group member	-	-	-	(45.7)
At the end of the year	428.8	334.0	-	-
Net pension liabilities	(70.9)	(57.2)	-	-

Amounts credited/(charged) to the Income Statement:

	Group 2018 £m	2017 £m	Parent 2018 £m	2017 £m
<i>Operating costs</i>				
Current service cost	(3.8)	(2.0)	-	(0.2)
Past service cost, curtailments and settlements	(0.3)	(1.2)	-	(0.5)
Cessation of schemes	(1.6)	(1.1)	-	-
	(5.7)	(4.3)	-	(0.7)
<i>Interest payable relating to pensions</i>				
Interest income	7.8	8.3	-	0.8
Interest expense	(9.7)	(9.9)	-	(1.0)
	(1.9)	(1.6)	-	(0.2)
	(7.6)	(5.9)	-	(0.9)

Gains/(losses) recognised in other comprehensive income:

	Group 2018 £m	2017 £m	Parent 2018 £m	2017 £m
<i>Actuarial gains/(losses)</i>				
Actual return on scheme assets less interest income	7.0	37.6	-	0.4
Actuarial gains/(losses) in respect of liabilities	13.7	(47.1)	-	(6.5)
	20.7	(9.5)	-	(6.1)
Loss on transfer of SHPS	(26.6)	-	-	-
	(5.9)	(9.5)	-	(6.1)

The categories of scheme assets, and the actual return on those assets, were as follows:

	Group 2018 £m	2017 £m	Parent 2018 £m	2017 £m
Equities	166.0	177.6	-	-
Gilts and other bonds	71.1	65.4	-	-
Property	20.7	19.8	-	-
Cash	4.4	5.7	-	-
Target return portfolio	4.1	5.1	-	-
Other	91.6	3.2	-	-
	357.9	276.8	-	-
Actual return	14.8	45.9	-	1.2

Financial statements
NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2018

28. Pensions continued

The ranges of principal actuarial assumptions used, including the expected number of years in retirement, are as follows:

	Group		Parent	
	2018	2017	2018	2017
Inflation	2.3%-3.4%	2.3%-3.5%	n/a	n/a
Future salary increases	2.7%-4.2%	2.5%-4.3%	n/a	2.7%
Future pension increases	2.3%-3.3%	2.3%-3.4%	n/a	2.4%
Discount rate	2.5%-2.7%	2.5%-2.8%	n/a	2.5%
Retiring today - male	21.8-24.5	21.9-24.4	n/a	22.1
Retiring today - female	23.7-26.1	24.0-26.0	n/a	24.4
Retiring in twenty years - male	22.8-26.8	23.3-26.6	n/a	24.1
Retiring in twenty years - female	24.9-28.4	25.5-28.3	n/a	26.4

During the year, the Group exited the Hertfordshire County Council Pension Fund and part-exited the Cambridgeshire County Council Pension Fund; as the funds were sufficiently in surplus, no cessation payments were required. In the prior year, the Group exited the Islington Council Pension Fund and the London Borough of Tower Hamlets Pension Fund, as a result of which it made cessation payments totalling £2.0 million.

29. Contingent assets/liabilities

Group

As per note 1, the original amount of social housing property grants may become repayable. In addition to the amounts disclosed in creditors, £314.9 million of grant has been credited to reserves to date through amortisation (2017: £292.1 million). The timing of any future repayment is uncertain.

The Group has received a letter before action from solicitors acting on behalf of various residents at Orchard Village in respect of disrepair, misrepresentation and other various claims. No formal liability assessment has been undertaken.

The Group has a contingent liability in relation to defects found at 284 other properties (2017: 63 properties). For 34 of these properties, a formal liability assessment has been made, totalling £0.5 million (2017: 5 properties, £0.1 million).

Parent

The Parent has no contingent assets/liabilities.

30. Capital commitments

Group

	2018 £m	2017 £m
Contracted for but not provided for in the financial statements	647.2	695.6
Authorised by the Board but not contracted for	2,673.2	490.5
	3,320.4	1,186.1

These commitments to future capital expenditure predominantly relate to the construction of housing properties.

Amounts contracted for but not provided for in the financial statements include £458.0 million (2017: £72.0 million) for the Group's share of the capital commitments of its JCEs and associates.

Amounts authorised by the Board but not contracted for includes £nil (2017: £34.7 million) for the Group's share of the future gross capital expenditure committed through the development agreement relating to Linden/Downland Graylingwell LLP. This development agreement allows construction programme timings to be varied, with sales receipts from earlier phases used to fund the construction of further units.

At the reporting date the Group had £182.9 million of cash and cash equivalents and £467.2 million of undrawn funding. The remaining £2,670.3 million is expected to be funded by future surpluses and debt funding, sourced from banks and the debt capital markets. The Group considers this to be a reasonable expectation given its previous success in these markets and its strong investment grade credit rating. The first £250 million of the Group's £3 billion European Medium Term Note programme was issued in April 2018.

Parent

	2018 £m	2017 £m
Contracted for but not provided for in the financial statements	7.7	42.1
Authorised by the Board but not contracted for	-	18.9
	7.7	61.0

The Parent will recharge any committed cost to its subsidiaries via its Service Level Agreement.

Financial statements
NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2018

31. Commitments under leases

Total future minimum lease payments under non-cancellable operating leases are due as follows:

	Group 2018 £m	2017 £m	Parent 2018 £m	2017 £m
Within the next year	6.6	4.7	4.3	2.2
Between one and five years' time	16.8	17.5	11.2	11.1
Later than five years' time	11.6	12.3	10.6	10.6
	35.0	34.5	26.1	23.9

Total future minimum lease payments under non-cancellable finance leases are due as follows:

	Group 2018 £m	2017 £m	Parent 2018 £m	2017 £m
Within the next year	0.6	0.6	-	-
Between one and five years' time	2.5	2.5	-	-
Later than five years' time	10.5	11.2	-	-
	13.6	14.3	-	-

The latter reconciles to the amounts included in creditors for "obligations under finance leases" as follows:

	Group 2018 £m	2017 £m	Parent 2018 £m	2017 £m
<i>Obligations under finance leases</i>				
Amounts falling due within one year	0.1	0.1	-	-
Amounts falling due after more than one year	6.5	6.4	-	-
	6.6	6.5	-	-
Interest payable to be recognised in future periods	7.0	7.8	-	-
	13.6	14.3	-	-

32. Non-equity share capital

	2018 £	2017 £
<i>Shares of £1 issued and fully paid</i>		
At the beginning of the year	22	17
Movements during the year	(5)	5
At the end of the year	17	22

Each member of the Parent holds one £1 share. These shares carry no dividend rights and are cancelled on cessation of membership of the Parent. Each member has the right to vote at members' meetings.

33. Legislative provisions

The Parent is a registered society under the Co-operative and Community Benefit Societies Act 2014 and is regulated by the Regulator of Social Housing.

34. Subsidiaries, JCEs and associates

Full name	Company	FCA Registered Society	Charity Commission	Regulator of Social Housing
At the reporting date, Clarion Housing Group Limited controls the following entities. It also owns 100% of each of these entities, either directly or indirectly, with the exception of Thackeray Mews Ltd of which it owns 62%:				
<i>Registered Provider (Public Benefit Entity)</i>				
Clarion Housing Association Limited	-	7686	-	4865
<i>Property maintenance or management</i>				
Anglia Maintenance Services Limited	03300038	-	-	-
Clarion Response Limited	04129615	-	-	-
Grange Management (Southern) Limited	08351375	-	-	-
<i>Registered charities (Public Benefit Entities)</i>				
Circle Anglia Foundation Limited	01832817	-	326681	-
Circle Care and Support Limited	03307684	-	1107432	-
Clarion Futures	07156509	-	1135056	-
<i>Treasury vehicles</i>				
Affinity Sutton Capital Markets PLC	06678086	-	-	-
Affinity Sutton Funding Limited	05589011	-	-	-
Circle Anglia Social Housing PLC	06370683	-	-	-
Circle Anglia Social Housing 2 PLC	09781172	-	-	-
Clarion Funding PLC	10922187	-	-	-
Clarion Treasury Limited	06133979	-	-	-
<i>Property development</i>				
Affinity Sutton Investments Limited	07466271	-	-	-
Affinity Sutton Professional Services Limited	07068999	-	-	-
Broomleigh Regeneration Limited	06494492	-	-	-
Circle Housing Asset Design Limited	08822471	-	-	-
Downland Regeneration Limited	06456605	-	-	-
Latimer Cocoa Works LLP	OC419999	-	-	-
Latimer Developments Limited	05452017	-	-	-
Latimer Green Lanes Limited	012398V	-	-	-
Leamington Waterfront LLP	OC318351	-	-	-
Merton Developments Limited	09042606	-	-	-
Your Lifespace Limited	02998648	-	-	-
Zenith Development Partnership Limited	04565189	-	-	-
<i>Property investment</i>				
Landericus Limited	48291	-	-	-

Financial statements
NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2018

34. Subsidiaries, JCEs and associates continued

Full name	Company	FCA Registered Society	Charity Commission	Regulator of Social Housing
Property management				
Avon View & Swan House Management Company Limited	06371295	-	-	-
Maple Grove (Hackbridge) Management Limited	11148693			
Thackeray Mews Limited	02666421	-	-	-
Waterfront (Warwick) Management Company Limited	06371938	-	-	-
Willow View and Bridge House Management Company Limited	06371331	-	-	-
Other				
Circle Living Limited	05737166	-	-	-
Invicta Telecare Limited	04133585	-	-	-
Old Ford Homes Limited	04625160	-	-	-

The Group also accounts for the assets and liabilities of its captive insurance cell as if it were a subsidiary:

Insurance vehicle

Igloo Insurance PCC Limited (Cell ASG2)	53462	-	-	-
---	-------	---	---	---

The Group is a member of the following JCEs. It also owns 50% of each:

Property development

72 Farm Lane Developments LLP	OC379893	-	-	-
261 City Road Developments LLP	OC360210	-	-	-
Bonner Road LLP	OC401099	-	-	-
Circle Hill LLP	OC397177	-	-	-
Countryside Clarion (Eastern Quarry) LLP	OC420693			
Latimer Hill LLP	OC415952	-	-	-
Linden (York Road) LLP	OC392756	-	-	-
Linden/Downland Graylingwell LLP	OC332712	-	-	-
Mayfield Market Towns Limited	08161672			
Ramsden Regeneration LLP	OC352417	-	-	-
Wilmington Regeneration LLP	OC352419	-	-	-

261 City Road Developments LLP has the following 100% subsidiaries:

City Road (Lexicon) Limited	30048	-	-	-
-----------------------------	-------	---	---	---

Mayfield Market Towns Limited has the following 100% subsidiary:

Mayflower Residential Limited	11193327	-	-	-
-------------------------------	----------	---	---	---

All of the above companies are incorporated in England and Wales with the exception of Latimer Green Lanes Limited (registered on the Isle of Man), Landericus Limited and Igloo Insurance PCC Limited (both registered in Guernsey) and City Road (Lexicon) Limited (registered in Bermuda).

In the prior year, the Group disposed of Landericus Holding Limited S.à.r.l. (including its subsidiaries) and Prime Care Holdings Limited (including its subsidiaries). Neither of these operations was a major line of business for the Group and so were not presented as discontinued operations. The total surplus on disposal was £6.6 million.

35. Related party disclosures and intra-group transparency

Debtor and creditor balances between members of the Group are either debt subject to a market rate of interest, fair values in respect of intra-Group derivative contracts, or trading balances which are non- interest bearing and are due to be settled within one year of their recognition.

The Group has a cash pooling arrangement whereby cash held by subsidiaries is pooled into the ultimate parent's bank accounts. As a result the Group's subsidiaries generally hold very little cash and instead have an interest-bearing intercompany balance with the ultimate parent.

As the Group parent, Clarion Housing Group Limited incurs certain staff costs and overheads centrally on behalf of the whole Group. These costs are then recharged to other members of the Group.

Prior to the merger in November 2016, Affinity Sutton Group Limited was the group parent of the Affinity Sutton Group and Circle Anglia Limited was the group parent of the Circle Housing Group. Each incurred their own costs and these were recharged to other members of the respective group according to the methodologies in place. A new, aligned methodology for the Clarion Housing Group has applied from 1 April 2017 - the old methodologies continued to be used in the four months to 31 March 2017 as the potential impact was found to be immaterial.

The new methodology first allocates direct costs to specific business areas, such as housing management, property development and community investment. The remaining central overheads are then apportioned across all entities based on their gross profit.

The recharges were as follows:	2018 £m	2017 £m
Affinity Sutton Professional Services Limited	1.0	0.7
Circle Care and Support Limited	0.5	1.0
Circle Housing Asset Design Limited	0.2	0.4
Clarion Futures ¹	3.0	1.0
Clarion Housing Association Limited ²	104.9	152.4
Clarion Response Limited ³	1.1	0.8
Grange Management (Southern) Limited	0.2	0.1
Invicta Telecare Limited	0.4	0.6
Landericus Limited	-	0.4
Latimer Developments Limited	1.2	0.2
Leamington Waterfront LLP	0.3	0.2
Your Lifespace Limited	0.7	0.2
	113.5	158.0

¹ Formerly Affinity Sutton Community Foundation.

² Merger of Affinity Sutton Homes Limited, Circle Thirty Three Housing Trust Limited, Merton Priory Homes, Mole Valley Housing Association Limited, Old Ford Housing Association and Russet Homes Limited.

³ Merger of Affinity Sutton Repairs Limited and Community Building Services (CBS) Limited.

The decrease in the recharge for Clarion Housing Association Limited is due to the intra-group transfer of employees (see note 5), as well as a decrease in other operating costs.

Other regulated members of the Clarion Housing Group have disclosed transactions with non-regulated members in their own financial statements.

Apart from any disclosures made in relation to the Group's JCEAs, no other related party transactions require disclosure.

Read more:
www.clarionhg.com



luminous

Consultancy, design and production
www.luminous.co.uk



FSC
www.fsc.org

MIX

Paper from
responsible sources
FSC® C020659

Cover image:
Eastern Quarry, one of the UK's largest residential schemes at Ebbsfleet Garden City in North Kent.
Photo courtesy of Henley Camland



CLARION
HOUSING GROUP

CLARION HOUSING GROUP
Registered Society No. 28038R
Homes and Communities Agency
Registration No. LH4087
Registered Office:
Level 6, 6 More London Place
Tooley Street
London
SE1 2DA

clarionhg.com

