Affinity Sutton

# REPORT OF THE BOARD AND FINANCIAL STATEMENTS 2011/12

HELPING PEOPLE
PUT DOWN ROOTS

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# During 2011/12 we continued to witness some of the most significant changes to the social housing landscape seen in over thirty years.

**As a sector, we are now operating under very different conditions brought about by the economic upheaval of recent years and the government's response to it.**

The UK economy and housing market failed to show any real signs of recovery during the year, and any positive indicators emerging from the Eurozone seemed to be very short-lived. Against this backdrop, the Homes and Communities Agency completed contracts for the delivery of the Government's new Affordable Homes Programme 2011-2015, followed by the Welfare Reform Act which came in to force in March 2012. And in November 2011 the Government chose an Affinity Sutton development in Guildford from which to launch its new housing strategy.

Affinity Sutton is in an extremely strong place to respond to the new landscape after another year of market leading performance. On 30 September we brought Broomleigh, Downland and William Sutton together to form Affinity Sutton Homes. Our surplus in 2011/12 was £46 million, £4 million higher than we had budgeted, and £6.7 million better than last year after adjusting for exceptional items. It resulted in interest cover of 232%. All of this year's surplus was broadly matched by investment in our housing stock. Critically, we continued to place no reliance on asset sales to meet our underlying obligations. Indeed, we delivered over 1,100 new homes at a cost of £170 million and we invested a record £62 million into improving our existing homes, delivering over 2,000 new kitchens, 2,395 new bathrooms, about 2,600 boiler and heating renewals and nearly 4,400 electrical upgrades.

**"Our strong surpluses and reserves are essential elements of our determination to retain a strong financial profile and will be used to support our plans to build nearly 10,000 new homes over the next ten years."**

**Neil Goulden, Group Chairman**

At the same time, we maintained customer satisfaction levels at over 80%, secured further improvements to staff commitment and expanded the level and reach of our community investment activities.

Despite the difficult economic and trading conditions, we retain the sector's highest Moody's credit rating at Aa2, with a baseline credit assessment of 6, the only housing association to do so. This underlying strength is important because housing associations are likely to look very different in the future. At a time of huge pressures for many of our customers, we will not be deflected from our mission to "use our heritage, fresh thinking and commitment to help people put down roots". Our ethos as a business for social purpose means we must focus on delivering good services to our residents; investing effectively in their homes; replacing those homes when they reach the end of their useful life; building new homes; and contributing to the communities where we work. In this context we were delighted to be awarded the Housing Association of the Year award in the What House? Awards 2011.

Our strong surpluses and reserves are essential elements of our determination to retain a strong financial profile and will be used to support our plans to build nearly 10,000 new homes over the next ten years. With government grant in our programme now down to an average of just 12%, strong surpluses and robust financial capacity are vital to support the significantly increased levels of funding we will need from the debt capital markets.

Recognising the changes and challenges ahead, we have embarked on an in depth programme to re-examine the way we do business, taking stock of the things we do well and challenging ourselves on the things we could do better. We are pleased to be working with McKinsey & Company to review some of our core processes. This is bringing a valuable external perspective. Based on their experience of working with some of the best performing organisations in the world, we aim to find better and more efficient ways of doing things. We will use the results of this work and the strategies we are developing to deliver new IT systems and to improve our asset management, to get closer to our customers, improve efficiency and make more effective use of our asset base. Our aim is simple: to continue to be among the top housing associations in the country in all that we do.

Our new contract with the Homes and Communities Agency will help us develop over 3,000 homes under the new Affordable Homes arrangements for 2011-15, one of the largest programmes in country. In delivering this programme we must adapt to changing needs and expectations. Whilst continuing to provide homes for our traditional resident base, we will also broaden the range of customers that we can help. To that end, we have introduced 'Rent 4 Less', a tenancy offer which is focussed on providing sub-market rental homes to working households unable to access the owner occupier or private rented markets.

Our residents and the communities in which they live are at the core of our work and we have put in place a number of ways in which they can hold us to account and help us improve. This year saw the inaugural meeting of our National Residents' Council, where we were delighted to meet with 100 of our most involved residents to discuss the Group's priorities for the year ahead. We also set up three regional scrutiny boards, giving our residents the opportunity to oversee and influence the way we deliver services locally. The scrutiny boards complement the work of our resident area panels which meet across the country and provide residents with an opportunity to get involved in their neighbourhoods. We are proud of the work we have done to increase the range of opportunities we give residents to get involved. The impact they have on our work cannot be underestimated.

Perhaps one of the greatest challenges we and our residents face in the coming years arises from the reforms to welfare benefits. These changes will put pressure on households already managing with low incomes, and we are responding in a range of different ways to ensure that the negative impact on them and the Group is minimised. This involves much more than just our landlord role.

We invest heavily in the social and economic regeneration of the communities where we work, and our national programme is one of the largest of its kind in the country. During the year our programme won Business in the Community's

**"Recognising the changes and challenges ahead, we have embarked on an in depth programme to re-examine the way we do business, taking stock of the things we do well and challenging ourselves on the things we could do better."**

**Keith Exford, Group Chief Executive**

2011 National Award for Excellence for "Building Stronger Communities". Our successes include involving well over 4,000 young people in youth projects, providing small grants that have benefitted more than 3,700 people, supporting 1,325 people through our Work and Enterprise Team, and helping over 1,000 people to obtain affordable financial products.

We must highlight the contribution that our 1,400 staff make to the success of Affinity Sutton. The skill and commitment they demonstrate at every level underpins everything that we achieve. Building on our Investors in People Gold accreditation, we have continued to enjoy high levels of employee engagement, reflected in lower levels of turnover and absence than most in our sector. The results of our latest annual employee survey reveal that even at a time of organisational change and a challenging external environment, our people are more committed to Affinity Sutton than ever before. At the same time we applaud their achievement in raising more than £40,000 in support of Macmillan, our chosen corporate charity.

Finally, we would like to pay tribute to Group Board member, Peter Reynolds, who died in May 2012. He joined the board of Grange in 2004, becoming Chairman in 2005, and joining the Affinity Sutton Group board in 2006. Peter's commitment to balancing our social objectives with the principles of a well run business were hugely important in the development of the Group. His sharp insight and his challenge, combined with his great sense of humour, made him a very valued colleague, and we will miss him.

The challenges we face are daunting, but we believe that they provide exciting opportunities for Affinity Sutton to continue to remain at the forefront of social housing in England, delivering outstanding performance in all that we do.

**Neil Goulden** **Keith Exford**

# BOARD, EXECUTIVE DIRECTORS AND ADVISERS

## Board

Neil Goulden, Chairman
Pat Berry, Vice Chairman
Helen Bailey (appointed 2 April 2012)
Mark Haysom CBE
Mike Herring
Sue Killen (appointed 2 April 2012)
Jonathan Paine
Colin Sturgeon
Keith Exford (Group Chief Executive)
Mark Washer (Group Finance Director)
Kerry Kyriacou (Group Development Director)

Peter Reynolds (deceased 23 May 2012)
Joyce Batten (resigned 28 July 2011)
Desmond Begley (resigned 28 July 2011)
Peter Berry (resigned 30 September 2011)
Alan Forbes (resigned 30 September 2011)

## Principal Solicitors

Allen & Overy LLP
1 Bishops Square
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## Executive Directors

Keith Exford
Jonathan Cawthra
Kerry Kyriacou
Neil McCall
Clare Miller
Mark Perry
Mark Washer

Nick Dudman (left 31 March 2012)

## Company Secretary

Clare Miller

## Bankers

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## Auditors

KPMG LLP
1 Forest Gate
Brighton Road
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RH11 9PT

## Registered Office

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London
SE1 2DA

# REPORT OF THE BOARD

## OPERATING AND FINANCIAL REVIEW

### Group Structure

Affinity Sutton Group Limited is the parent company of Affinity Sutton Homes Limited ("Affinity Sutton Homes"), a national housing association, and a number of smaller subsidiaries. More detail on the Group's structure and its activities is set out in Note 28 of the Financial Statements.

During the year, there were the following changes to the Group's structure:

- The three large housing associations, Broomleigh, Downland and William Sutton, amalgamated to form Affinity Sutton Homes. This was designed to rationalise the overall operation of the Group and followed a period of consultation with a range of stakeholders. It was completed on 30 September 2011;
- Igloo, an insurance vehicle, was created as a subsidiary in September 2011, in order to provide a cost effective property insurance solution for the Group;
- Brighton Housing Trust, and its subsidiary BHT Enterprises Limited, left the Group on 1 April 2011.

The following table summarises the roles of the main entities in the Group at the year end.

| Company | Activity |
|---|---|
| **Parent** | |
| Affinity Sutton Group Limited | Group parent: provides strategic direction and ultimate control of its subsidiaries. Provides corporate and operational services to the Group. |
| **Registered Providers** | |
| Affinity Sutton Homes | National housing association operating across England and formed during the year from the amalgamation of three existing subsidiaries of the Group. |
| Aashyana Housing Association Limited | Small South Asian housing association operating in Bristol. |
| **Registered Charity** | |
| Affinity Sutton Community Foundation | Community investment and other charitable activity. |
| **Property Services** | |
| Grange Management (Southern) Limited | Property management society specialising in management of retirement freehold blocks and estates. |
| Community Building Services (CBS) Limited | Residential property maintenance company providing services mainly to Group companies. |
| Affinity Sutton Labour Agency Limited | Provision of maintenance workforce services to Affinity Sutton Homes. |
| Affinity Sutton Professional Services Limited | Provision of development services for the construction of residential property. |
| **Funding Companies** | |
| Affinity Sutton Funding Limited | Group borrowing vehicle, providing funding to Affinity Sutton Homes. |
| Affinity Sutton Capital Markets plc | Issuer of a public bond used to finance the activities of the Group. |

## Our corporate strategy

**Our ultimate aim remains unchanged: we will continue to use our heritage, fresh thinking and commitment to help people put down roots.**

We recognise the need to change in response to increasing complexity and uncertainty in our operating environment. This has prompted a review of the way we do business and the strategic choices we make. The new operating environment provides opportunities, such as the delivery of new and better tailored products, but it also brings significant risks and new challenges.

Our 2012 Corporate Plan provides a sharper focus to the choices we face and to the changes we need to make to the way we do business. We have revised our organisational objectives, agreed long-term aspirations, identified focussed business change priorities, and implemented a systematic approach to scanning the external environment.

We have refined our "core objectives", the business drivers which guide our direction of travel and are fundamental to achieving future success, to reflect the changes we intend to make. We want to:

- Be a housing provider of choice,
- Maintain our financial strength; and
- Grow our business.

To do this we have two "enabling objectives" which support our ability to make a difference. They are:

- Increasing our influence, and
- Being an employer of choice.

## The external environment

**Over the past year the nature and scale of the challenges we are likely to face has become much clearer. The weak economy continued to provide a challenging backdrop for the housing sector during 2011/12. The plans announced by the Government in 2010 to deal with the public funding gap began to take shape, and housing associations started to develop their response.**

As we predicted last year, two areas of public policy, in particular, have changed the outlook for the sector fundamentally. First, the Government's target to reduce public spending by £120 billion over five years led to the introduction of a new investment model for the development of social housing. Second, more detail emerged on proposed changes to welfare benefits, including reforms to housing benefit.

At the same time the housing market remained flat, and with a year on year decrease in house prices of 0.4% it still looks far from robust. Interest rates remained low, with the base rate unchanged at 0.5% since March 2009. An increase in VAT to 20% which came into force on 4 January 2011 is estimated to be costing the Group about £4 million annually.

So, whilst many of the risks that we have identified over the past four years remain, new issues and uncertainties must now be factored into our forward planning.

## Risks and uncertainties

**We have continued to focus during the year on our response to the following chief risks:**

- The potential for a material weakening of our strong financial position as a result of exposure to the new investment model, especially the impact on our debt levels;
- Breaches of funders' covenants through unexpected movements in our financial position, such as charges caused by impairment and losses arising from our exposure to the property market;
- A continuing tightening of the credit markets leading to funding shortfalls and potential re-pricing of existing loan facilities;
- Higher arrears and bad debts caused by the introduction of the new Universal Credit system and other changes to welfare benefits and their payment terms;
- The potential for further negative movements in the property market and an on-going period of economic stagnation;
- The potential for failure among our key suppliers, in particular, house builders, developers and maintenance contractors;
- Properties reaching the end of their useful lives, and requiring either total re-development or significant levels of expenditure to increase their useful lives and bring them up to a lettable standard;
- The potential for future regulatory requirements imposing minimum standards of eco-efficiency on our existing stock. Depending on the terms of any such requirements, this would be challenging without some form of financial support or a more active programme of asset disposal.

Of these the newest and perhaps most significant risks are those associated with the Affordable Rent programme, and the changes to welfare benefits.

## Affordable Rent

**During the year we concluded our negotiations with the Homes and Communities Agency (HCA) over our proposals for the Affordable Homes Programme. The programme provides for the development of about 3,000 new homes for Affordable Rent and shared ownership in the period up to March 2015. These homes will be let at rents much closer to market levels, and a proportion of our existing homes will also attract these higher rents as they become vacant. Total development costs of £539 million will be subsidised by HCA grant of £65 million, a much lower percentage than in previous years.**

The financial profile this creates represents a significant shift for Affinity Sutton and the sector more generally. New development will need higher levels of debt and this will bring new risks. And as rents move closer to market levels many residents will find themselves under increased financial strain, which will create risks for our rent collection performance. But we believe that the new model provides welcome flexibility over rent levels, an opportunity for us to re-focus the services we provide and to start to meet some of the growing demand from those working households unable to access the owner-occupied or social rental markets.

We believe our Affordable Rent plans address the risks that the new model brings. We have, amongst other things:

- capped rents for larger homes at 65% of market levels in order to increase affordability;
- ensured that no rents exceed the 'Local Housing Allowance' limits for benefit eligibility;
- developed a new branding and marketing approach for homes which will be let to working households;
- stress-tested our financial plans to assess the impact of any requirement by a future government to reduce Affordable Rent levels back to "target rent" levels.

Above all, we have introduced comprehensive procedures to enable us to monitor the progress of the new model in order to keep our continued involvement under review. Any adverse movements in delivering against initial targets may lead us to reduce the scale of our programme in order to protect our financial position.

## Welfare reform

**Welfare benefit reform changes have been clarified with the new Welfare Reform Act which came into force in March 2012. The measures provided for in the legislation will be phased in over four years from 2013, with full implementation by 2017. The changes will fundamentally affect the welfare landscape in the UK. The main areas of impact for the housing sector, and our responses to them are:**

- A cap on the maximum benefit a household can receive of £26,000 per annum from April 2013. Our initial assessment suggests the cap would impact on less than 1% of our current tenants. We expect the cap to affect mainly tenants paying affordable rents in larger properties in London. For this reason, our rent policy places a maximum rent for larger properties at 65% of the market level. We will also work with tenants in these properties, where appropriate referring them to our Work and Enterprise team who provide a service which helps people gain employment;
- Restrictions on benefit payments for working age households deemed to be under occupying their home. We believe that up to 10% of our tenants could be in properties which are deemed too large for their current circumstances. The implied benefit shortfall is estimated at about £3 million. We are working to establish a pool of suitable smaller accommodation which we can offer to tenants who need to downsize. We are also looking to improve the quality of the data we hold so that it is more closely aligned to the demands of the welfare reform requirements;
- A single Universal Credit which will replace housing benefit and will be paid directly to the tenant on a monthly basis and will be phased in from 2013 to 2017. We have appointed five new Welfare Benefit Advisors who will work closely with our Community Investment teams to ensure we provide help to tenants to set up bank accounts and encourage direct debit and other electronic payments.

Although difficult to quantify, these changes are highly likely to impact on our arrears collection and bad debt levels. Consequently, we have allowed for materially more prudent assumptions in our financial forecasts.

## Our response to the risks

**In addition to the focussed changes described above, we have responded more generally to the changing landscape in the following ways:**

- Appointed management consultants, McKinsey & Company to help us review the way we resource some of our key functions and processes. We expect to derive better and more cost effective ways of delivering services, and to be challenged to make them more fit for the future;
- Started work with Savills plc, the real estate services provider, to deliver a more refined assessment of the performance of our housing stock. This will help us to deliver a more effective asset management strategy and improve decision making using better economic data;
- Taken advantage of opportunities to work in partnership through special purpose joint ventures to regenerate stock that is reaching the end of its useful life;
- Approved a strong new long-term financial plan which protects our financial strength and reflects the changing risk landscape. This incorporates the results of a detailed assessment of the assumptions we use for business planning to ensure that they properly reflect the new environment. For instance, we have reflected the risk of increased arrears and bad debts by adopting more prudent assumptions in this area;
- Undertaken a range of robust sensitivity and scenario analysis which demonstrates options for recovering from adverse movements in our financial results;
- Developed a new Treasury Strategy which, amongst other things, seeks to:
    - Place long-term bond issuance at the core of our funding model;
    - Respond to the changing debt requirements of the business by re-balancing both the term and nature of our debt;
    - Improve our focus on investor relations;
    - Accelerate our on-going programme of charging housing assets for security purposes to increase headroom and improve flexibility;
- Strengthened governance by completing the simplification of the Group by merging the three largest housing associations to form Affinity Sutton Homes;
- Strengthened our financial "golden rules" in the light of the new investment model;
- Incorporated into our medium term financial plans provision for the major redevelopment of one of our oldest estates;
- Retained our cautious approach to market sales risk;
- Continued to mitigate development risk by working in joint venture partnerships with commercial developers;
- Continued to develop strategies to maintain good levels of property sales for projects developed for this purpose;
- Working with the Remuneration and Nominations Committee, we have continued to develop strategies to minimise the risks arising from further pension liabilities.

## Financial performance

**Affinity Sutton Group has delivered another year of strong financial performance. The Group generated a surplus of £46 million (2010/11 restated: £49 million) on a turnover of £273 million (2010/11: £268 million).**

Affinity Sutton has a reputation for robust financial management. We see maintaining this strong financial position as one of our core objectives, because without it we will not be able to achieve our broader aims. With Major Works capital expenditure at £47 million, all of this year's surplus was broadly matched by investment in our housing stock through a programme of planned repairs and improvements. This strong financial position also underpins our Affordable Homes programme and the increases in debt we will need to put in place in order to fund them.

### Surplus

The following table provides a summary of the Group's results for the last five years:

| | 2011/12 £m | Restated 2010/11 £m | 2009/10 £m | 2008/09 £m | 2007/08 £m |
|---|---|---|---|---|---|
| **Turnover** | **273** | **268** | **274** | **238** | **215** |
| Cost of Sales | (23) | (23) | (33) | (19) | (10) |
| Operating costs | (155) | (157) | (154) | (145) | (140) |
| Exceptional items | (4) | 5 | - | (13) | - |
| **Operating surplus** | **91** | **93** | **87** | **61** | **65** |
| Surplus/(deficit) on disposal of properties | - | (1) | 1 | 2 | 4 |
| Interest (net borrowing costs) | (45) | (42) | (43) | (43) | (43) |
| Other finance income/(cost) | - | (1) | (1) | - | 1 |
| **Surplus for the year** | **46** | **49** | **44** | **20** | **27** |

Turnover is up on last year by £5.5 million. Whilst rental and other income is up by £15.4 million, the departure of Brighton Housing Trust resulted in a reduction in Turnover of £9.9 million.

The adjusted net surplus for the year shows a net improvement of £6.7 million if exceptional items are excluded. If this year's exceptional impairment charge is added back the underlying surplus is £50.5 million (2010/11 restated: £43.8 million, after adjusting for the exceptional pension credit), an improvement over last year on a "like for like" basis of 15%.

Operating costs are down by about £2.5 million. This reflects a reduction of £9.8 million as a result of the departure of BHT, and increases of £7.3 million. After adjusting for inflationary increases and the impact of component accounting, this represents a real terms reduction in operating costs of £3 million. This is consistent with our aim to bring operating costs down year on year.

In the year Affinity Sutton adopted component accounting for its housing assets, in accordance with SORP 2010. The cost of housing assets is now split into 11 components with different estimated useful lives (see also page 30). As a consequence there will be a higher annual depreciation charge, though this will largely be offset by the capitalisation of components which used to be expensed as major repairs. The table below outlines the impact on the I&E of adopting component accounting:

| **Impact of component accounting** | 2011/12 £m | 2010/11 £m |
|---|---|---|
| Increased depreciation charge | 18.7 | 16.8 |
| Additional major repairs capitalised | (14.9) | (13.8) |
| **Net increase in operating costs** | **3.8** | **3.0** |

The exceptional item largely reflects the impairment of a development in Chichester undertaken through a joint venture. Continuing adverse movements in the housing market and limited mortgage availability have led us to make a provision to reflect a potential future loss in value of this scheme when compared with our initial assumptions.

## Balance Sheet

The following table summarises the Group Balance Sheet for the last five years:

| As at 31 March | 2012 £m | Restated 2011 £m | 2010 £m | 2009 £m | 2008 £m |
|---|---|---|---|---|---|
| Tangible fixed assets | 1,507 | 1,380 | 2,208 | 2,153 | 2,026 |
| Net current assets | 95 | 154 | 77 | 110 | 12 |
| **Total assets less current liabilities** | **1,602** | **1,534** | **2,285** | **2,263** | **2,038** |
| Creditors due in over one year | 1,164 | 1,120 | 979 | 994 | 822 |
| Income and expenditure account | 391 | 375 | 304 | 275 | 270 |
| Revaluation and other reserves | 7 | 7 | 944 | 966 | 938 |
| Other | 40 | 32 | 58 | 28 | 8 |
| | **1,602** | **1,534** | **2,285** | **2,263** | **2,038** |

The main movements in the year reflect the impact of the adoption of Component Accounting for dealing with expenditure on major works in line with the housing association Statement of Recommended Practice. In conjunction with this we have revised our accounting treatment of housing properties to reflect their historic cost, rather than their value in existing use. The figures for 2010/11 have been restated to provide a like-for-like comparison with 2011/12, whilst earlier year comparatives continue to reflect the valuation approach.

## Key Group financial indicators

The table below highlights the Group's performance against some of its key financial performance indicators.

| | 2011/12 Actual | 2011/12 Target/Budget | Restated 2010/11 Actual |
|---|---|---|---|
| Operating margin | 33.3% | 34.6% | 34.7% |
| Interest cover | 232.2% | 181.1% | 247.1% |
| Operating cost per home | £2,764 | £2,734 | £2,809 |
| Adjusted cash generation from operations | £31.0m | £19.9m | £32.8m |
| Net margin | 16.9% | 15.9% | 18.4% |
| Gearing | 73.6% | 72.1% | 72.5% |
| Debt per unit | £22,431 | £22,492 | £20,374 |
| Debt:Turnover | 4.3 | 4.4 | 4.2 |
| Ratio of committed development spend covered by cash and available loans | 1.8 | >1.0 | 1.6 |

With the exception of operating margin and gearing, each measure is better than or in line with the forecast figure or the Group's target.

If exceptional items are excluded then operating margin is 34.9%, which is an improvement against target, and net margin is 18.5%.

Operating costs per home are slightly above budget, but have again improved against the previous year.

Adjusted cash generation is strong at £31.0 million, and is broadly in line with 2011. This indicator is critically important since it provides a measure of our ability to meet the underlying obligations of our stock without recourse to debt finance. Positive cash generation provides vital support for the development of new homes.

Gearing is slightly higher than budget as a result of the drawdown of banking facilities reaching the end of their availability period.

## Operational performance

**The following table shows some of our key measures of operational performance.**

| | Group 2012 | Target for Group | Group 2011 | Target Met |
|---|---|---|---|---|
| Current Arrears as % of Rent Debit (Social Housing) | 4.6% | <4.3% | 4.8% | No |
| % of Rent Loss due to Voids | 1.9% | 1.9% | 1.7% | Yes |
| Average Days to Re-let (Social Housing) | 26.4 | <27.0 | 27.6 | Yes |
| % of Residents satisfied with repairs | 86.7% | >85.0% | 86.1% | Yes |
| Resident Satisfaction | 80.1% | >80.0% | 80.4% | Yes |
| % Properties meeting Decent Homes Standards | 100.0% | 100.0% | 100.0% | Yes |

**Rent arrears:** This measures the amount of rent owed by current tenants compared to the annual rent charge. Although we did not quite achieve our challenging target, our arrears performance improved significantly in 2011/12. This reflected a change to working practices, a re-organisation of the team to ensure that their work focussed on targeted areas, and a more co-ordinated approach to collection across the business. We are targeting further reductions next year with a 2012 target set at 4.25%. We know that the challenging economic conditions and the reforms to welfare benefit will make this difficult to achieve and maintain, but we are bringing in a range of other measures designed to ensure that we continue to see improved performance in this area.

**Rent loss due to voids:** Performance is in line with target but slightly worse than last year. In accordance with our new HCA development contract we are re-letting a number of properties at Affordable Rent levels. This is the first year we have adopted this policy and as such we needed to undertake enhanced repair work to a number of these properties which increased void periods.

**Re-let times:** Performance improved compared to 2011 and is better than target. We completed 2,388 relets, 831 new lets and 432 temporary accommodation relets in the year. This includes 222 lettings under the new Affordable Rent arrangements.

**Repairs performance:** Contractors' performance is monitored on a monthly basis via a suite of performance measures which are collated through an independent satisfaction survey. Customer satisfaction in the year has been good with performance ahead of target and showing a small improvement on last year. During the year we re-tendered our day-to-day repairs service and awarded the contract to Willmott Dixon who took on the repairs responsibility for almost half our housing stock at the end of June. CBS, the Group's in-house maintenance contractor, have responsibility for the remainder of the Group's properties.

**Customer Satisfaction:** Each quarter an independent customer satisfaction survey is carried out by the Leadership Factor. The latest results relate to the March 2012 survey which at 80.1% is at target.

**Decent Homes:** The Group was fully compliant with the Decent Homes Standard at the year end.

# Value for money and benchmarking

## Our commitment to VfM

**Affinity Sutton Group is driven by trying to find ways to provide excellent services at the same time as seeking to reduce costs and improve efficiency. The importance of VfM and efficiency are well understood by staff throughout the business, and we continue to work to ensure that we are effectively engaging residents in VfM.**

We also believe that the Group offers excellent VfM for the public purse through its investment in the development of new homes. Over the last three years our expenditure on the development of new homes was largely funded by private debt and our own internal resources, with just over a third coming from government grant.

How the Group funds its development activities on a three-year rolling basis:


## How we deliver on VFM

The Group believes that a balance of quality, regulated rent structures and a focus on surplus levels is the best way to ensure that efficiency continues to improve. We place particular attention on a number of key financial ratios which form a set of financial golden rules. Amongst other measures, these target year on year decreases in real per unit operating costs as a key indicator of efficiency. The Group's operating costs, key financial indicators and operational performance, are regularly benchmarked against a peer group made up of the largest national and London associations.

The Group relies on an embedded programme of resident satisfaction surveys to measure progress with satisfaction. On stock condition, it has met and plans to go beyond the Decent Homes Standard. Rents continue to be limited by the formulaic target levels, and we are on target to meet these levels across the Group.

Chief among the ways in which we seek to improve efficiency and VfM is growth through merger. Two significant mergers have generated major savings in operating costs which are probably unprecedented in the sector. About £5.7 million savings per annum have been generated from mergers alone. In parallel we have adopted cost reduction plans which have seen year on year decreases in Operating Costs. In total since 2003 some £17 million per annum in costs has been removed from the business at the same time as resident satisfaction has increased.

In addition VfM achievements in the year include:

- Efficiency savings of over £7 million from procurement exercises across a range of services;
- Tendering and letting a partnering contract to provide day-to-day maintenance services for our stock in London and the South. We have set up an innovative partnering arrangement through a new subsidiary, Affinity Sutton Labour Agency, and are expecting initial savings of £2 million per annum and more in the future;
- We were a first mover in an innovative insurance arrangement through Igloo, a special purpose company, which is expected to result in significant savings in insurance premium costs and improve our focus on risk management;
- The first full year of operations having brought our financial services function back in house after 10 years under an outsourcing contract. As well as enabling us to improve the service delivery we have nearly doubled our targeted annual savings of £0.35 million;
- We involved residents in the specification and appraisal of a number of new contracts, including external works in Bromley and cyclical works across the country.

## Benchmarking: how we compare

We believe that comparing our performance with that of our peers can provide an important benchmark across a range of outputs. For a number of years we have therefore compared both our financial and operating performance with our peer group[1].

The following table shows Affinity Sutton's performance[2] for 2012 and 2011, and provides a comparison with the peer group using 2011 published data. National average and top quartile data is also shown where available and relevant.

| | Affinity Sutton 2012 | Restated Affinity Sutton 2011 | Peer group 2011 Average | Affinity Sutton peer group ranking 2011 | National average 2011 (where available) |
|---|---|---|---|---|---|
| **Financial VFM analysis** | | | | | |
| Management costs per home £ | 554 | 546 | 1,015 | 5 | 873 |
| Maintenance, cyclical and major repairs expenditure per home £ | 1,967 | 1,763 | 1,757 | 13 | 1,905 |
| Rent void losses per home (general needs properties, excluding garages) £ | 58 | 56 | 50 | 12 | n/a |
| Social housing lettings operating margin % | 39.2 | 38.6 | 27.6 | 1 | 21.4 |
| Operating cost per home £ | 2,764 | 2,809 | 4,593 | 1 | 3,659 |
| Services costs per home £ | 346 | 417 | 527 | 4 | n/a |
| Overheads as a percentage of income % | 7.3 | 7.2 | 9.1 | 3 | n/a |
| Chief Executive pay per home £ | 4.9 | 4.8 | 6.4 | 10 | n/a |
| Ratio of Chief Executive emoluments to average staff emoluments (excluding employer's pension contribution) | 8.4 | 8.7 | 10.8 | 13 | n/a |
| Board and Executive pay per home £ | 28.5 | 28.3 | 32.5 | 11 | n/a |
| **Housing management VFM analysis** | | | | | **HouseMark RSLs >10,000 units 2011** |
| Current rent arrears % – social housing properties | 4.62 | 4.80 | 5.02 | 6 | 4.60 |
| Re-let times in days – social housing properties | 26.4 | 27.6 | 35.0 | 2 | 32.8 |
| Residents' satisfaction overall %[3] | 80.1 | 80.4 | 75.0 | 1 | 77.0 |
| Residents' satisfaction with repairs %[3] | 86.7 | 86.1 | 71.0 | 1 | 73.0 |

1 Comprised of the large London housing associations (the G15 group) and five of the largest national housing associations: Sanctuary, Places for People, Guinness, Home and Riverside

2 Data provided in the table largely reflects General Needs stock and therefore the results differ from the table on page 14 where all social housing stock is covered.

3 The resident satisfaction measures for the Group are based on surveys by the Leadership Factor whereas the peer group satisfaction scores are in general based on the Status triennial survey.

### Financial VfM analysis

| | |
|---|---|
| Management costs per home £ | Management cost per home is calculated based on the detail in Note 2b to the accounts. We continue to demonstrate top quartile management costs performance when compared to our peer group averages. |
| Maintenance, cyclical and major repairs expenditure per home £ | ASG's unit cost at £1,967 reflects the continued investment in our homes on day-to-day maintenance and planned works. The cost range is from £885 to £3,155. Nearly 60% of the Group's spend represents planned and major works. |
| Rent void losses per home (general needs properties, excluding garages) £ | A small deterioration in relets with performance at £58 per home (2011: £56). The Group is in the third quartile on void losses in a peer group range from £25 to £103. |
| Social housing lettings operating margin % | At 39.2% this reflects ASG's continued focus on efficiency and surplus generation to provide resources for investment in our social activities. We are yet again ranked first within the peer group and have been a top quartile performer for a number of years, demonstrating our commitment to deliver operational and financial efficiencies. |
| Operating cost per home £ | The Group continues to have the lowest operating cost per home compared to its peers. At £2,764 per home the figure is lower than any of the 2011 benchmark group, the peer group average of £4,593 and the national average of £3,659. |
| Services costs per home £ | We are top quartile performer on service costs per home at £346, lower than last year and significantly below the peer group average of £527. |
| Overheads as a percentage of income % | Overheads are slightly up on last year at 7.3% of income but well below the peer group average of 9%. We are ranked in the top quartile on this measure. |
| Chief Executive pay per home £ | ASG's performance at £4.90 is marginally up on last year but well below the peer group average of £6.40. The ranking here is in the middle of the peer group rankings. |
| Ratio of Chief Executive emoluments to average staff emoluments (excluding employer's pension contribution) | At 8.4, the ratio of chief executive pay as compared to average staff pay, is slightly down on last year. This is based on average staff pay at Affinity Sutton of £32,955 per annum. |
| Board and Executive pay per home £ | The Group is at £28.50 in a peer group range of £7.05 to £61.39. |

### Housing Management VfM analysis

| | |
|---|---|
| Current rent arrears % – social housing properties | Our arrears performance at 4.62% has improved during the year and is better than the peer group average of 5.02%. We are now a second quartile performer. Our focus on this area will continue and we aim to improve performance in this area still further. |
| Re-let times in days – social housing properties | With a 26.4 day average turnaround, the Group is a top quartile performer, ranking second overall. The peer group average is 35 days. |
| Residents' satisfaction overall % | The year-end satisfaction rating of 80.1% is based on an independent survey by the Leadership Factor which compares favourably with the peer group average of 75%. |
| Residents' satisfaction with repairs % | ASG's residents' satisfaction with repairs at 86.7% compares well with the peer group average of 71.0%. |

## Property development and sales

During the year we contracted with the Homes and Communities Agency (HCA) to develop 3,098 new homes under the Government's Affordable Rent programme for 2011/2015 with grant support of £65 million. We expect this to result in the development of 2,117 new homes for rent at sub-market levels, and 981 homes for part sale on a shared ownership basis.

We have continued to maintain a strong development programme over the past year, outperforming against both our own internal targets and those set by the HCA. We completed over 1,100 new homes, of which 918 were for rent, 169 were for low cost home ownership, and 49 were for sale on the open market. In addition, we started construction on over 800 new affordable homes, of which 469 were for rent and 338 for shared ownership. We also started work on over 400 homes for sale through joint ventures.

Grant income for 2011/12 was £33.9 million, which provided 25% of the development costs. The balance (75%) was provided by £100.4 million of private loans and funding from internal resources. At the year end over 2,400 new affordable homes were either already in development or had been approved by the Board to proceed.

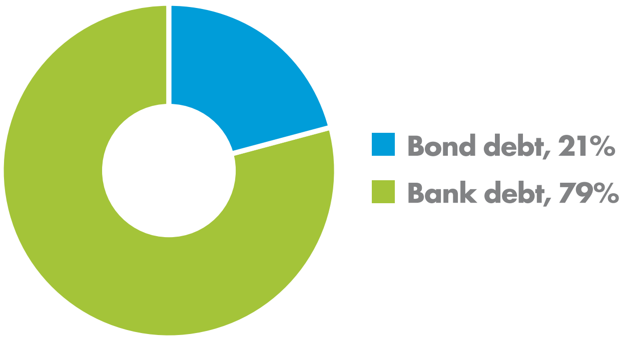
As in recent years, the new homes developed in 2011/12 have been mainly in London and the South East, with 76% of all completed units. This reflects higher levels of demand in these areas compared with the other regions where we operate. This figure will increase in future years as our programme elsewhere reduces still further.

Sales performance for 2011/12 has been strong with 211 sales (189 shared ownership and 22 sold on the open market), and revenues £1.5 million better than budget. Sales rates remained strong, with properties selling in an average of 8.9 weeks compared with our 12 week target.

## Treasury management

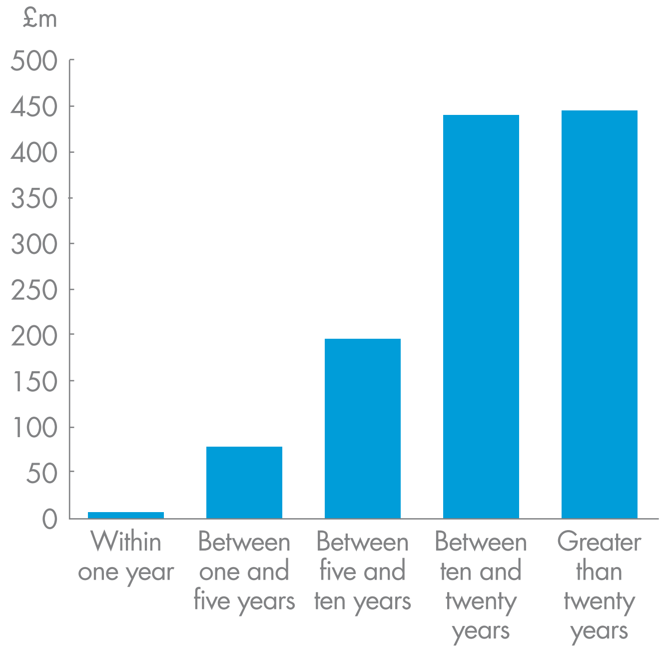
As at 31 March, the Group had £1.32 billion of committed debt funding, with drawn funding totalling £1.17 billion, up from £1.12 billion in 2011. The Group seeks to maintain diversification in its funding sources, with 21% of committed funding coming from the capital markets and 79% coming from five banks and building societies.

### Bank vs Bond debt



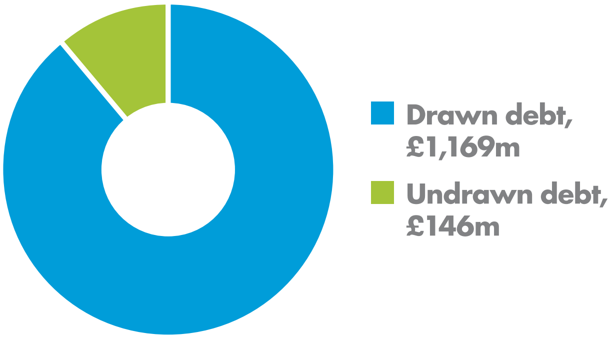

The Group has limited re-financing risk in the next five years with over three-quarters of the Group's debt maturing after ten years.

### Debt repayment profile

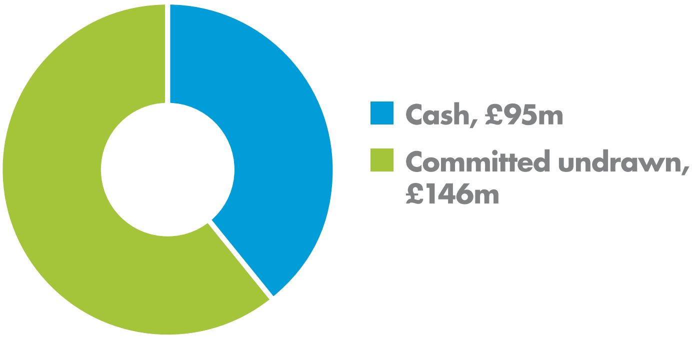


As at 31 March, the Group maintained £146 million of committed undrawn facilities available for immediate drawing and £95 million of cash in hand, representing total available liquidity of £241 million. In line with the Group's prudent polices on liquidity management, these resources are more than sufficient to meet all of the Group's contractual commitments to developers and house builders.

## Total committed funding



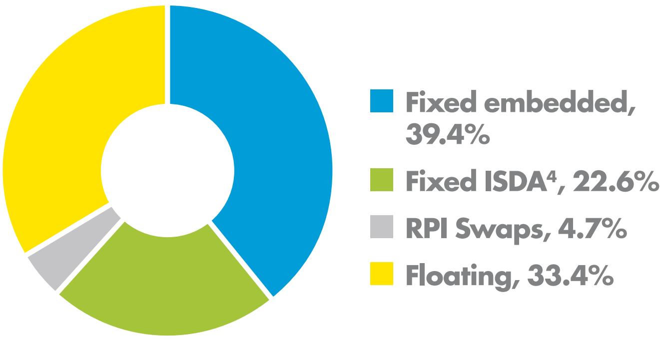

## Available liquidity




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 65% to 85% of its net debt with predominantly fixed rate instruments and a small proportion of index linked instruments, with flexibility to depart from these parameters if circumstances make this more appropriate. At the year end, this policy resulted in a portfolio that was 62% fixed-rate, 33% floating rate, and 5% index-linked. The Group does not have any non-Sterling interest rate or exchange rate exposures.

The Group maintains its desired interest rate profile through a mixture of embedded instruments (including fixed rate bank loans and bonds) and stand alone swaps (including fixed and index linked derivatives with bank counterparties). As at year end, 59% of the Group's hedging activities were undertaken through embedded instruments and 41% through stand alone swaps. All of the Group's swap transactions allow social housing assets to be used as collateral to cover mark to market positions.

## Hedging activity %




The Group maintains a formal counterparty policy in respect of those organisations from which it will borrow, or with which it will enter into other finance arrangements and derivative transactions. Similarly, on investments, the Group regards the prime objective of its treasury management activity to be the security of the principal sums invested. Accordingly, it ensures that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited.

[4] Free-standing derivative instruments

## 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 currently comprises eight Non Executive Directors and three Executive Directors. The Group has adopted and complies with the requirements of the National Housing Federation Code of Governance.

In July 2011 shareholders voted to support proposals to amalgamate the three large housing associations in the Group into a single landlord, owning and managing all the social housing. The new amalgamated subsidiary, Affinity Sutton Homes, took over from Broomleigh, Downland and William Sutton Housing Associations on 30 September 2011.

The Board has undergone substantial change in its membership during the year as several members have retired following simplification of the group structure. In April 2012 two new non executive members joined the Group board.

The Group has encouraged and fostered greater resident involvement in its decision making structures. It has set up structures which allow residents to be active in scrutinising the performance of the group in delivering local services and creating opportunities for involvement in local neighbourhoods. This is achieved at local level by working closely with resident area panels, at regional level through regional scrutiny boards, and at national level through a newly created National Residents' Council. The Board's proposals were developed with the help of residents' representatives and have created the opportunity for many more residents to become active in the Group's work.

The key responsibilities of the Group Board are to lead, control and monitor the overall performance of the Group. Landlord services are delivered by Affinity Sutton Homes. The Group Board approves the budgets and business plans of its subsidiaries 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. These Committees are:

- Audit;
- Remuneration and Nominations;
- Treasury; and
- Project Approval.

## Pay and Reward

The Remuneration and Nominations Committee sets the pay of the Executive Directors at a level to attract and retain the talent required to lead the Group. In doing this it takes into account comparable evidence and benchmarking data from a range of sources both within and outside the sector. The Board aims not to pay the highest salaries in the market but instead to offer a competitive package of salary plus other pay and non-pay benefits. From 1 April 2012 pay rates increased by 2.5% for all Directors and staff, reflecting prevailing conditions in the wider market.

The pension schemes available to the Executive Directors are offered on the same terms as to all other staff. All Executive Directors and staff participate in a non-consolidated bonus scheme. As part of this package the Group offers bonuses at all levels, with payment dependent on performance against customer satisfaction and financial criteria along with team-based targets. In the case of Group Executive Directors, this is designed to reward personal performance against objectives and business targets.

We remain committed to transparency in our arrangements for senior executive pay, and the Committee has already adopted many of the principles included in the Fair Pay Code proposed by the Hutton Report on Fair Pay in the Public Sector. Our intention is to proceed to full implementation of the remainder of the Code, or of any alternative measures introduced as legislative requirement or promoted as good practice, when these are determined and a timetable is published. In the meantime we have reported the ratio of the Chief Executive's earnings to average staff earnings above.

The Remuneration and Nominations Committee during the year agreed that the Chief Executive would cease payments into the Social Housing Pension Scheme. The Chief Executive's salary has been adjusted in lieu of the contributions that the employer would have made to this scheme.

The emoluments of the Non Executive and Executive directors (excluding pension contributions and pay in lieu of pension contributions) of Affinity Sutton Group Limited, who served during the year, were as follows:

| | | 2011/12 | | | | 2010/11 |
|---|---|---|---|---|---|---|
| Director | Role | Salary £ | Fee £ | Other benefits £ | Total £ | Total £ |
| Neil Goulden[1] | Chairman | - | | - | - | - |
| Pat Berry | Vice Chairman | - | 13,775 | - | 13,775 | 10,830 |
| Joyce Batten[2] | Non Executive Director | - | 3,500 | - | 3,500 | 9,355 |
| Desmond Begley[2] | Non Executive Director | - | 3,500 | - | 3,500 | 10,500 |
| Peter Berry[3] | Non Executive Director | - | 6,750 | - | 6,750 | 13,083 |
| Alan Forbes[4] | Non Executive Director | - | 6,750 | - | 6,750 | 13,500 |
| Mark Haysom CBE[5] | Non Executive Director | - | 8,250 | - | 8,250 | 2,666 |
| Mike Herring | Non Executive Director | - | 13,775 | - | 13,775 | 13,500 |
| Jonathan Paine[6] | Non Executive Director | - | 8,813 | - | 8,813 | 2,666 |
| Peter Reynolds | Non Executive Director | - | 8,250 | - | 8,250 | 9,833 |
| Colin Sturgeon[7] | Non Executive Director | - | 10,688 | - | 10,688 | 9,827 |
| Keith Exford | Group Chief Executive | 231,132 | - | 45,690 | 276,823 | 270,920 |
| Mark Washer | Group Finance Director | 156,878 | - | 36,613 | 193,490 | 194,774 |
| Kerry Kyriacou | Group Development Director | 147,084 | - | 38,737 | 185,821 | 181,830 |
| Jonathan Cawthra | Group Resources Director | 103,351 | - | 25,472 | 128,823 | 135,717 |
| Nick Dudman[8] | Group Asset Management Director | 110,584 | - | 64,676 | 175,260 | 131,275 |
| Neil McCall | Group Operations Director | 139,331 | - | 26,646 | 165,977 | 166,001 |
| Clare Miller[9] | Group Director of Governance and Compliance | 116,830 | - | 21,676 | 138,506 | 99,000 |
| Mark Perry | Group Commercial Director | 114,355 | - | 32,377 | 146,732 | 154,396 |

[1] Remuneration not drawn

[2] In post for part of 2011/12 only: resigned 28 July 2011

[3] In post for part of 2010/11 and 2011/12 only: appointed 1 May 2010 and resigned 30 September 2011

[4] In post for part of 2011/12 only: resigned 30 September 2011

[5] In post for part of 2010/11 only: appointed 1 December 2010

[6] In post for part of 2010/11 only: appointed 1 December 2010. Remuneration paid to NM Rothschild & Sons Limited, his employer.

[7] In post for part of 2010/11 only: appointed 18 May 2010

[8] Other benefits includes a redundancy payment of £45,000

[9] In post for part of 2010/11 only: appointed 28 June 2010

# Statement of the Board's responsibilities in respect of the report of the Board and the financial statements

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

Industrial and Provident Society law requires the Board to prepare financial statements for each financial year. Under those regulations the Board have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the Group and Association and of the surplus or deficit for that period.

In preparing these financial statements, the Board is required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Association will continue in business.

The Board is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and the Association and enable them to ensure that its financial statements comply with the Industrial & Provident Societies Acts 1965 to 2003, the Housing and Regeneration Act 2008, and the Accounting Requirements for Registered Social Landlords General Determination 2006. The Board 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 Group's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

# The Group's system of internal controls

## Responsibility

The Board of Affinity Sutton 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 assurance for the safeguarding of assets. The key means of identifying, evaluating and managing the systems of internal control are:

- 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. The Group also operates a quality review framework that encourages continuous improvement which, at Group level, is monitored internally;
- A Group-wide Internal Audit function, structured to deliver the Audit Committee's three-year risk-based strategic audit plan, quality assurance and value for money. 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 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;
- We retained the Royal Society for the Prevention of Accidents (RoSPA) Gold Awards for their management of Health and Safety;
- Management structures providing balance and focus within the Group;
- A Group-wide risk management function, which seeks 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;
- The Group and its subsidiaries have annual budgets and long-term business plans. Throughout the year, Boards and managers regularly monitored performance against budgets and other indicators. An important tool in this process has been the Balanced Scorecard which identifies performance against key performance indicators;
- Regulatory requirements and service objectives and ensuring that variances are investigated and acted upon;
- An anti-fraud culture which is supported by a policy and procedure for dealing with suspected fraud and whistleblowing. The Group participated in the 2011/12 National Fraud Initiative sponsored by the Audit Commission;
- All housing investment decisions and major commitments were subject to appraisal and approval by the Group Project Approval Committee and, when appropriate Group Executive Team and the relevant Board, in accordance with the Group's financial regulations; and
- 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 2012 and up to the date of approval of the Annual Report and the Financial Statements. The Group Audit Committee, on behalf of the Group Board, has expressed its 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.

## Going Concern

After reviewing the Group's budget for 2012/13 and those of its subsidiaries, and based on normal strategic business planning and control procedures, the Board has a reasonable expectation that Affinity Sutton Group Limited has adequate resources to continue in operational existence for the foreseeable future.

## Auditors

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

Neil Goulden
Group Chairman
12 July 2012

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AFFINITY SUTTON GROUP LIMITED

We have audited the financial statements of Affinity Sutton Group Limited for the year ended 31 March 2012 which comprise the Group and Association Income and Expenditure Accounts, the Group Statement of Total Recognised Surpluses and Deficits, the Group and Association Balance Sheets, the Group Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Association's members, as a body, in accordance with section 128 of the Housing and Regeneration Act 2008 and section 9 of the Friendly and Industrial and Provident Societies Act 1968. Our audit work has been undertaken so that we might state to the Association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and the Association's members, as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of the Board and auditor

As more fully explained in the Statement of Board's Responsibilities set out on page 22, the Association's Board is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at *http://www.frc.org.uk/apb/scope/private.cfm*

## Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the Group and the Association as at 31 March 2012 and of the Group surplus and Association deficit for the year then ended; and
- have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2003 and the Industrial and Provident Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Requirements for Registered Social Landlords General Determination 2006.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Industrial and Provident Societies Acts 1965 to 2003 and the Industrial and Provident Societies (Group Accounts) Regulations 1969 require us to report to you if, in our opinion:

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

**Harry Mears (Senior Statutory Auditor)**
**for and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants
1 Forest Gate
Brighton Road
Crawley
West Sussex
RH11 9PT

16 July 2012

# GROUP AND ASSOCIATION INCOME AND EXPENDITURE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2012

## Group

| | Notes | 2012 Group excluding Interests in Joint Ventures £'000 | 2012 Interests in Joint Ventures £'000 | 2012 Group £'000 | Restated 2011 Group £'000 |
|---|---|---|---|---|---|
| Turnover | 2(a) | **266,076** | **6,951** | **273,027** | 267,511 |
| Cost of sales | 2(a) | **(15,925)** | **(6,733)** | **(22,658)** | (22,597) |
| Operating costs | 2(a) | **(155,101)** | **–** | **(155,101)** | (157,598) |
| Exceptional items | 2(a) | **(4,267)** | **–** | **(4,267)** | 5,407 |
| **Operating surplus** | 2(a) | **90,783** | **218** | **91,001** | 92,723 |
| Surplus/(deficit) on disposal of properties | 2(a) | **190** | **–** | **190** | (598) |
| Interest receivable and similar income | | **1,901** | **–** | **1,901** | 2,685 |
| Interest payable and similar charges | 5 | **(47,195)** | **(32)** | **(47,227)** | (44,780) |
| Other finance income/(cost) | 25 | **162** | **–** | **162** | (687) |
| **Surplus on ordinary activities before taxation** | 6 | **45,841** | **186** | **46,027** | 49,343 |
| Tax on surplus on ordinary activities | 7 | **161** | **–** | **161** | (116) |
| **Surplus for the year** | 19 | **46,002** | **186** | **46,188** | 49,227 |

All operations are continuing.

## Association

| | Notes | 2012 £'000 | 2011 £'000 |
|---|---|---|---|
| Turnover | 2(a) | **60,368** | 59,588 |
| Operating costs | 2(a) | **(59,999)** | (59,444) |
| **Operating surplus** | 2(a) | **369** | 144 |
| Deficit on disposal of other fixed assets | 2(a) | **(105)** | – |
| Interest receivable and similar income | | **6** | 7 |
| Interest payable and similar charges | 5 | **(96)** | (71) |
| **Surplus on ordinary activities before Gift Aid and taxation** | | **174** | 80 |
| Payment under Gift Aid to charitable subsidiary | | **(460)** | – |
| **Surplus/(deficit) on ordinary activities before taxation** | 6 | **(286)** | 80 |
| Tax on surplus/(deficit) on ordinary activities | 7 | **(153)** | (80) |
| **Surplus/(deficit) for the year** | 19 | **(439)** | – |

All operations are continuing.

There were no other recognised gains and losses, other than those in the Income and Expenditure Account, in either the current or preceding year.

# GROUP STATEMENT OF TOTAL RECOGNISED SURPLUSES AND DEFICITS FOR THE YEAR ENDED 31 MARCH 2012

| | Notes | **2012 £'000** | Restated 2011 £'000 |
|---|---|---|---|
| Surplus for the financial year | | **46,188** | 49,227 |
| Actuarial gains/(losses) on pension schemes | 25 | **(17,210)** | 10,521 |
| Unrealised surplus/(deficit) on revaluation of properties | 9, 19 | **130** | (160) |
| **Total recognised surplus for the year** | | **29,108** | 59,588 |
| Prior year adjustment | 19 | **(1,041,331)** | |
| **Total deficits since the last annual report** | | **(1,012,223)** | |

A prior year adjustment relating to the implementation of component accounting (see note 8) gave rise to a reduction in surpluses recognised in previous years of £1,041,331,000. Of this, £5,825,000 relates to 2011 (see note 2) and £1,035,506,000 relates to 2010 and previous years.

There is no difference between the surplus as shown above and that calculated on an historical cost basis.

# GROUP AND ASSOCIATION BALANCE SHEETS AS AT 31 MARCH 2012

| | | Group | | Association | |
|---|---|---|---|---|---|
| | | | Restated | | |
| | | **2012** | 2011 | **2012** | 2011 |
| | Notes | **£'000** | £'000 | **£'000** | £'000 |
| **Tangible fixed assets** | | | | | |
| Housing properties | 8 | **1,427,793** | 1,315,981 | **–** | – |
| Non-housing fixed assets | 9 | **42,504** | 39,660 | **4,364** | 4,168 |
| Fixed asset investments | 10 | **24,420** | 23,092 | **350** | – |
| Investment in joint ventures | | | | | |
| – share of gross assets | 11 | **80,331** | 61,335 | **–** | – |
| – share of gross liabilities | 11 | **(68,307)** | (60,458) | **–** | – |
| **Total tangible fixed assets** | | **1,506,741** | 1,379,610 | **4,714** | 4,168 |
| **Current assets** | | | | | |
| Stock | 12 | **24,857** | 15,886 | **–** | – |
| Debtors – due within one year | 13 | **34,421** | 50,293 | **3,139** | 4,467 |
| – falling due after more than one year | 13 | **903** | 6,264 | **–** | – |
| Cash at bank and in hand | | **95,478** | 147,388 | **1,470** | 1,052 |
| | | **155,659** | 219,831 | **4,609** | 5,519 |
| **Current liabilities** | | | | | |
| Creditors: amounts falling due within one year | 14 | **(53,652)** | (51,593) | **(4,437)** | (8,362) |
| Provisions for liabilities and charges | 17 | **(6,500)** | (13,650) | **–** | – |
| **Net current assets/(liabilities)** | | **95,507** | 154,588 | **172** | (2,843) |
| **Total assets less current liabilities** | | **1,602,248** | 1,534,198 | **4,886** | 1,325 |
| **Creditors:** amounts falling due after more than one year | 15 | **1,163,963** | 1,120,014 | **5,500** | 1,500 |
| **Provisions for liabilities and charges** | | | | | |
| Pension liabilities | 17 | **40,127** | 26,404 | **–** | – |
| Refurbishment liability | 17 | **–** | 6,264 | **–** | – |
| **Capital and reserves** | | | | | |
| Share capital | 18 | **–** | – | **–** | – |
| Revaluation reserve | 19 | **6,815** | 6,685 | **–** | – |
| Restricted reserves | 19 | **3** | 96 | **–** | – |
| Income and expenditure account | 19 | **391,340** | 374,735 | **(614)** | (175) |
| Negative goodwill | 19 | **–** | – | **–** | – |
| | | **1,602,248** | 1,534,198 | **4,886** | 1,325 |

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

Neil Goulden
Chairman

Mark Washer
Group Finance Director

Clare Miller
Company Secretary

12 July 2012

# GROUP CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2012

| | Notes | 2012 £'000 | 2012 £'000 | Restated 2011 £'000 | Restated 2011 £'000 |
|---|---|---|---|---|---|
| **Net cash flow from operating activities** | 24(i) | | **106,411** | | 111,218 |
| **Returns on investments and servicing of finance** | | | | | |
| Interest received and similar income | | **1,901** | | 2,685 | |
| Interest paid and similar charges | | **(50,998)** | | (48,383) | |
| **Net cash outflow** | | | **(49,097)** | | (45,698) |
| **Taxation** | | | | | |
| Corporation tax paid | | **(156)** | | (117) | |
| **Net cash outflow** | | | **(156)** | | (117) |
| **Capital expenditure and financial investments** | | | | | |
| Expenditure on housing properties | | **(190,562)** | | (185,818) | |
| Grants received for housing properties | | **42,460** | | 55,314 | |
| Expenditure on other fixed assets | | **(7,041)** | | (4,023) | |
| Grants received for other fixed assets | | **–** | | 532 | |
| Sale of housing properties | | **4,636** | | 5,917 | |
| Increase in fixed asset investments | | **(5,595)** | | (6,101) | |
| **Net cash outflow** | | | **(156,102)** | | (134,179) |
| **Net cash outflow before management of liquid resources and financing** | | | **(98,944)** | | (68,776) |
| **Management of liquid resources** | | | | | |
| Reduction in amount held on deposit | | **–** | | 13,134 | |
| **Net cash inflow** | | | **–** | | 13,134 |
| **Financing** | | | | | |
| Housing loans drawn | 24(ii) | **49,121** | | 141,249 | |
| Repayment of finance leases | 24(ii) | **(314)** | | (259) | |
| **Net cash inflow** | | | **48,807** | | 140,990 |
| **Increase/(decrease) in net cash** | 24(ii) | | **(50,137)** | | 85,348 |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

## 1. Accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom and in accordance with the Statement of Recommended Practice "Accounting by registered social housing providers – Update 2010" and the Accounting Requirements for Registered Social Landlords General Determination 2006.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to Affinity Sutton Group Limited's ("the Group") financial statements.

### Basis of preparation

The financial statements are prepared on the historical cost basis of accounting, modified by the revaluation of investment properties.

### Going concern

On the basis of their assessment of the Group's financial position and resources, the Board believe that the Group is well placed to manage its business risks. Therefore the Group's Board have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of all members of the Group as at 31 March 2012, using merger and acquisition accounting where appropriate. The Group's share of its joint ventures is included using the gross equity method.

### Prior period adjustment

The Group adopted the Statement of Recommended Practice "Accounting by registered social housing providers – Update 2010" in the year, having previously followed the 2006 edition.

As a result of this, component accounting has been adopted for the Group's housing properties, as a result of which the previous policy of revaluation is no longer followed. Additionally, negative goodwill previously recognised on acquisitions is now taken to revenue in the period, where this is considered to be a gift to the Group.

The comparatives are restated for these changes in accounting policy.

### Turnover

Rental and service charge income from residential and commercial properties is recognised in the Income and Expenditure Account when it falls due. Grants receivable from local authorities in respect of revenue are credited to the Income and Expenditure Account in the same period as the expenditure to which it relates.

Sales of properties developed for the open market are recognised on legal completion. Turnover also includes receipts from the sale of the first tranche of shared ownership properties.

Disposals include any sales of shared ownership property subsequent to the first tranche.

### Housing properties

Completed housing properties are shown on the Balance Sheet at cost, which is their purchase price, together with incidental costs of acquisition and capitalised repairs and improvements.

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 property or result in increased rental income. Major repairs are charged to the Income and Expenditure Account as incurred in other circumstances.

No provisions are made for future major repairs as future maintenance expenditure is fully provided in the Group's long-term business plan.

Housing properties in the course of construction are stated at cost of works, plus directly attributable development staff costs and interest capitalised during the construction of the property, calculated by reference to the developing subsidiary's average cost of borrowing.

The Group has a land banking policy which may involve the purchase of land or sites without planning consent or grant allocation. Land bank expenditure is stated at the lower of cost and net realisable value, and classified as "Housing Properties in the course of construction". No attributable development staff costs or interest costs are capitalised on land banking.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012 (continued)

## 1. Accounting policies (continued)

### Depreciation

Depreciation is charged as so to write down the cost (net of grants) of housing properties over their estimated useful lives. The cost of properties is composed of the following components, which are depreciated in a straight line over the following number of years:

| | |
|---|---|
| Structure | 100 years |
| Bathrooms | 30-35 years |
| Boilers | 15 years |
| Other heating | 30 years |
| Electrics | 30-35 years |
| Kitchens | 20-25 years |
| Lifts | 20-35 years |
| Roofs – flat | 15-20 years |
| Roofs – pitched | 50-55 years |
| Windows and doors | 30-35 years |
| Other | 10 years |

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

| | |
|---|---|
| Freehold offices | 40-50 years |
| Leasehold office properties | Over the lease period |
| Office furniture and equipment | 4-20 years |
| Computer equipment and software | 3-10 years |
| Motor vehicles owned | 3-4 years |
| Motor vehicles leased | Over the lease period |

No depreciation is provided in respect of investment properties. The directors consider that, because these properties are not held for consumption, but for their investment potential, to depreciate these would not give a true and fair view and that it is necessary to adopt SSAP19 'Accounting for Investment Properties' in order to give a true and fair view.

### Impairment

For assets with a remaining economic life greater than 40 years an impairment review is carried out on an annual basis in accordance with FRS11 'Impairment of Fixed Assets and Goodwill'. For those with a lower economic life an impairment review is undertaken when there is an indication the asset may be impaired. An impairment charge is taken to the Income and Expenditure Account when it is assessed that the holding value of a fixed asset is higher than both the net realisable value and the value in use, in which case the higher of these two values is taken.

### Investment properties

The Group has an interest in the freeholds of certain properties. These are treated under SSAP19 as investment properties.

The freeholds are deemed investment properties because these are held for the purpose of:

- ensuring a continuing ground rent income; and
- guaranteeing future management income.

In accordance with SSAP19, investment properties are revalued annually and the aggregate surplus or deficit is transferred to the revaluation reserve.

### Social Housing Grant

Where developments have been financed wholly or partly by Social Housing Grant, the cost of those developments has been reduced by the amount of the grant receivable.

Although Social Housing Grant is treated as a grant for accounting purposes, it may nevertheless become repayable if the conditions under which the grant was made are not complied with, such as if the properties to which the grant was designated cease to be used for the provision of affordable rental accommodation.

Two percent of Social Housing Grant received is recognised in revenue, in order to offset development costs which the Group is not permitted to capitalise under FRS15 'Tangible Fixed Assets'.

### Other grants

These include grants from local authorities and other organisations. The capital cost of housing properties is stated net of grants receivable on the properties. Grants in respect of revenue expenditure are credited to the Income and Expenditure Account in the same period as the expenditure to which they relate.

### Recycled Capital Grant Fund

The Group has the option to recycle Social Housing Grant which would otherwise be repayable, for use on new developments. If unused within a three year period, it will be repayable to the Homes and Communities Agency with interest. Any unused recycled capital grant held within the fund, which it is anticipated will not be used within one year, is disclosed in the Balance Sheet under 'creditors due after one year'. The remainder is included under 'creditors due within one year'.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012 (continued)

## 1. Accounting policies (continued)

### Disposal Proceeds Fund

The Disposal Proceeds Fund arises from the net proceeds of sales funded by Voluntary Purchase Grant and must be used to provide replacement properties. The fund is included within creditors as required by the Accounting Requirements for Registered Social Landlords General Determination 2006.

### Fixed asset investments

Fixed asset investments are recognised at the lower of the investment made and the net realisable amount. Investments are assessed annually for impairment by reference to forecasts and, where investments attract interest, the interest receivable in a period is only recognised to the extent that there is a reasonable expectation that it will be recoverable when due. Dividends are accounted for on a receivable basis.

### Stock

The cost of stock includes acquisition and development costs together with directly attributable capitalised interest and administration cost. Stock is stated at the lower of cost and net realisable value.

The first tranche proportion of shared ownership properties is shown as stock with the remainder shown as housing properties.

### 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". The asset is recorded in the Balance Sheet as a tangible fixed asset and is depreciated over its estimated useful life. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the Income and Expenditure Account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as "operating leases" and the rental charges are charged to the income and expenditure account on a straight line basis over the life of the lease.

### Taxation

Aashyana Housing Association Limited, Affinity Sutton Community Foundation and Affinity Sutton Homes Limited almost wholly undertake charitable activities which are exempt from corporation tax. The remaining members of the Group, and the joint ventures in which the Group has a share, are liable to corporation tax at the prevailing rate of taxation.

### Deferred tax

Full provision is made for timing differences which have arisen at the balance sheet date where material. Amounts recognised in respect of deferred tax are discounted.

### Value Added Tax

For the majority of the Group's members, Value Added Tax (VAT) affairs are dealt with under a Group registration in the name of Affinity Sutton Group Limited. The Group recovers only a small proportion of input VAT. Expenditure is therefore shown inclusive of VAT with non attributable tax recovered being credited against management expenses.

### Housing loans and other financial instruments

Loans and other financial instruments are stated in the Balance Sheet at the amount of net proceeds. Financial costs relating to new loans are deducted from the loan and amortised over the term of the loan at a constant rate on the carrying value.

Financial costs relating to the renegotiation of existing facilities are amortised over the remaining life of the facility where permitted by FRS4 'Capital Instruments', or otherwise are expensed as incurred.

### Pension costs

The Group participates in six defined benefit and one defined contribution pension scheme.

The assets of the schemes are held separately from those of the Group. Contributions to pension schemes are calculated as a percentage of pensionable salaries of the employees, determined in accordance with actuarial advice. The cost of providing pensions is charged to the Income and Expenditure Account over the periods during which the Group benefits from the employees' services. Lump sum payments are being made to reduce the deficits in schemes closed to new entrants.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised surpluses and deficits, actuarial gains and losses.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012 (continued)

## 1. Accounting policies (continued)

### Restricted and designated reserves

Restricted Reserves represent unspent funds received for specific purposes from external organisations. Restricted Reserves are only expendable in respect of the projects for which they are received.

The Designated Reserve represents funds donated to Affinity Sutton Homes Limited which are earmarked for specific activities not normally supported by the Association. It is included in the Income and Expenditure Account.

### Negative goodwill

Goodwill arising on business combinations in respect of acquisitions represents the difference between the consideration given and the fair value of the net assets acquired. In the case of net assets obtained as a gift, this difference is recognised as a gain in the Income and Expenditure Account at the date of the transaction.

Otherwise, the negative goodwill is included within reserves and released to the Income and Expenditure Account in the periods in which the fair values of the non-monetary assets purchased on the same acquisition are recovered, whether through depreciation or sale.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012 (continued)

## 2. Turnover, cost of sales, operating costs and operating surplus

### 2(a) Particulars of turnover, cost of sales, operating costs and operating surplus

**Group**

| | 2012 | | | | Restated 2011 | |
|---|---|---|---|---|---|---|
| | **Turnover £'000** | **Cost of sales £'000** | **Operating costs £'000** | **Operating surplus £'000** | Turnover £'000 | Operating surplus £'000 |
| **Social housing activities** | | | | | | |
| Income and expenditure from social housing lettings | 230,518 | – | (140,096) | **90,422** | 219,701 | 84,743 |
| Other income and expenditure | 3,507 | – | (3,225) | **282** | 3,025 | (1,950) |
| **Total social housing** | **234,025** | **–** | **(143,321)** | **90,704** | 222,726 | 82,793 |
| **Other social housing activities** | | | | | | |
| Supporting people contract income | 2,061 | – | (2,055) | **6** | 3,076 | 82 |
| Other services | 2,017 | – | (1,939) | **78** | 3,431 | 420 |
| Development costs not capitalised | 614 | – | (2,599) | **(1,985)** | 1,253 | (1,583) |
| **Total** | **4,692** | **–** | **(6,593)** | **(1,901)** | 7,760 | (1,081) |
| **Development for sale** | | | | | | |
| Shared ownership first tranche sales | 14,645 | (11,763) | (387) | **2,495** | 12,764 | 7 |
| Outright sales on the open market | 5,377 | (4,759) | (200) | **418** | 11,008 | 2,094 |
| Outright sales on the open market – joint ventures | 6,951 | (6,733) | – | **218** | 2,912 | 46 |
| Impairment write back | – | 597 | – | **597** | – | 1,531 |
| **Total** | **26,973** | **(22,658)** | **(587)** | **3,728** | 26,684 | 3,678 |
| **Total social and other housing activities** | **265,690** | **(22,658)** | **(150,501)** | **92,531** | 257,170 | 85,390 |
| **Non social housing activities** | | | | | | |
| Income and expenditure from lettings | 1,317 | – | (536) | **781** | 940 | 619 |
| Income relating to commercial tenancies | 2,294 | – | (887) | **1,407** | 1,911 | 1,334 |
| Other | 3,726 | – | (3,177) | **549** | 7,490 | (27) |
| **Total social and non social housing before exceptional items** | **273,027** | **(22,658)** | **(155,101)** | **95,268** | 267,511 | 87,316 |
| Impairment – loan write down from JV | – | – | (4,267) | **(4,267)** | – | – |
| Effect of linking pension increases to CPI | – | – | – | **–** | – | 5,407 |
| **Total social and non social housing** | **273,027** | **(22,658)** | **(159,368)** | **91,001** | 267,511 | 92,723 |
| Surplus/(deficit) on disposal of properties | 6,458 | (5,504) | (764) | **190** | 5,917 | (598) |
| Interest receivable | | | | **1,901** | | 2,685 |
| Interest payable | | | | **(47,227)** | | (44,780) |
| Other finance income/(cost) | | | | **162** | | (687) |
| **Surplus on ordinary activities before taxation** | | | | **46,027** | | 49,343 |

As a result of adopting component accounting, surplus on disposals in 2011 is decreased by £2,749,000. The net effect of this, and the adjustments detailed in note 2b, is that the previously reported 2011 surplus is reduced by £5,825,000.

**Association**

The Association's turnover includes corporate recharges to operating companies and income for information management and development services. During the year a number of non-housing fixed assets were written off, causing a deficit on disposal of £105,000.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012 (continued)

## 2. Turnover, cost of sales, operating costs and operating surplus

### 2(b) Particulars of income and expenditure from social housing lettings

| **Group** | **General Needs Housing £'000** | **Supported Housing/ Housing for older people £'000** | **Shared Ownership Accommo-dation £'000** | **Leasehold £'000** | **Key Workers £'000** | **Total 2012 £'000** | Restated Total 2011 £'000 |
|---|---|---|---|---|---|---|---|
| Rent | 187,189 | 16,300 | 5,183 | 357 | 3,574 | **212,603** | 199,609 |
| Charges for support services | 337 | 1,260 | – | – | – | **1,597** | 3,862 |
| Service charges | 8,394 | 3,965 | 1,060 | 1,523 | 171 | **15,113** | 14,651 |
| Garage rents | 981 | – | – | – | – | **981** | 1,205 |
| **Net rents receivable** | **196,901** | **21,525** | **6,243** | **1,880** | **3,745** | **230,294** | 219,327 |
| Revenue grants from local authorities | 192 | 32 | – | – | – | **224** | 374 |
| **Total income from social housing lettings** | **197,093** | **21,557** | **6,243** | **1,880** | **3,745** | **230,518** | 219,701 |
| **Expenditure on social housing lettings** | | | | | | | |
| Services | (13,798) | (2,722) | (496) | (1,605) | (812) | **(19,433)** | (23,414) |
| Management | (25,315) | (4,317) | (190) | (826) | (440) | **(31,088)** | (30,627) |
| Routine maintenance (including cyclical) | (44,109) | (3,638) | (1) | – | (693) | **(48,441)** | (44,476) |
| Rent losses from bad debts | (1,823) | (140) | (33) | (70) | (59) | **(2,125)** | (1,442) |
| Major repairs expenditure | (14,658) | (904) | – | – | (90) | **(15,652)** | (13,882) |
| Depreciation on housing properties | (19,677) | (2,083) | – | – | (302) | **(22,062)** | (20,268) |
| Impairment of housing properties: write back | – | – | – | – | – | **–** | 212 |
| Rent paid | (1,240) | (53) | (2) | – | – | **(1,295)** | (1,061) |
| **Total expenditure on social housing lettings** | **(120,620)** | **(13,857)** | **(722)** | **(2,501)** | **(2,396)** | **(140,096)** | (134,958) |
| **Operating surplus/(deficit) on social housing lettings** | **76,473** | **7,700** | **5,521** | **(621)** | **1,349** | **90,422** | 84,743 |
| **Void losses** | **2,786** | **1,304** | **142** | **13** | **181** | **4,426** | 3,862 |

As a result of adopting component accounting, £13,820,000 of major repairs in 2011 previously expensed have been capitalised, as under the new policy. An additional £16,792,000 of depreciation has also been recognised in 2011 as a result of the shorter useful lives of components.

As a result of the prior year adjustment to negative goodwill, a £104,000 credit for amortisation previously included in the Management expense for 2011 has been reversed.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012 (continued)

## 3. Directors' emoluments

The directors are defined for the purposes of emoluments as the Chief Executive, any person with the title of Group Director and any person reporting directly to the Chief Executive or directly to the Board.

The emoluments were as follows:

| | **2012** | 2011 |
|---|---|---|
| | **£'000** | £'000 |
| Non executive directors | **84** | 114 |
| Executive directors | **1,366** | 1,344 |
| Compensation for loss of office | **45** | – |
| Pension contributions, or pay in lieu thereof, in respect of services as directors | **106** | 84 |
| | **1,601** | 1,542 |

| | **2012** | 2011 |
|---|---|---|
| | **£** | £ |
| Highest paid director | **276,823** | 270,920 |
| Pension contributions, and pay in lieu thereof, of the highest paid director | **14,144** | 16,995 |

| | **2012** | 2011 |
|---|---|---|
| | **£'000** | £'000 |
| Expenses reimbursed to directors not chargeable to United Kingdom income tax | **13** | 13 |

In line with all other employees, the executive directors received a 2% cost of living increase on 1 April 2011 and a 2.5% cost of living increase on 1 April 2012.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012 (continued)

## 4. Employee information

The average monthly number of persons, including executive directors, employed during the year was:

| | Group | | Association | |
|---|---|---|---|---|
| | **2012 Number** | 2011 Number | **2012 Number** | 2011 Number |
| Full time equivalent | **1,277** | 1,434 | **1,075** | 1,061 |

| **Staff Costs:** | **£'000** | £'000 | **£'000** | £'000 |
|---|---|---|---|---|
| Wages and salaries | **42,083** | 44,696 | **35,657** | 33,363 |
| Social security costs | **3,969** | 3,905 | **3,327** | 2,887 |
| Pension costs | **4,038** | 3,679 | **3,429** | 2,966 |
| | **50,090** | 52,280 | **42,413** | 39,216 |

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

| | **2012 Number** | 2011 Number |
|---|---|---|
| £270,000 to £279,999 | **1** | 1 |
| £190,000 to £199,999 | **1** | 1 |
| £180,000 to £189,999 | **1** | 1 |
| £160,000 to £169,999 | **1** | 1 |
| £150,000 to £159,999 | **–** | 1 |
| £140,000 to £139,999 | **1** | – |
| £130,000 to £139,999 | **1** | 2 |
| £120,000 to £129,999 | **1** | 1 |
| £100,000 to £109,999 | **4** | 4 |
| £90,000 to £99,999 | **7** | 8 |
| £80,000 to £89,999 | **6** | 7 |
| £70,000 to £79,999 | **10** | 7 |
| £60,000 to £69,999 | **32** | 23 |
| | **66** | 57 |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012 (continued)

## 5. Interest payable and similar charges

| | Group | | Association | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **£'000** | £'000 | **£'000** | £'000 |
| Interest on loans and overdrafts | **50,133** | 47,428 | **1** | 1 |
| Interest on intercompany loan | **–** | – | **87** | 66 |
| Interest payable on finance leases | **343** | 337 | **–** | – |
| Other charges | **522** | 618 | **8** | 4 |
| | **50,998** | 48,383 | **96** | 71 |
| Less: interest capitalised | **(3,771)** | (3,603) | **–** | – |
| | **47,227** | 44,780 | **96** | 71 |

Interest is capitalised by the Housing Associations in the Group on properties under construction, using their own weighted average interest rate for borrowing. This rate was 4.42% (2011: between 4.25% and 4.85%).

## 6. Surplus/(deficit) on ordinary activities before taxation

| | Group | | Association | |
|---|---|---|---|---|
| | | Restated | | |
| | **2012** | 2011 | **2012** | 2011 |
| | **£'000** | £'000 | **£'000** | £'000 |
| Surplus/(deficit) on ordinary activities before taxation is stated after charging/(crediting): | | | | |
| Depreciation | **25,506** | 24,125 | **1,383** | 1,689 |
| Reversal of impairment of housing properties | **(597)** | (1,743) | **–** | – |
| Impairment of goodwill | **–** | 62 | **–** | – |
| Charitable donations | **28** | 6 | **27** | 145 |
| Operating lease rentals | **3,885** | 4,265 | **1,704** | 1,437 |
| Deficit on disposal of non-housing fixed assets | **156** | 1 | **–** | – |

| | **2012** | 2011 | **2012** | 2011 |
|---|---|---|---|---|
| | **£'000** | £'000 | **£'000** | £'000 |
| Auditors remuneration (including VAT) | | | | |
| – in capacity as auditors | **177** | 176 | **25** | 26 |
| – in respect of other services | **165** | 73 | **149** | 67 |
| | **342** | 249 | **174** | 93 |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012 (continued)

## 7. Taxation

### Analysis of charge/(credit) in period

| | Group | | Association | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **£'000** | £'000 | **£'000** | £'000 |
| **Current Tax** | | | | |
| Current charge/(credit) on income tax for the period | **(90)** | 24 | **–** | – |
| Adjustment in respect of prior periods | **302** | 92 | **153** | 80 |
| **Total tax charge** | **212** | 116 | **153** | 80 |
| **Deferred tax (see note 13):** | | | | |
| Origination and reversal of timing differences | **(373)** | – | **–** | – |
| **Tax charge/(credit) on surplus/deficit on ordinary activities** | **(161)** | 116 | **153** | 80 |

Factors affecting the tax charge for the period:

The current tax charge for the Group is lower (2011: lower) for the period than the 26% (2011: 28%) main rate of corporation tax in the UK. The current tax charge for the Association is higher (2011: higher) for the period than the 26% (2011: 28%) main rate of corporation tax in the UK. The differences are explained below.

### Current tax reconciliation

| | Group | | Association | |
|---|---|---|---|---|
| | | Restated | | |
| | **2012** | 2011 | **2012** | 2011 |
| | **£'000** | £'000 | **£'000** | £'000 |
| Surplus/(deficit) on ordinary activities before tax | **46,027** | 49,343 | **(286)** | 80 |
| Current tax at 26% (2011: 28%) | **11,967** | 13,816 | **(74)** | 22 |
| **Effects of:** | | | | |
| Adjustment in respect of prior period | **302** | 92 | **153** | 80 |
| Charitable surpluses not taxed | **(12,179)** | (13,834) | **–** | – |
| Expenses not deductible for tax purposes | **95** | 24 | **61** | – |
| Capital allowances for the period less than/(in excess of) depreciation | **2** | (39) | **–** | (22) |
| Unrealised tax losses arising in period | **25** | 57 | **13** | – |
| **Total current tax charge (see above)** | **212** | 116 | **153** | 80 |

Factors that may affect future tax charges:

The main rate of UK corporation tax (effective from 1 April 2012) that was substantively enacted at the balance sheet date was 24%. In the March 2012 Budget, the UK government announced that the main rate will reduce to 22% over the following two years, and this will reduce the company's future current tax charge accordingly. There are no other factors that may significantly affect future tax charges.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012 (continued)

## 8. Housing properties – Group

| | Housing Properties £'000 | Shared Ownership Properties £'000 | Housing Properties in the course of construction £'000 | Shared Ownership in the course of construction £'000 | Commercial Properties £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Cost/Valuation** | | | | | | |
| At 1 April 2011 – as previously reported | 2,923,482 | 145,774 | 147,657 | 18,855 | 19,210 | **3,254,978** |
| Valuation accounting no longer used | (986,839) | (1,132) | – | – | (18,815) | **(1,006,786)** |
| Net additional major works capitalised | 163,468 | – | – | – | – | **163,468** |
| Additional disposals identified | (4,097) | – | – | – | – | **(4,097)** |
| At 1 April 2011 – restated | 2,096,014 | 144,642 | 147,657 | 18,855 | 395 | **2,407,563** |
| Additions | 46,259 | – | 107,868 | 26,429 | 592 | **181,148** |
| Schemes completed | 151,972 | 17,675 | (151,972) | (17,675) | – | **–** |
| Transfer to current assets | – | 312 | – | – | – | **312** |
| De-merger of BHT | (23,212) | – | – | – | – | **(23,212)** |
| Other disposals (incl. replaced components) | (10,941) | (1,231) | – | – | – | **(12,172)** |
| **At 31 March 2012** | **2,260,092** | **161,398** | **103,553** | **27,609** | **987** | **2,553,639** |
| **Social Housing Grant** | | | | | | |
| At 1 April 2011 | (724,070) | (33,154) | (77,956) | (6,286) | – | **(841,466)** |
| Transfer to other grants | – | 654 | – | – | – | **654** |
| Received in year | – | – | (28,667) | (1,604) | – | **(30,271)** |
| Schemes completed | (78,545) | (5,063) | 78,545 | 5,063 | – | **–** |
| Eliminated on de-merger of BHT | 11,175 | – | – | – | – | **11,175** |
| Eliminated on other disposals | 177 | 500 | – | – | – | **677** |
| **At 31 March 2012** | **(791,263)** | **(37,063)** | **(28,078)** | **(2,827)** | **–** | **(859,231)** |
| **Other grants** | | | | | | |
| At 1 April 2011 | (36,918) | (648) | (15,280) | (167) | – | **(53,013)** |
| Transfer from Social Housing Grant | – | (654) | – | – | – | **(654)** |
| Received in year | – | – | (3,729) | 124 | – | **(3,605)** |
| Schemes completed | (6,032) | – | 6,032 | – | – | **–** |
| Eliminated on de-merger of BHT | 703 | – | – | – | – | **703** |
| Eliminated on other disposals | 2 | – | – | – | – | **2** |
| **At 31 March 2012** | **(42,245)** | **(1,302)** | **(12,977)** | **(43)** | **–** | **(56,567)** |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012 (continued)

## 8. Housing properties – Group (continued)

| | Housing Properties £'000 | Shared Ownership Properties £'000 | Housing Properties in the course of construction £'000 | Shared Ownership in the course of construction £'000 | Commercial Properties £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Depreciation and impairment** | | | | | | |
| At 1 April 2011 – as previously reported | (292) | (1,712) | (1,183) | – | – | **(3,187)** |
| Valuation accounting no longer used | (28,185) | – | – | – | (29) | **(28,214)** |
| Change in depreciation policy | (166,286) | – | – | – | – | **(166,286)** |
| Eliminated on additional disposals | 584 | – | – | – | – | **584** |
| At 1 April 2011 – restated | (194,179) | (1,712) | (1,183) | – | (29) | **(197,103)** |
| Charge for year | (22,062) | – | – | – | (2) | **(22,064)** |
| Eliminated on de-merger of BHT | 354 | – | – | – | – | **354** |
| Eliminated on other disposals | 8,765 | – | – | – | – | **8,765** |
| **At 31 March 2012** | **(207,122)** | **(1,712)** | **(1,183)** | **–** | **(31)** | **(210,048)** |
| **Net book value** | | | | | | |
| **At 31 March 2012** | **1,219,462** | **121,321** | **61,315** | **24,739** | **956** | **1,427,793** |
| Net book value | | | | | | |
| At 31 March 2011 – restated | 1,140,847 | 109,128 | 53,238 | 12,402 | 366 | 1,315,981 |

| | **2012 £'000** | Restated 2011 £'000 |
|---|---|---|
| **Housing Properties comprise** | | |
| Freeholds | **1,396,097** | 1,281,424 |
| Long leaseholds | **31,696** | 34,407 |
| Short leaseholds | **–** | 150 |
| | **1,427,793** | 1,315,981 |

Development and major works additions and improvements to housing properties during the year include capitalised interest of £3.8 million (2011: £3.6 million) and capitalised administration costs of £4.3 million (2011: £3.7 million).

Total expenditure in 2012 on works to existing properties was £62.6 million (2011: £54.5 million) of which £46.9 million (2011 restated: £40.6 million) has been capitalised.

As a result of adopting component accounting, £237,531,000 of major repairs previously expensed in prior years have now been capitalised, as under the new policy. These replaced components originally capitalised at a cost of £74,063,000. Additionally, a further £166,286,000 of accumulated depreciation has been recognised as a result of the shorter useful lives of components.

As a consequence of adopting component accounting, housing properties are now held at cost, not valuation as was the previous policy. The historic cost as at 1 April 2011 was £1,006,786,000 lower than valuation, and £28,214,000 of historic accumulated depreciation has again been recognised.

Furthermore, additional disposals which had taken place by 31 March 2011 have been identified as a result of adopting component accounting, reducing cost by £4,097,000 and accumulated depreciation by £584,000.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012 (continued)

## 9. Non-housing fixed assets

| Group | Freehold Offices £'000 | Leasehold Offices £'000 | Office Equipment & Motor Vehicles £'000 | Investment Properties £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 April 2011 | 25,873 | 1,462 | 38,293 | 8,831 | **74,459** |
| Additions | 902 | 34 | 6,105 | – | **7,041** |
| De-merger of BHT | (1,380) | (191) | (336) | – | **(1,907)** |
| Other disposals | – | – | (789) | – | **(789)** |
| Revaluation | – | – | – | 130 | **130** |
| **At 31 March 2012** | **25,395** | **1,305** | **43,273** | **8,961** | **78,934** |
| **Acquisition grants** | | | | | |
| At 1 April 2011 | (599) | – | (5) | – | **(604)** |
| Eliminated on de-merger of BHT | 599 | – | 5 | – | **604** |
| **At 31 March 2012** | **–** | **–** | **–** | **–** | **–** |
| **Depreciation** | | | | | |
| At 1 April 2011 | (4,964) | (793) | (28,438) | – | **(34,195)** |
| Charge for year | (606) | (129) | (2,707) | – | **(3,442)** |
| Eliminated on de-merger of BHT | 130 | 172 | 201 | – | **503** |
| Eliminated on other disposals | – | – | 704 | – | **704** |
| **At 31 March 2012** | **(5,440)** | **(750)** | **(30,240)** | **–** | **(36,430)** |
| **Net book value** | | | | | |
| **At 31 March 2012** | **19,955** | **555** | **13,033** | **8,961** | **42,504** |
| Net book value | | | | | |
| At 31 March 2011 | 20,310 | 669 | 9,850 | 8,831 | 39,660 |

Included in the above are assets held under finance leases as follows:

| | **2012 £'000** | 2011 £'000 |
|---|---|---|
| **Net book value** | | |
| Motor vehicles | **–** | 10 |
| **Depreciation charge for the year** | | |
| Motor vehicles | **–** | 34 |

The investment properties were valued as at 31 March 2012 by Jones Lang LaSalle Ltd, Chartered Surveyors, on the basis of Market Value, as defined in "RICS Valuation – Professional Standards – Global & UK", March 2012.

The main assumption of the valuation was a capitalised ground rental income at a yield of 6.0% in accordance with evidence of transactions in comparable property. In addition the freeholder covenants to insure buildings, and this is the total sum insured, from which has been determined the commission that a purchaser would be able to retain, and this yield has been capitalised at 20.0% in accordance with Leasehold Valuation Tribunal decisions.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012 (continued)

## 9. Non-housing fixed assets (continued)

| Association | Office Equipment & Motor Vehicles £'000 |
|---|---|
| **Cost** | |
| As at 1 April 2011 | 10,420 |
| Additions | 3,070 |
| Transfers to other Group members | (1,783) |
| Disposals | (776) |
| **At 31 March 2012** | **10,931** |
| **Depreciation** | |
| At 1 April 2011 | (6,252) |
| Charge for the year | (1,383) |
| Transfers to other Group members | 375 |
| Eliminated on disposal | 693 |
| **At 31 March 2012** | **(6,567)** |
| **Net book value** | |
| **At 31 March 2012** | **4,364** |
| Net book value | |
| At 31 March 2011 | 4,168 |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012 (continued)

## 10. Fixed asset investments

| Group | 2012<br>£'000 | 2011<br>£'000 |
|---|---|---|
| Ramsden Regeneration LLP | **702** | 989 |
| Linden/Downland Graylingwell LLP | **20,550** | 19,861 |
| Wilmington Regeneration LLP | **1,111** | 185 |
| Durand Close Equity Loans | **374** | 374 |
| Wilmington Way Equity Loans | **1,683** | 1,683 |
| | **24,420** | 23,092 |

| | 2012<br>£'000 | 2011<br>£'000 |
|---|---|---|
| **Ramsden Regeneration LLP** | | |
| At the beginning of the year | **989** | – |
| Net drawdowns/(repayments) by the LLP | **(319)** | 960 |
| Interest receivable | **32** | 29 |
| **At the end of the year** | **702** | 989 |

Funds have been advanced by the Group to Ramsden Regeneration LLP ("Ramsden"), a joint venture between Broomleigh Regeneration Limited and Linden Limited (a subsidiary of Galliford Try plc). Ramsden undertakes the development of an existing Group site in Orpington, Kent.

The investment was made by way of a subordinated loan attracting interest at 7.2%. Payment of the interest is deferred until completion of the project. Interest receivable is accrued to the extent that there is a reasonable expectation that it can be received in line with the terms of the loan, which dictate that loan principal is payable before loan interest.

The Group has considered the recoverability of the capital and interest and have reached the conclusion (based on current forecasts of the property market) that no adjustment for impairment is required this year (2011: £nil).

| | 2012<br>£'000 | 2011<br>£'000 |
|---|---|---|
| **Linden/Downland Graylingwell LLP** | | |
| At the beginning of the year | **19,861** | 15,452 |
| Net drawdowns by the LLP | **3,693** | 2,264 |
| Interest receivable | **1,263** | 2,145 |
| Impairment | **(4,267)** | – |
| **At the end of the year** | **20,550** | 19,861 |

Funds have been advanced by the Group to Linden/Downland Graylingwell LLP ("Graylingwell"), a joint venture between Downland Regeneration Limited and Linden Limited (a subsidiary of Galliford Try plc). Graylingwell undertakes the development of a Homes and Communities Agency site in Chichester, West Sussex.

The investment was made by way of a subordinated loan attracting interest at 9%. Payment of the interest is deferred until completion of the project. Interest receivable is accrued to the extent that there is a reasonable expectation that it can be received in line with the terms of the loan, which dictate that loan principal is payable before loan interest.

As at 1 April 2011, the Group considered the recoverability of the capital and interest and reached the conclusion (based on forecasts of the property market at the time) that although no impairment was required, interest would only be accrued at 4.5% in 2011/12. At the year-end, a further assessment was made and it was determined that no interest would be recognised from 1 April 2012 and that futhermore an impairment provision of £4,267,000 should be made.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012 (continued)

## 10. Fixed asset investments (continued)

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| **Wilmington Regeneration LLP** | | |
| At the beginning of the year | **185** | 2,210 |
| Net drawdowns/(repayments) by the LLP | **850** | (2,100) |
| Interest receivable | **76** | 75 |
| **At the end of the year** | **1,111** | 185 |

Funds have been advanced by the Group to Wilmington Regeneration LLP ("Wilmington"), a joint venture between Downland Regeneration Limited and Linden Limited (a subsidiary of Galliford Try plc). Wilmington undertakes the development of an existing Group site in Haywards Heath, West Sussex.

The investment was made by way of a subordinated loan attracting interest at 7.2%. Payment of the interest is deferred until completion of the project. Interest receivable is accrued to the extent that there is a reasonable expectation that it can be received in line with the terms of the loan, which dictate that loan principal is payable before loan interest.

The Group has considered the recoverability of the capital and interest and have reached the conclusion (based on current forecasts of the property market) that no adjustment for impairment is required this year (2011: £nil).

**Durand Close Equity Loans**

The Group is involved in the regeneration of Durand Close and associated sites in collaboration with the London Borough of Sutton and Rydon Construction Limited. In order to assist in the sale of new build properties at two locations, the Group has provided a number of equity loans to purchasers of up to 20% of the open market value, secured against the properties. Loans are repayable within 10 years or on the sale of the property. The loans are non-interest bearing and the amount repayable is indexed in line with the increase in the value of the properties.

**Wilmington Way Equity Loans**

As part of the regeneration of Wilmington Way, Haywards Heath, equity loans were provided to some existing leaseholders to assist them in purchasing a new property. The equity loans are non interest bearing. Upon the sale of their new property, or at their request, the equity loan is repayable indexed in line with the increase in the value of their new property. The loans are secured against the properties.

### Association

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Igloo Insurance PCC Limited (Cell ASG2) | **350** | – |

| Investment | Country of incorporation | Principal Activity | Class and % of shares held |
|---|---|---|---|
| Igloo Insurance PCC Limited (Cell ASG2) | Jersey | Insurance | Ordinary, 100% |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012 (continued)

## 11. Investment in joint ventures – Group

The undertakings in which the Group's interest at year-end is more than 20% are as follows:

| Joint venture | Country of incorporation | Principal Activity | Class and % of shares held |
|---|---|---|---|
| 261 City Road Developments LLP ("City Road") | United Kingdom | Development | Ordinary, 50% |
| Ramsden Regeneration LLP ("Ramsden") | United Kingdom | Development | Ordinary, 50% |
| Linden/Downland Graylingwell LLP ("Graylingwell") | United Kingdom | Development | Ordinary, 50% |
| Wilmington Regeneration LLP ("Wilmington") | United Kingdom | Development | Ordinary, 50% |

The amounts included in respect of joint ventures comprise the following:

| | | | **2012** | | |
|---|---|---|---|---|---|
| | **City Road £'000** | **Ramsden £'000** | **Graylingwell £'000** | **Wilmington £'000** | **Total £'000** |
| Turnover | – | – | 5,276 | 1,675 | **6,951** |
| Cost of sales | – | – | (5,331) | (1,402) | **(6,733)** |
| Operating surplus/(deficit) | – | – | (55) | 273 | **218** |
| Interest payable | – | – | (32) | – | **(32)** |
| Surplus/(deficit) before tax | – | – | (87) | 273 | **186** |
| Tax charge | – | – | – | – | **–** |
| **Surplus/(deficit) for the year** | **–** | **–** | **(87)** | **273** | **186** |
| **Share of:** | | | | | |
| Current assets | 15,549 | 2,045 | 60,105 | 2,632 | **80,331** |
| Liabilities due within one year | (5,312) | (622) | (56,246) | (1,762) | **(63,942)** |
| Liabilities due after one year | – | (640) | (3,725) | – | **(4,365)** |
| **Net assets** | **10,237** | **783** | **134** | **870** | **12,024** |

| | | | 2011 | | |
|---|---|---|---|---|---|
| | City Road £'000 | Ramsden £'000 | Graylingwell £'000 | Wilmington £'000 | Total £'000 |
| Turnover | – | – | 2,912 | – | 2,912 |
| Cost of sales | – | – | (2,866) | – | (2,866) |
| Surplus before tax | – | – | 46 | – | 46 |
| Tax charge | – | – | – | – | – |
| Surplus for the year | – | – | 46 | – | 46 |
| Share of: | | | | | |
| Current assets | – | 1,802 | 58,461 | 1,072 | 61,335 |
| Liabilities due within one year | – | (1,212) | (47,019) | (660) | (48,891) |
| Liabilities due after one year | – | (390) | (11,177) | – | (11,567) |
| Net assets | – | 200 | 265 | 412 | 877 |

In accordance with FRS9 'Associates and Joint Ventures', these amounts have been adjusted to capitalise eligible interest costs, in line with Group accounting policy, and the results for the year have been adjusted to eliminate any amounts in relation to sales of properties to members of the Affinity Sutton Group.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012 (continued)

## 12. Stock – Group

| | **2012** | 2011 |
|---|---|---|
| | **£'000** | £'000 |
| Properties in the course of construction | **22,373** | 8,753 |
| Completed properties | **2,484** | 7,133 |
| | **24,857** | 15,886 |

## 13. Debtors

| | **Group** | | **Association** | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **£'000** | £'000 | **£'000** | £'000 |
| **Amounts falling due within one year** | | | | |
| Rents and service charge | **18,497** | 16,401 | **–** | – |
| Provision for bad debt | **(5,294)** | (5,659) | **–** | – |
| | **13,203** | 10,742 | **–** | – |
| Social Housing Grant receivable | **6,884** | 15,501 | **–** | – |
| Amounts receivable from Group undertakings | **–** | – | **1,504** | 2,406 |
| Deferred tax assets | **373** | – | **–** | – |
| Other debtors and prepayments | **13,961** | 24,050 | **1,635** | 2,061 |
| | **34,421** | 50,293 | **3,139** | 4,467 |

| | **2012** | 2011 | **2012** | 2011 |
|---|---|---|---|---|
| | **£'000** | £'000 | **£'000** | £'000 |
| **Amounts falling due after one year** | | | | |
| Other debtors and prepayments | **903** | 6,264 | **–** | – |

Deferred tax assets relate to temporary timing differences in the recognition of the Group's share of joint ventures' profits. The deferred tax asset at 31 March 2012 has been calculated based on the rate of 24% substantively enacted at the balance sheet date. It has not yet been possible to quantify the full anticipated effect of the announced further 2% rate reduction, although this will further reduce the Group's deferred tax asset accordingly.

In prior years, stock transfers have taken place from the London Borough of Lewisham to the Group. The Group has contracted with the Council to refurbish the properties to an agreed level. The Council in turn has a commitment to the Group to have the properties refurbished. An amount of £6.5 million (2011: £19.9 million) has been recognised in other debtors and prepayments, of which £6.5 million falls due within one year (2011: £13.7 million). A corresponding provision for refurbishment liability has been recognised (note 17).

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012 (continued)

## 14. Creditors: amounts falling due within one year

| | Group | | Association | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **£'000** | £'000 | **£'000** | £'000 |
| Bank overdraft | **124** | 336 | **124** | 336 |
| Obligations under finance leases (note 16) | **322** | 308 | **–** | – |
| Trade creditors | **1,725** | 2,619 | **338** | 579 |
| Recycled Capital Grant Fund (note 16) | **24** | 24 | **–** | – |
| Disposal Proceeds Fund (note 16) | **–** | 120 | **–** | – |
| Amount payable to Group undertakings | **–** | – | **587** | 3,328 |
| Other taxation & social security | **10** | 159 | **–** | – |
| Accruals and deferred income | **38,768** | 39,783 | **2,795** | 4,069 |
| Other creditors | **6,919** | 7,041 | **593** | 50 |
| Corporation tax | **58** | 2 | **–** | – |
| Housing loans (note 15) | **5,702** | 1,201 | **–** | – |
| | **53,652** | 51,593 | **4,437** | 8,362 |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012 (continued)

## 15. Creditors: amounts falling due after one year

| | Group | | Association | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **£'000** | £'000 | **£'000** | £'000 |
| Housing loans | **913,193** | 869,741 | **–** | – |
| Loan set up costs | **(3,686)** | (3,967) | **–** | – |
| Net housing loans | **909,507** | 865,774 | **–** | – |
| Bond | **250,000** | 250,000 | **–** | – |
| Bond set up costs | **(1,548)** | (1,571) | **–** | – |
| Net bond | **248,452** | 248,429 | **–** | – |
| Obligation under finance leases (note 16) | **4,441** | 4,769 | **–** | – |
| Recycled Capital Grant Fund (note 16) | **1,519** | 873 | **–** | – |
| Disposal Proceeds Fund (note 16) | **–** | 24 | **–** | – |
| Other creditors | **44** | 145 | **–** | – |
| Amounts payable to Group undertakings | **–** | – | **5,500** | 1,500 |
| | **1,163,963** | 1,120,014 | **5,500** | 1,500 |

Housing loans are secured by charges on the Group's housing properties.

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **£'000** | £'000 |
| Housing loans are repayable, otherwise than by instalments as follows: | | |
| Between one and two years | **6,433** | 5,744 |
| Between two and five years | **72,790** | 33,602 |
| In five years or more | **833,970** | 830,395 |
| | **913,193** | 869,741 |

The final instalments by tranche of borrowing fall to be repaid between 2016 and 2040.

Loans bear fixed rates of interest ranging from 5.10% to 11.64% or variable rates based on a margin above LIBOR. Total drawn loan funding bears interest, after taking into account hedging activity, as follows:

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | **£'000** | £'000 |
| Fixed-rate | **501,009** | 505,348 |
| Index-linked | **2,333** | 2,325 |
| Floating rate | **415,553** | 363,269 |
| | **918,895** | 870,942 |

The Group also has a £250 million bond. As interest is payable on a fixed rate only, the Group has no exposure to floating interest rates and therefore undertakes no hedging activity in relation to this bond.

The fair value of the Group's long term borrowing is £1.30 billion (2011: £1.20 billion).

At 31 March 2012, the Affinity Sutton Group has £1.32 billion of loan facilities available, of which £146.2 million is undrawn.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012 (continued)

## 16. Creditors: analysis of movement on funds – Group

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| **Obligations under finance leases** | | |
| Due in less than one year | **322** | 308 |
| Due between one and two years | **231** | 212 |
| Due between two and five years | **812** | 731 |
| In five years or more | **3,398** | 3,826 |
| | **4,763** | 5,077 |
| **Recycled Capital Grant Fund** | | |
| At the beginning of the year | **897** | 126 |
| Grants recycled | **676** | 878 |
| Interest accrued | **5** | 1 |
| Utilisation of fund | **(35)** | (108) |
| **At the end of the year** | **1,543** | 897 |
| **Disposal Proceeds Fund** | | |
| At the beginning of the year | **144** | 1,468 |
| Additions | **–** | 37 |
| Interest accrued | **–** | 3 |
| Utilisation of fund | **(144)** | (1,364) |
| **At the end of the year** | **–** | 144 |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012 (continued)

## 17. Provision for liabilities and charges – Group

| | 2012 | 2011 |
|---|---|---|
| | £'000 | £'000 |
| **Pension liabilities** | | |
| Downland Housing Group Pension & Assurance Scheme | **2,624** | 1,224 |
| Hertfordshire County Council Pension Fund | **4,003** | 3,140 |
| London Borough of Bromley Pension Fund | **5,448** | 3,304 |
| London Pensions Fund Authority Pension Fund | **6,552** | 3,836 |
| William Sutton Housing Association Final Salary Scheme | **21,500** | 14,900 |
| | **40,127** | 26,404 |

In accordance with FRS17 'Retirement Benefits' the Group has recognised the above pension fund liabilities (see note 25).

| | 2012 | 2011 |
|---|---|---|
| | £'000 | £'000 |
| **Refurbishment provision – Lewisham estate transfers** | | |
| At the beginning of the year | **19,914** | 24,048 |
| Reduction in estimated cost of works to be carried out | **(5,914)** | (655) |
| Work completed | **(7,500)** | (3,479) |
| **At the end of the year** | **6,500** | 19,914 |

In prior years, stock transfers have taken place from the London Borough of Lewisham to the Group. The Group has contracted with the Council to refurbish the properties to an agreed level. The Council in turn has a commitment to the Group to have the properties refurbished. This has been recognised as the above provision and a corresponding debtor included in other debtors and prepayments (note 13).

Based on the expected timing of the work, £6.5 million of the provision is treated as a current liability (2011: £13.7 million) and £nil is treated as a long-term liability (2011: £6.3 million).

## 18. Share Capital

| | 2012 | 2011 |
|---|---|---|
| | £ | £ |
| **Shares of £1 allotted, issued and fully paid** | | |
| At beginning of year | **30** | 30 |
| Net movement during the year | **(11)** | – |
| **At the end of the year** | **19** | 30 |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012 (continued)

## 19. Reserves

**Group**

| | Negative goodwill £'000 | Revaluation reserve £'000 | Restricted reserve £'000 | Income and expenditure account £'000 | Total £'000 |
|---|---|---|---|---|---|
| At 1 April 2011 – as previously reported | 10,053 | 1,041,685 | 96 | 371,013 | **1,422,847** |
| Prior year adjustments: | | | | | |
| Component accounting (note 8) | – | (1,035,000) | – | (6,331) | **(1,041,331)** |
| Negative goodwill (note 20) | (10,053) | – | – | 10,053 | **–** |
| At 1 April 2011 – restated | – | 6,685 | 96 | 374,735 | **381,516** |
| De-merger of Brighton Housing Trust | – | – | (64) | (12,402) | **(12,466)** |
| Surplus for the year – Group | – | – | – | 46,002 | **46,002** |
| Surplus for the year – interests in joint ventures | – | – | – | 186 | **186** |
| Transfer of restricted funding | – | – | (29) | 29 | **–** |
| Investment property revaluation at 31 March 2012 | – | 130 | – | – | **130** |
| Actuarial losses on pension schemes | – | – | – | (17,210) | **(17,210)** |
| **At 31 March 2012** | **–** | **6,815** | **3** | **391,340** | **398,158** |

The 31 March 2011 Income and Expenditure balance included a Designated Reserve balance of £168,000. This was de-designated during 2012.

**Restricted funding:**

| | Funding received | | Unspent funds | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **£** | £ | **£** | £ |
| **Big Lottery** | | | | |
| Activate London Programme | **57,783** | 72,663 | **–** | – |
| Reaching Communities | **–** | 72,960 | **–** | 2,825 |
| Advice Plus | **–** | 123,043 | **–** | 20,406 |
| Firm Foundations | **–** | 107,561 | **–** | 34,614 |
| The Academy | **–** | 78,168 | **–** | 5,816 |
| | **57,783** | 454,395 | **–** | 63,661 |
| **London Councils** | | | | |
| Pathways 4 Cray | **11,450** | 64,900 | **–** | – |
| Stepping Up | **–** | 45,351 | **–** | – |
| Stepping Up 2 | **55,835** | 72,245 | **–** | 7,172 |
| Affinity Futures | **89,350** | 80,135 | **2,632** | 24,869 |
| | **156,635** | 262,631 | **2,632** | 32,041 |
| | **214,418** | 717,026 | **2,632** | 95,702 |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012 (continued)

## 19. Reserves (continued)

| **Association** | **Income and expenditure account £'000** |
|---|---|
| At 1 April 2011 | (175) |
| Surplus for the year | (439) |
| **At 31 March 2012** | **(614)** |

## 20. Negative goodwill – Group

The negative goodwill arises on the acquisitions listed below and is amortised over the remaining useful lives of the underlying housing properties of 100 years.

| | As previously reported 2011 £'000 | Restated 2011 £'000 | **2012 £'000** |
|---|---|---|---|
| Brighton Housing Trust | 7,145 | – | **–** |
| Merrimac Housing Association | 379 | – | **–** |
| Hastings Community Housing Association ("HCHA") | 2,529 | – | **–** |
| | 10,053 | – | **–** |

Previously, negative goodwill was recognised at 31 March 2011 in relation to the mergers and acquisitions above, with amortisation giving a credit to operating costs of £104,000 per annum.

The related assets for Merrimac Housing Association were originally obtained in 2006 for no consideration. Under the Statement of Recommended Practice "Accounting by registered social housing providers – Update 2010", which the Group adopted in the year, such gifts should have been recognised as a gain to the Income and Expenditure Account in the year of acquisition, and a prior period adjustment is required to transfer the balance in the opening reserves.

Brighton Housing Trust (including its HCHA assets) left the Group on 1 April 2011. We have reviewed the accounting treatment adopted in prior years and concluded that it would be more appropriate to adjust this in order to reflect a change from acquisition accounting to merger accounting by means of prior year adjustment.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012 (continued)

## 21. Capital commitments

### Group

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Capital expenditure contracted for but not provided for in the financial statements | **133,228** | 220,256 |
| Capital expenditure authorised by the board not contracted for | **321,450** | 200,082 |

Capital commitments contracted for but not provided for in the financial statements include undrawn equity and loan facilities committed to 261 City Road Developments LLP. Contracted commitments in relation to the Group's other investments in joint ventures are not certain as they depend on the timings of sales receipts and are therefore included under commitments authorised by the board but not contracted for.

Capital commitments authorised by the board but not contracted for include the Group's share of the future gross capital expenditure committed through the development agreements relating to the Group's four joint ventures (see note 11). The respective development agreements relating to these joint ventures allow construction programme timings to be varied. This assists the funding of expenditure commitments by enabling sales receipts to fund the construction of further units.

### Association

The Association had no capital commitments at year end (2011: £nil).

## 22. Commitments under operating leases

The annual amounts payable in respect of operating leases are shown below, analysed according to the expiry date of the lease:

### Group

| | Land and buildings | | Other assets | |
|---|---|---|---|---|
| | **2012 £'000** | 2011 £'000 | **2012 £'000** | 2011 £'000 |
| Expiry date: | | | | |
| Within one year | **440** | 560 | **255** | 95 |
| Between two and five years | **1,068** | 1,050 | **271** | 402 |
| After five years | **1,362** | 1,954 | **–** | – |
| | **2,870** | 3,564 | **526** | 497 |

### Association

| | Land and buildings | |
|---|---|---|
| | **2012 £'000** | 2011 £'000 |
| Expiry date: | | |
| Within one year | **68** | 18 |
| Between two and five years | **900** | 707 |
| After five years | **376** | 575 |
| | **1,344** | 1,300 |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012 (continued)

## 23. Accommodation in management – Group

| | General needs housing | Affordable | Supported | Shared ownership | Leasehold | Keyworker | Student | Market rent | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Number of units** | | | | | | | | | |
| At 1 April 2011 | 40,330 | – | 4,681 | 1,884 | 8,399 | 625 | 54 | 130 | **56,103** |
| De-merger of BHT | (208) | – | (251) | – | – | – | – | – | **(459)** |
| Additions | 869 | – | 27 | 178 | 148 | – | – | 2 | **1,224** |
| Demolitions | (260) | – | (78) | – | – | – | – | – | **(338)** |
| Other movements | (574) | 261 | (72) | (20) | (10) | – | – | (8) | **(423)** |
| **At 31 March 2012** | **40,157** | **261** | **4,307** | **2,042** | **8,537** | **625** | **54** | **124** | **56,107** |

| | 2012 Units | 2011 Units |
|---|---|---|
| Owned and managed | **53,979** | 53,723 |
| Managed on behalf of others | **2,128** | 2,380 |
| Managed by others | **600** | 702 |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012 (continued)

## 24. Notes to the Group Cash Flow Statement

### (i) Reconciliation of operating surplus for the year to net cash flow from operating activities

| | **2012** | Restated 2011 |
|---|---|---|
| | **£'000** | £'000 |
| Operating surplus | **91,001** | 92,723 |
| *Non cash flow items:* | | |
| Interests in joint ventures – surplus included | **(186)** | (46) |
| Depreciation | **25,506** | 24,125 |
| Amortisation and impairment of goodwill | **–** | 82 |
| Amortisation of loan costs | **290** | 267 |
| Impairment of properties: write back | **(597)** | (1,681) |
| Impairment of fixed asset investment | **4,267** | – |
| Decrease/(increase) in stock | **(8,686)** | 4,059 |
| Decrease in debtors | **11,891** | 4,231 |
| Decrease in creditors | **(13,750)** | (5,493) |
| FRS17 'Retirement Benefits' adjustment | **(3,325)** | (7,049) |
| **Net cash flow from operating activities** | **106,411** | 111,218 |

### (ii) Reconciliation of net cash flow to movement in net debt

| | **2012** | 2011 |
|---|---|---|
| | **£'000** | £'000 |
| Increase/(decrease) in net cash in period | **(50,137)** | 85,348 |
| Cash inflow from net increase in debt | **(49,121)** | (141,249) |
| De-merger of Brighton Housing Trust | **(407)** | – |
| Repayment of finance lease | **314** | 259 |
| Cash inflow from change in liquid resources | **–** | (13,134) |
| Cash outflow from investments | **5,595** | 6,101 |
| Change in net debt resulting from cash flows | **(93,756)** | (62,675) |
| Amortisation of loan costs | **(290)** | (267) |
| Non-cash movements | **(4,267)** | – |
| Net debt at the beginning of the year | **(950,337)** | (887,395) |
| **Net debt at the end of the year** | **(1,048,650)** | (950,337) |

### (iii) Reconciliation of net debt

| | **Net cash and overdraft £'000** | **Fixed asset investments £'000** | **Finance leases £'000** | **Housing loan and bond £'000** | **Net debt £'000** |
|---|---|---|---|---|---|
| As at 1 April 2011 | 147,052 | 23,092 | (5,077) | (1,115,404) | **(950,337)** |
| De-merger of Brighton Housing Trust | (1,561) | – | – | 1,154 | **(407)** |
| Net cash flow | (50,137) | 5,595 | 314 | (49,121) | **(93,349)** |
| Other non-cash changes | – | (4,267) | – | (290) | **(4,557)** |
| **As at 31 March 2012** | **95,354** | **24,420** | **(4,763)** | **(1,163,661)** | **(1,048,650)** |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012 (continued)

## 25. Pensions – Group

The Group offers new joiners participation in the Social Housing Pension Scheme, a defined benefit scheme, or a defined contribution scheme with Friends Provident.

Previously, it had offered entry to the following defined benefit schemes, all closed to new entrants from 31 August 2002:

Downland Housing Group Pension & Assurance Scheme
Hertfordshire County Council Pension Fund
London Borough of Bromley Pension Fund
London Pensions Fund Authority Pension Fund
William Sutton Housing Association Final Salary Scheme

The Group Chief Executive is an ordinary member of the Social Housing Pension Scheme and does not have any enhanced or special terms.

The details of the schemes are set out below:

### Social Housing Pension Scheme ("SHPS")

The Group participates in SHPS, a multi-employer defined benefit scheme. The scheme is funded and is contracted out of the state scheme.

It is not possible in the normal course of events to identify on a consistent and reasonable basis the share of underlying assets and liabilities belonging to individual participating employers. This is because the scheme is a multi-employer scheme where the scheme assets are co-mingled for investment purposes and benefits are paid from the total scheme assets. Accordingly, because of the nature of the scheme, the accounting charge for the period under FRS17 'Retirement Benefits' represents the employer contribution payable.

The trustee commissions an actuarial valuation of the scheme every three years. The main purpose of the valuation is to determine the financial position of the scheme in order to address the level of future contributions required so that the scheme can meet its pension obligations as they fall due.

The last formal valuation of the scheme was performed as at 30 September 2008 by a professionally qualified actuary using the projected unit method. The market value of the scheme's assets at the valuation date was £1,527 million. The valuation revealed a shortfall of assets compared with the value of liabilities of £663 million, equivalent to a past service funding level of 69.7%.

The scheme actuary has prepared an actuarial report that provides an approximate update on the funding position of the scheme as at 30 September 2010. Such a report is required by legislation for years in which a full actuarial valuation is not carried out. The funding update revealed an increase in the assets of the scheme to £1,985 million and indicated a reduction in the shortfall of assets compared to liabilities to approximately £497 million, equivalent to a past service funding level of 80.0%.

The next triennial formal valuation of the scheme is due as at 30 September 2011. The results of the valuation will be finalised by 31 December 2012.

The financial assumptions underlying the formal valuation as at 30 September 2008 were as follows:

| **Valuation discount rates** | **% per annum** |
|---|---|
| Pre-retirement | 7.8 |
| Non-pensioner post-retirement | 6.2 |
| Pensioner post-retirement | 5.6 |
| Pensionable earnings growth | 4.7 |
| Price inflation | 3.2 |

| **Pension increases** | **% per annum** |
|---|---|
| Pre 88 GMP | 0.0 |
| Post 88 GMP | 2.8 |
| Excess over GMP | 3.0 |

The valuation was carried out using the following demographic assumptions:

- Mortality pre-retirement: PA92 Year of Birth, long cohort projection, minimum improvement 1% p.a.
- Mortality post-retirement: 90% S1PA Year of Birth, long cohort projection, minimum improvement 1% p.a.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012 (continued)

## 25. Pensions – Group (continued)

### Social Housing Pension Scheme ("SHPS") (continued)

During the accounting period the Group paid contributions at the rate of 7.5%. Member contributions varied between 5.8% and 10.7% depending on age.

Following consideration of the results of the previous actuarial valuation it was agreed that the shortfall of £663 million would be dealt with by the payment of deficit contributions of 7.5% of pensionable salaries, increasing each year in-line with salary growth assumptions, from 1 April 2010 to 30 September 2020, dropping to 3.1% from 1 October 2020 to 30 September 2023. Pensionable earnings at 30 September 2008 were used as the reference point for calculating these deficit contributions. The trustees are considering the implications of the latest actuarial report.

Employers joining the scheme after 1 October 2002 that do not transfer any past service liabilities to the scheme pay contributions at the ongoing future service contribution rate. This rate is reviewed at each valuation and applies until the second valuation after the date of joining the scheme, at which point the standard employer contribution rate is payable. Contribution rates are changed on the 1 April that falls eighteen months after the valuation date.

Following a change in pension scheme legislation in September 2005 there is a potential debt on the employer that could be levied by the trustee of the scheme. The debt is due in the event of the employer ceasing to participate in the scheme or the scheme winding up.

The debt for the scheme as a whole is calculated by comparing the liabilities for the scheme (calculated on a buyout basis, that is the scheme actuary's estimate of the cost of securing benefits by purchasing annuity policies from an insurer, plus an allowance for expenses) with the assets of the scheme. If scheme liabilities exceed scheme assets there is a buyout debt.

The leaving employer's share of the buy-out debt is the proportion of the scheme's liability attributable to employment with the leaving employer compared to the total amount of the scheme's liabilities (relating to employment with all the currently participating employers). The leaving employer's debt therefore includes a share of any 'orphan' liabilities in respect of previously participating employers. The amount of the debt therefore depends on many factors including total scheme liabilities, scheme investment performance, the liabilities in respect of current and former employees of the employer, financial conditions at the time of the cessation event and the insurance buy-out market. The amounts of debt can therefore be volatile over time.

### Downland Housing Group Pension & Assurance Scheme ("the Scheme", "Downland")

The Scheme is administered on behalf of the trustees by Scottish Life and is funded to cover future pension liabilities. The Scheme is subject to a full independent valuation every three years. The last full valuation was as at 31 March 2009 using the projected unit credit method.

The scheme has been defined as a multi-employer scheme. Accordingly the full liability has been incorporated in the Group financial statements but has not been reflected in the accounts of the individual employers: Affinity Sutton Homes Limited and Grange Management (Southern) Limited.

The Group expects to contribute approximately £588,000 for the year starting 1 April 2012.

### Hertfordshire County Council Pension Fund ("the Fund", "Herts Council")

Staff who transferred from Hertsmere Borough Council to the former Ridgehill group are members of the Fund, which reflects the terms of the Local Government Pension Scheme ("LGPS").

The latest actuarial valuation of the Fund was carried out as at 31 March 2010 by an independent actuary. The next formal valuation is due as at 31 March 2013. The valuation was under the projected unit credit method.

The Group expects to contribute approximately £1,020,000 for the year starting 1 April 2012.

### London Borough of Bromley Pension Fund ("the Fund", "LB Bromley")

The Group also participates in the Superannuation Fund operated by the London Borough of Bromley as an "Admitted Body". The Fund is subject to the regulations of the Local Government Superannuation Scheme. Contributions to the Fund are determined by a qualified actuary on the basis of valuations using the projected unit credit method.

The last formal actuarial valuation of the Fund was as at 31 March 2010, using a set of assumptions consistent with those required under FRS17. The next formal valuation is due as at 31 March 2013.

During the year the Group contributed at the rate of 28.8% of pensionable salaries to cover the past deficit.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012 (continued)

## 25. Pensions – Group (continued)

### London Pensions Fund Authority Pension Fund ("the Fund", "London Pensions")

The Fund is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2007 and 2008 and the Local Government Pension Scheme (Transitional Provisions) Regulations 2008.

The Fund is valued every three years and the last full actuarial valuation by an independent qualified actuary took place as at 31 March 2010.

With effect from 1 April 2012 the employer contribution rate will be 17.5% of pensionable salaries for future service benefits plus an annual payment of £314,497 to cover the past service deficit.

### The William Sutton Housing Association Final Salary Scheme ("the Scheme", "William Sutton")

The Scheme is a defined benefit funded pension scheme. The current service cost under the projected unit credit method is therefore expected to increase as the membership ages.

The most recent actuarial valuation was as at 30 September 2009.

The Group expects to contribute approximately £2.3m for the year starting 1 April 2012. The current arrangement as regards to contribution levels are described in the Schedule of Contributions dated 22 December 2010. The employer contribution shown above includes an allowance for the cost of administration expenses and PPF levies.

### Friends Provident

This scheme is administered by Friends Provident and is a defined contribution scheme. The employer contribution rate payable by the Group per annum is dependent on the contribution by the employee as follows:

| Employee contributes | Employer contributes |
|---|---|
| less than 3% | 0% |
| 3% – 4% | 6% |
| 5% or more | 10% |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012 (continued)

## 25. Pensions – Group (continued)

In accordance with FRS17, the directors of the subsidiaries have appointed the scheme actuaries to prepare the following detailed disclosures and they have relied on the actuaries' expertise in this regard. The assumptions used by the actuaries are the best estimates chosen from a range of possibilities which, because of the time scale covered, might not necessarily be borne out in practice.

### The fair value of the assets and the present value of the liabilities in the schemes at each balance sheet date were:

| **Year to 31 March 2012** | **Downland £'000** | **Herts Council £'000** | **LB Bromley £'000** | **London Pensions £'000** | **William Sutton £'000** | **Total £'000** |
|---|---|---|---|---|---|---|
| Fair value of scheme assets | 7,724 | 12,673 | 12,262 | 13,336 | 57,100 | **103,095** |
| Present value of scheme liabilities | (10,348) | (16,676) | (17,710) | (19,888) | (78,600) | **(143,222)** |
| **Net liability in balance sheet** | **(2,624)** | **(4,003)** | **(5,448)** | **(6,552)** | **(21,500)** | **(40,127)** |
| **Movements in fair value of scheme assets** | | | | | | |
| At 1 April 2011 | 7,192 | 12,469 | 12,236 | 13,027 | 56,000 | **100,924** |
| Expected return on scheme assets | 399 | 846 | 800 | 884 | 4,100 | **7,029** |
| Contributions by members | – | 26 | 51 | 85 | 100 | **262** |
| Actuarial losses | (222) | (592) | (356) | (754) | (2,500) | **(4,424)** |
| Contributions by employer | 610 | 851 | 213 | 561 | 2,300 | **4,535** |
| Benefits paid | (255) | (927) | (682) | (467) | (2,900) | **(5,231)** |
| **At 31 March 2012** | **7,724** | **12,673** | **12,262** | **13,336** | **57,100** | **103,095** |
| **Movements in present value of scheme liabilities** | | | | | | |
| At 1 April 2011 | (8,416) | (15,609) | (15,540) | (16,863) | (70,900) | **(127,328)** |
| Current service cost | – | (95) | (175) | (240) | (700) | **(1,210)** |
| Interest on obligation | (465) | (837) | (841) | (924) | (3,800) | **(6,867)** |
| Contributions by members | – | (26) | (51) | (85) | (100) | **(262)** |
| Actuarial losses | (1,722) | (1,036) | (1,785) | (2,243) | (6,000) | **(12,786)** |
| Estimated unfunded benefits paid | – | – | – | 18 | – | **18** |
| Estimated benefits paid | 255 | 927 | 682 | 449 | 2,900 | **5,213** |
| **At 31 March 2012** | **(10,348)** | **(16,676)** | **(17,710)** | **(19,888)** | **(78,600)** | **(143,222)** |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012 (continued)

## 25. Pensions – Group (continued)

The fair value of the assets and the present value of the liabilities in the schemes at each balance sheet date were (continued):

| Year to 31 March 2011 | Downland £'000 | Herts Council £'000 | LB Bromley £'000 | London Pensions £'000 | William Sutton £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| Fair value of scheme assets | 7,192 | 12,469 | 12,236 | 13,027 | 56,000 | **100,924** |
| Present value of scheme liabilities | (8,416) | (15,609) | (15,540) | (16,863) | (70,900) | **(127,328)** |
| **Net liability in balance sheet** | **(1,224)** | **(3,140)** | **(3,304)** | **(3,836)** | **(14,900)** | **(26,404)** |
| **Movements in fair value of scheme assets** | | | | | | |
| At 1 April 2010 | 7,049 | 11,861 | 13,122 | 12,149 | 51,600 | **95,781** |
| Expected return on scheme assets | 378 | 830 | 838 | 823 | 3,900 | **6,769** |
| Contributions by members | – | 27 | 56 | 94 | 100 | **277** |
| Actuarial gains/(losses) | (301) | (238) | (1,326) | (107) | 2,500 | **528** |
| Contributions by employer | 580 | 712 | 260 | 567 | 1,100 | **3,219** |
| Benefits paid | (514) | (723) | (714) | (499) | (3,200) | **(5,650)** |
| **At 31 March 2011** | **7,192** | **12,469** | **12,236** | **13,027** | **56,000** | **100,924** |
| **Movements in present value of scheme liabilities** | | | | | | |
| At 1 April 2010 | (9,498) | (18,266) | (18,552) | (19,352) | (73,400) | **(139,068)** |
| Current service cost | – | (109) | (204) | (364) | (900) | **(1,577)** |
| Past service costs *(exceptional item)* | – | 1,819 | 1,679 | 1,909 | – | **5,407** |
| Interest on obligation | (508) | (911) | (964) | (1,073) | (4,000) | **(7,456)** |
| Contributions by members | – | (27) | (56) | (94) | (100) | **(277)** |
| Actuarial gains | 1,076 | 1,162 | 1,843 | 1,612 | 4,300 | **9,993** |
| Estimated unfunded benefits paid | – | – | – | 17 | – | **17** |
| Estimated benefits paid | 514 | 723 | 714 | 482 | 3,200 | **5,633** |
| **At 31 March 2011** | **(8,416)** | **(15,609)** | **(15,540)** | **(16,863)** | **(70,900)** | **(127,328)** |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012 (continued)

## 25. Pensions – Group (continued)

### Expenses/(income) recognised in the Income and Expenditure Account:

| | Downland £'000 | Herts Council £'000 | LB Bromley £'000 | London Pensions £'000 | William Sutton £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Year to 31 March 2012** | | | | | | |
| Current service cost | – | 95 | 175 | 240 | 700 | **1,210** |
| Interest on obligation | 465 | 837 | 841 | 924 | 3,800 | **6,867** |
| Expected return on scheme assets | (399) | (846) | (800) | (884) | (4,100) | **(7,029)** |
| | **66** | **86** | **216** | **280** | **400** | **1,048** |
| **Year to 31 March 2011** | | | | | | |
| Current service cost | – | 109 | 204 | 364 | 900 | **1,577** |
| Interest on obligation | 508 | 911 | 964 | 1,073 | 4,000 | **7,456** |
| Expected return on scheme assets | (378) | (830) | (838) | (823) | (3,900) | **(6,769)** |
| Past service costs *(exceptional item)* | – | (1,819) | (1,679) | (1,909) | – | **(5,407)** |
| | **130** | **(1,629)** | **(1,349)** | **(1,295)** | **1,000** | **(3,143)** |

### The expense/(income) is recognised in the following line items in the Income and Expenditure Account

| | Downland £'000 | Herts Council £'000 | LB Bromley £'000 | London Pensions £'000 | William Sutton £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Year to 31 March 2012** | | | | | | |
| Operating costs | – | 95 | 175 | 240 | 700 | **1,210** |
| Other finance cost/(income) | 66 | (9) | 41 | 40 | (300) | **(162)** |
| | **66** | **86** | **216** | **280** | **400** | **1,048** |
| **Year to 31 March 2011** | | | | | | |
| Operating costs | – | (1,710) | (1,475) | (1,545) | 900 | **(3,830)** |
| Other finance cost/(income) | 130 | 81 | 126 | 250 | 100 | **687** |
| | **130** | **(1,629)** | **(1,349)** | **(1,295)** | **1,000** | **(3,143)** |

The total amount recognised in the statement of total recognised surpluses and deficits in respect of actuarial losses is £17,210,000 (2011: actuarial gains of £10,521,000).

The cumulative actuarial loss reported in the statement of total recognised surpluses and deficits for accounting periods ending on or after 22 June 2002 and subsequently included by prior year adjustment under paragraph 96 of FRS17, is £32,231,000.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012 (continued)

## 25. Pensions – Group (continued)

### History of schemes

| | **2012** | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| | **£'000** | £'000 | £'000 | £'000 | £'000 |
| **Downland** | | | | | |
| Fair value of scheme assets | **7,724** | 7,192 | 7,049 | 5,585 | 6,699 |
| Present value of scheme liabilities | **(10,348)** | (8,416) | (9,498) | (7,169) | (7,857) |
| **Deficit** | **(2,624)** | (1,224) | (2,449) | (1,584) | (1,158) |
| **Herts Council** | | | | | |
| Fair value of scheme assets | **12,673** | 12,469 | 11,861 | 8,944 | 11,630 |
| Present value of scheme liabilities | **(16,676)** | (15,609) | (18,266) | (12,906) | (14,152) |
| **Deficit** | **(4,003)** | (3,140) | (6,405) | (3,962) | (2,522) |
| **LB Bromley** | | | | | |
| Fair value of scheme assets | **12,262** | 12,236 | 13,122 | 9,152 | 11,610 |
| Present value of scheme liabilities | **(17,710)** | (15,540) | (18,552) | (12,283) | (14,673) |
| **Deficit** | **(5,448)** | (3,304) | (5,430) | (3,131) | (3,063) |
| **London Pensions** | | | | | |
| Fair value of scheme assets | **13,336** | 13,027 | 12,149 | 9,217 | 11,503 |
| Present value of scheme liabilities | **(19,888)** | (16,863) | (19,352) | (12,615) | (12,930) |
| **Deficit** | **(6,552)** | (3,836) | (7,203) | (3,398) | (1,427) |
| **William Sutton** | | | | | |
| Fair value of scheme assets | **57,100** | 56,000 | 51,600 | 42,000 | 57,600 |
| Present value of scheme liabilities | **(78,600)** | (70,900) | (73,400) | (54,400) | (57,700) |
| **Deficit** | **(21,500)** | (14,900) | (21,800) | (12,400) | (100) |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012 (continued)

## 25. Pensions – Group (continued)

### Experience adjustments

| | **2012** | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| | **%** | % | % | % | % |
| **Downland** | | | | | |
| Experience gains/(losses) as % of scheme assets | **(2.87)** | (4.19) | 2.78 | 0.48 | 0.21 |
| Experience losses/(gains) as % of scheme liabilities | **(0.06)** | (1.71) | 2.06 | 0.38 | 0.18 |
| **Herts Council** | | | | | |
| Experience gains/(losses) as % of scheme assets | **(4.67)** | (1.91) | 19.87 | (40.84) | (12.66) |
| Experience losses/(gains) as % of scheme liabilities | **1.86** | 1.03 | (20.22) | 0.07 | 4.06 |
| **LB Bromley** | | | | | |
| Experience gains/(losses) as % of scheme assets | **(2.90)** | (10.80) | 29.50 | (37.70) | (2.70) |
| Experience losses/(gains) as % of scheme liabilities | **–** | 11.60 | – | – | (0.90) |
| **London Pensions** | | | | | |
| Experience gains/(losses) as % of scheme assets | **(5.70)** | (0.80) | 17.50 | (35.60) | (5.30) |
| Experience losses/(gains) as % of scheme liabilities | **0.10** | 7.90 | 0.30 | - | 3.40 |
| **William Sutton** | | | | | |
| Experience gains/(losses) as % of scheme assets | **(4.38)** | 4.46 | 17.05 | (43.10) | (13.89) |
| Experience losses/(gains) as % of scheme liabilities | **(0.64)** | (0.42) | 0.95 | 1.84 | – |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012 (continued)

## 25. Pensions – Group (continued)

### The fair value of the assets and the present value of the liabilities in the schemes at each balance sheet date were:

| At 31 March 2012 | Downland £'000 | Herts Council £'000 | LB Bromley £'000 | London Pensions £'000 | William Sutton £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| Fair value of scheme assets: | | | | | | |
| Equities | 4,160 | 8,745 | 10,055 | 9,736 | 42,200 | **74,896** |
| Gilts | – | – | 245 | – | – | **245** |
| Other bonds | 834 | 2,281 | 1,594 | – | 9,900 | **14,609** |
| Property | – | 760 | – | – | 4,600 | **5,360** |
| Cash | 1,214 | 887 | 368 | 133 | – | **2,602** |
| Secured pensions | 1,516 | – | – | – | – | **1,516** |
| Target return portfolio | – | – | – | 1,600 | – | **1,600** |
| Alternative assets | – | – | – | 1,867 | – | **1,867** |
| Other | – | – | – | – | 400 | **400** |
| | 7,724 | 12,673 | 12,262 | 13,336 | 57,100 | **103,095** |
| Present value of scheme liabilities | (10,348) | (16,676) | (17,710) | (19,888) | (78,600) | **(143,222)** |
| **Deficit** | **(2,624)** | **(4,003)** | **(5,448)** | **(6,552)** | **(21,500)** | **(40,127)** |

| At 31 March 2011 | Downland £'000 | Herts Council £'000 | LB Bromley £'000 | London Pensions £'000 | William Sutton £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| Fair value of scheme assets: | | | | | | |
| Equities | 3,668 | 9,102 | 10,156 | 8,988 | 41,600 | **73,514** |
| Gilts | – | – | 1,346 | – | – | **1,346** |
| Other bonds | 692 | 2,369 | 489 | 261 | 9,400 | **13,211** |
| Property | – | 499 | – | – | 4,400 | **4,899** |
| Cash | 1,619 | 499 | 245 | 391 | – | **2,754** |
| Secured pensions | 1,213 | – | – | – | – | **1,213** |
| Target return portfolio | – | – | – | 1,563 | – | **1,563** |
| Alternative assets | – | – | – | 1,824 | – | **1,824** |
| Other | – | – | – | – | 600 | **600** |
| | 7,192 | 12,469 | 12,236 | 13,027 | 56,000 | **100,924** |
| Present value of scheme liabilities | (8,416) | (15,609) | (15,540) | (16,863) | (70,900) | **(127,328)** |
| **Deficit** | **(1,224)** | **(3,140)** | **(3,304)** | **(3,836)** | **(14,900)** | **(26,404)** |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012 (continued)

## 25. Pensions – Group (continued)

The financial assumptions used for the purposes of the FRS17 calculations are as follows:

| At 31 March 2012 | Downland | Herts Council | LB Bromley | London Pensions | William Sutton |
|---|---|---|---|---|---|
| Inflation | 3.1% | 3.1% | 2.3% | 2.5% | 2.2% |
| Salary increases | n/a | 4.8% | 4.5% | 4.2% | 4.6% |
| Pension increases in payment | 3.1% | 2.5% | 2.3% | 2.5% | 2.2% |
| Discount rate | 4.5% | 4.8% | 4.5% | 4.6% | 4.6% |
| Expected return on scheme assets: | | | | | |
| Equities | 5.9% | 6.2% | 5.9% | 6.3% | 8.0% |
| Gilts | – | – | 3.1% | – | – |
| Other bonds | 4.5% | 4.0% | 4.5% | – | 5.1% |
| Property | – | 4.4% | – | – | 7.0% |
| Cash | 3.0% | 3.5% | 3.0% | 3.0% | – |
| Secured pensions | 4.5% | – | – | – | – |
| Target return portfolio | – | – | – | 4.5% | – |
| Alternative assets | – | – | – | 5.3% | – |
| Other | – | – | – | – | 0.5% |

| At 31 March 2011 | Downland | Herts Council | LB Bromley | London Pensions | William Sutton |
|---|---|---|---|---|---|
| Inflation | 3.4% | 2.8% | 3.5% | 2.7% | 2.9% |
| Salary increases | n/a | 5.1% | 5.0% | 4.5% | 4.9% |
| Pension increases in payment | 3.4% | 2.8% | 2.7% | 2.7% | 2.9% |
| Discount rate | 5.6% | 5.5% | 5.5% | 5.5% | 5.5% |
| Expected return on scheme assets: | | | | | |
| Equities | 7.1% | 7.5% | 7.1% | 7.4% | 8.4% |
| Gilts | – | – | 4.3% | – | – |
| Other bonds | 4.9% | 4.9% | 5.5% | 5.5% | 5.1% |
| Property | – | 5.5% | – | – | 7.4% |
| Cash | 1.7% | 4.6% | 3.0% | 3.0% | – |
| Secured pensions | 5.6% | – | – | – | – |
| Target return portfolio | – | – | – | 4.5% | – |
| Alternative assets | – | – | – | 6.4% | – |
| Other | – | – | – | – | 0.5% |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012 (continued)

## 25. Pensions – Group (continued)

### Mortality Assumptions

In compiling the FRS17 disclosures the actuaries have used the following assumptions:

### Downland Housing Group Pension & Assurance Scheme

Post-retirement mortality is based on S1PA year of birth base tables with CMI 2010 (1%) projection model future improvements.

The assumed life expectations from age 65 are as follows:

| | | |
|---|---|---|
| Retiring today | Males | 22.2 |
| | Females | 24.4 |
| Retiring in 20 years | Males | 23.5 |
| | Females | 25.9 |

### Hertfordshire County Council Pension Fund

Life expectancy is based on the SAPS year of birth tables with improvements from 2007 in line with the Medium Cohort and a 1% underpin. Mortality loadings were applied to the SAPS tables based on membership class.

The assumed life expectations from age 65 are as follows:

| | | |
|---|---|---|
| Retiring today | Males | 21.0 |
| | Females | 23.8 |
| Retiring in 20 years | Males | 22.9 |
| | Females | 25.7 |

### London Borough of Bromley Pension Fund

The actuary has adopted a set of demographic assumptions that are consistent with those used for the formal funding valuation as at 31 March 2010. The post-retirement mortality tables adopted were the S1PA Heavy series with a 70% multiplier, making allowance for future improvements factors in line with the medium cohort projection with an underpin of 1%.

| | | |
|---|---|---|
| Retiring today | Males | 22.2 |
| | Females | 26.2 |
| Retiring in 20 years | Males | 24.4 |
| | Females | 28.3 |

### London Pensions Fund Authority Pension Fund

The actuary has adopted a set of demographic assumptions that are consistent with those used for the formal funding valuation as at 31 March 2010. The post-retirement mortality is based on Club Vita mortality analysis which has been projected using the medium cohort projection and allowing for a minimum rate of improvement of 1%.

The assumed life expectations from age 65 are as follows:

| | | |
|---|---|---|
| Retiring today | Males | 21.4 |
| | Females | 24.1 |
| Retiring in 20 years | Males | 23.4 |
| | Females | 25.9 |

### William Sutton Housing Association Final Salary Scheme

Life expectancy is based on 100% S1PA Year of Birth, CMI 09 projection with long term rates of improvement of 1.5% per annum for males and 1.25% per annum for females.

| | | |
|---|---|---|
| Retiring today | Males | 23.1 |
| | Females | 24.9 |
| Retiring in 20 years | Males | 25.4 |
| | Females | 26.8 |

## 26. Contingent liability – Group

A contractor has begun legal proceedings against the Group, alleging that a breach of contract has taken place. The amount of damages sought cannot be reliably quantified, while legal advice provided to the Group suggests that it should expect to successfully defend itself against the claim. As such no provision has been made.

Any further information usually required by FRS12 'Provisions, Contingent Liabilities and Contingent Assets' is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the litigation.

## 27. Legislative provisions

Affinity Sutton Group Limited is incorporated under the Industrial and Provident Societies Act 1965 and is registered with the Homes and Communities Agency under the Housing Act 1996.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012 (continued)

## 28. Ultimate Parent Undertaking

At the year-end, Affinity Sutton Group Limited was the ultimate parent undertaking for the following entities:

| Name | Legislative provisions | Nature of business |
|---|---|---|
| Aashyana Housing Association Limited | Industrial and Provident Societies Act 1965 | Registered provider |
| Affinity Sutton Capital Markets PLC | Companies Act 2006 | Funding vehicle |
| Affinity Sutton Community Foundation | Companies Act 2006, Charities Act 2011 | Charitable services |
| Affinity Sutton Funding Limited | Companies Act 2006 | Funding vehicle |
| Affinity Sutton Homes Limited | Industrial and Provident Societies Act 1965 | Registered provider |
| Affinity Sutton Investments Limited | Companies Act 2006 | Investment vehicle |
| Affinity Sutton Labour Agency Limited | Companies Act 2006 | Property maintenance |
| Affinity Sutton Professional Services Limited | Companies Act 2006 | Property development |
| Broomleigh Regeneration Limited | Companies Act 2006 | Property development |
| Community Building Services (CBS) Limited | Companies Act 2006 | Building services |
| Downland Regeneration Limited | Companies Act 2006 | Property development |
| Grange Management (Southern) Limited | Industrial and Provident Societies Act 1965 | Property management |
| Igloo Insurance PCC Limited Cell ASG2 | Companies (Guernsey) Law 2008 | Insurance |
| William Sutton Developments Limited | Companies Act 2006 | Property development |

Affinity Sutton Group Limited's only direct equity investments as at 31 March 2012 are in Affinity Sutton Capital Markets PLC (£1, or 0.002% of its issued share capital) and Igloo Insurance PCC Limited Cell ASG2 (see note 10). All other companies are considered to be subsidiary companies because of the control exercised by the Board of Affinity Sutton Group Limited, or because they are wholly-owned subsidiaries of such companies.

Affinity Sutton Group Limited is not controlled by any one individual.

Affinity Sutton

**Affinity Sutton Group Limited**

Industrial and Provident Society No. 28038R
Tenant Services Authority No. LH4087

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