Affinity Sutton

ANNUAL REPORT AND FINANCIAL STATEMENTS 2015/16

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FOREWORD BY THE GROUP CHAIRMAN AND THE GROUP CHIEF EXECUTIVE

We are pleased to present Affinity Sutton's 2015/16 Annual Report and Financial Statements.

As in previous years, the Group has demonstrated strong performance, combined with real resilience in the face of the significant challenges posed by changes in public policy. In 2015/16 we ended the year having made a surplus of £145 million on a turnover of £386 million, and generating an operating margin of 41% which represents our strongest financial performance ever. Our financial strength continues to be recognised by the ratings agency Moody's which is reflected in our best in sector Aa3 rating, providing a strong foundation for us to raise funding for new homes.

As well as our ongoing commitment to a sustainable financial position, we place our customers at the heart of everything we do and 2015/16 saw customer satisfaction rates running at 83%, the highest it has been for seven years. This is a great testament to our people's commitment to delivering great levels of service to our customers.

Today, Affinity Sutton is one of England's largest landlords, with more than 58,000 properties. Given our scale and our legacy we are committed to making a positive contribution to supporting efforts to tackle the housing crisis by delivering as many new homes as we can. In 2015/16 we built 1,041 new homes across a range of tenures. Those homes were developed with just 5% of public subsidy, the lowest level since the early 1970s. There are increasingly comments from some observers that those housing associations engaging in more commercial activity are leaving behind their social roots, but we take the opposite view: in an era of drastically reduced grant funding, building homes for private sale enables us to fulfil our social purpose by continuing to build homes for those who are failed by the market. Our commercial activity is a means to this end and far from an end in itself.

The key event for housing in 2015/16 was the General Election in May 2015. The new Government very quickly made a range of policy announcements which have changed the sector landscape fundamentally. Central to this was an express shift in favour of home ownership initiatives and away from funding affordable rent.

Both collectively and as a sector, much of the focus this year has been on developing strategic responses to a number of significant policy shifts, notably the Government's plan to extend the Right to Buy, rent reductions and the impact of further welfare reforms. As a strong independent charitable organisation, Affinity Sutton is more determined than ever to continue to demonstrate the commitment we have had for more than a century - to increase the supply of secure rented homes for people who cannot meet the high cost of market housing in England. At the same time, there is an important place for housing solutions in other tenures, and we will continue to address undersupply across the spectrum, especially where this provides a source of essential cross-subsidy for affordable homes.

Many of the policy developments have made it harder to achieve this objective. However, our strong financial position provides a buffer against negative developments such as the 1% rent reductions for four years which are reducing our income, and the extension of Right to Buy to housing association tenants, albeit now on voluntary terms, which might reduce our stock of social rented homes.

Further uncertainty was introduced during the year when the Office for National Statistics' decided that housing associations are public sector bodies for accounting purposes. We were pleased when in response, the Government made it clear that it would introduce deregulatory measures that will reverse that decision in the near future. Those provisions, alongside a range of others, are incorporated into the Housing and Planning Act 2016. We believe that the deregulatory measures will create welcome new freedoms which will enhance our ability to meet our social and charitable objectives.

One major area of focus for the sector this year was the proposal to extend the Right to Buy to housing association tenants. We are fully supportive of the principle that a range of tenures is needed to meet housing need and have for many years helped people to access the home ownership market, but we believe that this policy will place additional pressure on the supply of sub-market rented housing for those in greatest need. At the outset, in its proposed statutory form, it ignored the independent and often charitable status of housing associations.

"
We made a surplus of £145m on a turnover of £386m and generated an operating margin of 41%, giving our strongest financial performance ever.
"

It also failed to differentiate between different circumstances, such as rural properties in small communities and those homes funded through charitable bequest. When the National Housing Federation promoted the idea that statutory proposals should be replaced by a voluntary scheme we had a number of concerns. However, while we supported the proposition, nevertheless, we continue to have concerns about the practicalities of the scheme's operation and will carefully monitor the impact when it goes live.

In response to the Summer 2015 Budget we refocused our business plan in a range of ways. For example, to ensure we remain able to deliver our social purpose we revised our financial plans, introducing a combination of efficiency savings and adjusted the mix of our development programme, increasing the number of shared ownership homes we expect to develop. Overall this sees a small increase in the proportion of our total income that will come from building homes for sale. We are conscious that this has the potential to increase our exposure to risk and so we have identified a number of ways in which we will seek to mitigate those risks, for example by adjusting our Financial Golden Rules to reflect the changed landscape.

58,000+

Affinity Sutton is one of England's largest landlords, with more than 58,000 properties.

Neil Goulden
Group Chairman

FOREWORD BY THE GROUP CHAIRMAN AND THE GROUP CHIEF EXECUTIVE (continued)

Keith Exford CBE
Group Chief Executive

1,700

Affinity Sutton employees across a wide range of roles are at the heart of our success.

> “
> **Affinity Sutton and Circle Housing share similar values and have a similar vision for what can be achieved by coming together.**
> ”

Against this backdrop we are pleased that our merger talks with Circle Housing Group have continued in a constructive and open way. The two groups share similar values and have a similar vision for what can be achieved by coming together. A business case to merge was agreed by both groups’ Boards in December 2015. The decision to merge was made on the basis that we could improve services for our existing customers, create more capacity to deliver new homes, and be more resilient and better able to manage risk into the long term.

At the heart of our vision is our aim to deliver 50,000 new homes over 10 years, making the merged group one of the largest home builders in England. But we want also to extend the reach of our community investment work and will look to grow the programmes we each currently run. For example, we will become one of the country’s biggest providers of employment services, supporting 4,000 people into work annually, and we will help over 200 young people into apprenticeships each year. In addition, we believe that communities will be stronger if their young people have the best possible educational opportunities, and so we intend to support 15,000 children to make a better start in life, for example through partnerships with local schools.

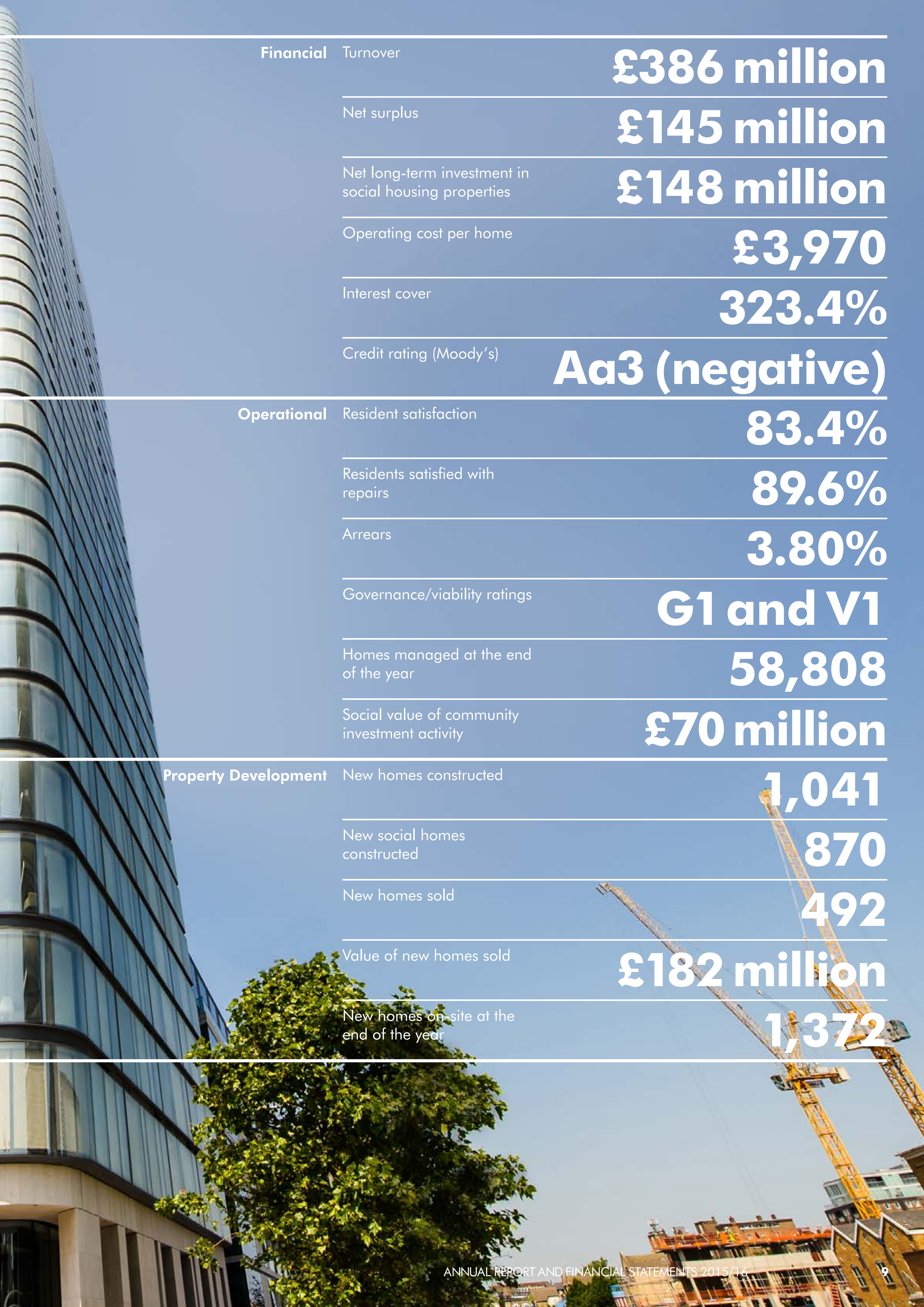
We are confident that the merged group will be able to provide excellent services to both residents and non-residents alike and significantly increase our capacity to build the homes the country so desperately needs.

Affinity Sutton employs over 1,700 people in a wide range of roles. Many have worked with us for many years and their unswerving commitment to what we do is at the heart of our success as a social business. We thank them for their hard work, loyalty and energy in the face of an uncertain future and the major changes they have embraced throughout the year. They have continued to provide sensitive, efficient services to our residents whilst helping many others to put down roots. They are the foundation of the success we expect to achieve in years to come.

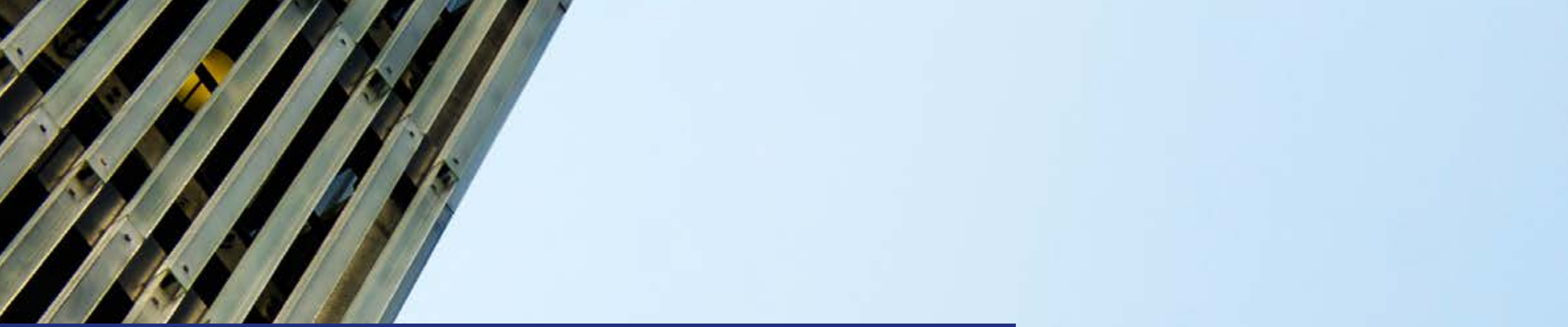
On 23 June 2016 the country voted to leave the EU. This has led to economic and political instability and uncertainty. We will watch developments over the coming weeks and months, and develop contingency plans to address that volatility, particularly in the context of the planned merger. Overall however, Affinity Sutton's strong financial position means that it is well placed whatever the future economic environment might be.

Neil Goulden
Group Chairman
Keith Exford CBE
Group Chief Executive

AT A GLANCE



Financial	Turnover	**£386 million**
	Net surplus	**£145 million**
	Net long-term investment in social housing properties	**£148 million**
	Operating cost per home	**£3,970**
	Interest cover	**323.4%**
	Credit rating (Moody's)	**Aa3 (negative)**
Operational	Resident satisfaction	**83.4%**
	Residents satisfied with repairs	**89.6%**
	Arrears	**3.80%**
	Governance/viability ratings	**G1 and V1**
	Homes managed at the end of the year	**58,808**
	Social value of community investment activity	**£70 million**
Property Development	New homes constructed	**1,041**
	New social homes constructed	**870**
	New homes sold	**492**
	Value of new homes sold	**£182 million**
	New homes on-site at the end of the year	**1,372**



BOARD, EXECUTIVE DIRECTORS AND ADVISERS

Board
Neil Goulden, Group Chairman
Colin Sturgeon, Group Vice Chairman
Helen Bailey
Nick Jones
Sue Killen
Simon Neville
Jonathan Paine
Keith Exford CBE (Group Chief Executive)
Kerry Kyriacou (Group Development Director)
Mark Washer (Group Finance Director)

Mike Herring (resigned 23 July 2015)

Principal Solicitors
Allen & Overy LLP
One Bishops Square
London
E1 6AD

Trowers & Hamlins LLP
3 Bunhill Row
London
EC1Y 8YZ

Winckworth Sherwood LLP
Minerva House
5 Montague Close
London
SE1 9BB

Anthony Collins Solicitors LLP
134 Edmund Street
Birmingham
B3 2ES

Executive Directors
Keith Exford CBE
Jonathan Cawthra
Kerry Kyriacou
Neil McCall
Clare Miller
Michelle Reynolds
Mark Washer

Company Secretary
Clare Miller

Bankers
NatWest Bank plc
143 High Street
Bromley
Kent
BR1 1JH

Auditors
KPMG LLP
15 Canada Square
London
E14 5GL

Registered Office
Level 6
6 More London Place
London
SE1 2DA

REPORT OF THE BOARD INCLUDING STRATEGIC REPORT

GROUP STRUCTURE

Affinity Sutton Group Limited ("the Association") 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 30 of the Financial Statements.

The following table summarises the roles of the main members of the Group:

CHARITABLE PARENT

Affinity Sutton Group Limited
Group parent: provides strategic direction and ultimate control of its subsidiaries. Provides corporate and operational services to the Group.

CHARITABLE HOUSING ASSOCIATION

Affinity Sutton Homes
National housing association operating across England.

REGISTERED CHARITY

Affinity Sutton Community Foundation
Community Investment and other charitable activities.

PROPERTY SERVICES COMPANIES

Grange Management (Southern) Limited
Property management company specialising in management of retirement freehold blocks and estates.

Community Building Services (CBS) Limited
Residential property maintenance company providing services mainly to Affinity Sutton Homes.

Affinity Sutton Repairs Limited
Residential property maintenance company providing services to Affinity Sutton Homes.

FUNDING COMPANIES

Affinity Sutton Funding Limited
Group borrowing vehicle, providing funding to Affinity Sutton Homes.

Affinity Sutton Capital Markets PLC
Issuer of public bonds used to finance the activities of the Group.

DEVELOPMENT COMPANIES

Affinity Sutton Professional Services Limited
Provision of development services for the construction of residential property.

William Sutton Developments Limited
Development of properties for outright sale on the open market.

REPORT OF THE BOARD INCLUDING STRATEGIC REPORT

OUR CORPORATE STRATEGY

At the heart of our vision we want to "use our heritage, fresh thinking and commitment to help people put down roots".

This is supported by our "core objectives", the business drivers which guide our direction of travel and are fundamental to achieving future success.

We want to:

Be a housing provider of choice

Maintain our financial strength

Grow our business

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

They are:

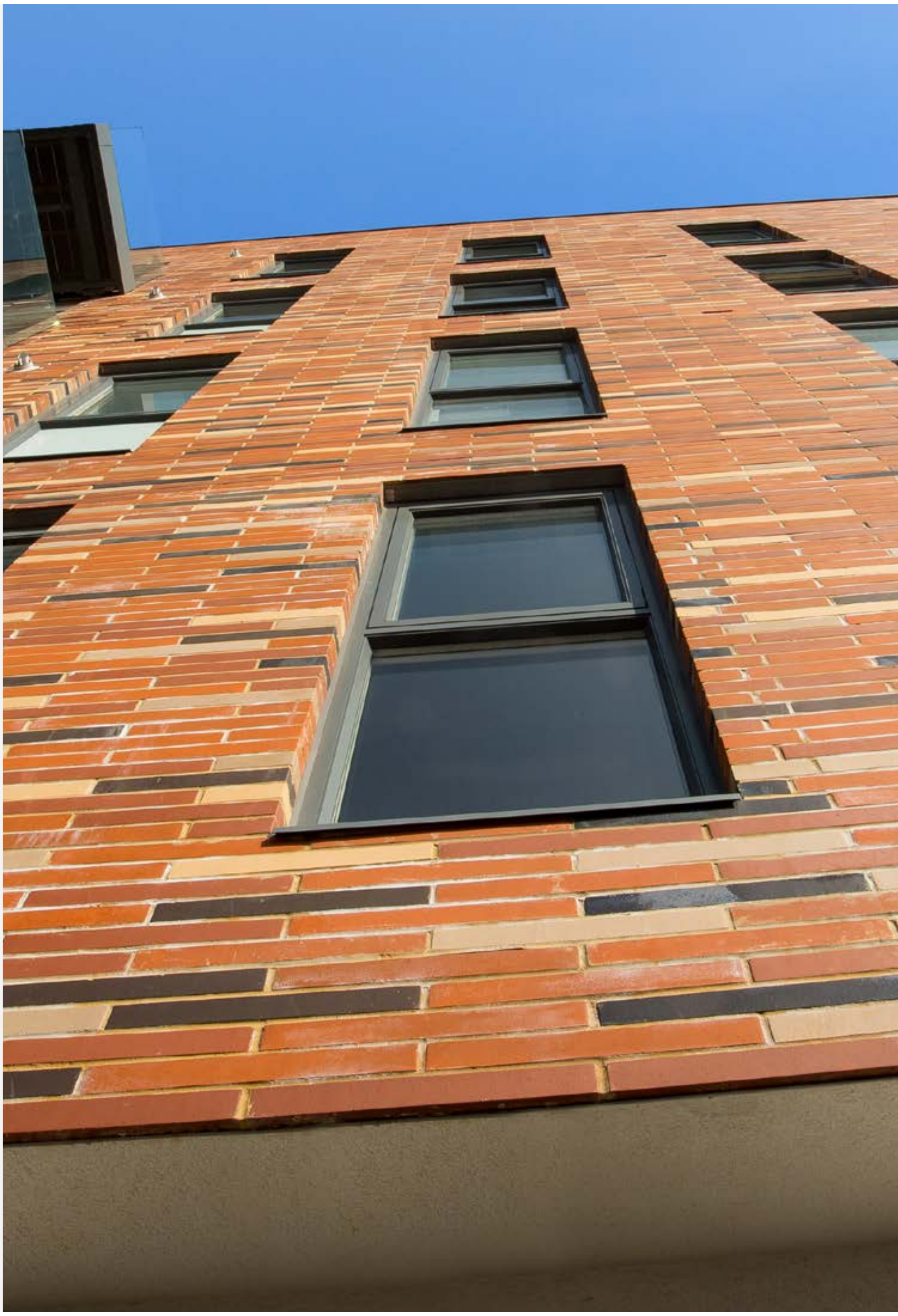
Increasing our influence

Being an employer of choice

"Our Future Foundations Programme will transform the way we work."

We continue to recognise the need to change in response to increasing complexity and uncertainty in our operating environment.

This new environment provides opportunities, such as the delivery of new and better tailored products, but it also brings significant risks and new challenges. In response to this we launched our Future Foundations Programme in 2012 to transform the way we work, and during the year we made great progress towards turning this into a reality, both in terms of developing a new model for working, and selecting a supplier to implement a new Microsoft systems solution.



REPORT OF THE BOARD INCLUDING STRATEGIC REPORT

THE EXTERNAL ENVIRONMENT

This year in the sector has been dominated by policy direction of the Government that was elected in May 2015. Early on it set out the main provisions of a Housing Bill which most notably made proposals to extend the Right to Buy to all housing association tenants. Further changes to welfare spending on top of those already underway were announced in the July 2015 Budget. At the same time, the Chancellor announced that the previously agreed 10-year rent settlement is to be abandoned and rents must be reduced by 1% p.a. in each of the next four years, starting from April 2016.

We responded to the issues raised in a number of ways. Our financial strength provided a good starting point for the work we needed to do to achieve a viable new plan that tackled the lost income. At its peak, and measured against our forecasts based on the Government's earlier commitment to a CPI+1% rent increase, we would lose £38 million a year on an ongoing basis. As an organisation with a cost base at the lower end of those in the sector this presented particular problems and rather than simply finding equivalent savings out of operating costs, we responded with a number of different adjustments to the plan that resulted in it returning to a similar position to that before the rent cuts.

This included:

- An increase in the cost saving target already built into our financial plan by refocussing our Future Foundations Programme on the efficiencies it could deliver;
- Deferral of our planned roll out of a new affordable rent policy which we had intended to implement from September 2015. This would have led to planned and structured rent reductions, but the impact of these would have been compounded further by the Budget reductions; and
- A recalibration of our 10-year new homes programme. This included a small reduction in the overall scale of development, but in order to retain a sizeable programme we made significant changes to the tenure mix which included a rebalancing of social housing development from rent to low cost home ownership and the introduction of a market rent programme to provide greater flexibility and control over our stock.

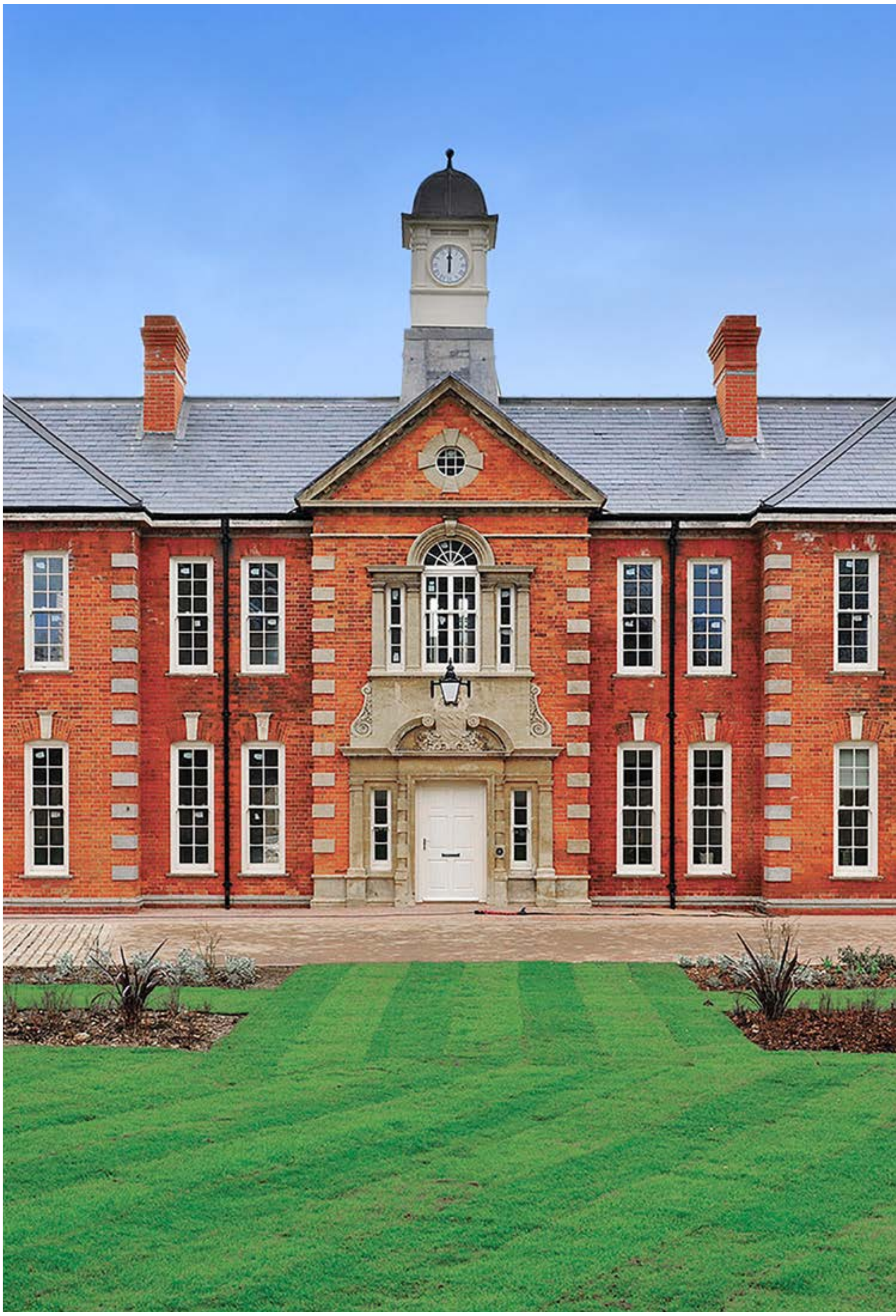
At a national level much of the year has been spent considering the impact of various policy announcements. The decision by the Office for National Statistics ("ONS") that housing associations are public bodies did not have an immediate impact on our strategy, but it led the Government to develop a range of deregulatory measures with the aim that the ONS would at some future point reverse its decision. These provisions were incorporated into the 2016 Act.

The welfare benefits landscape was dramatically changed, although Universal Credit was not rolled out in the year as had been planned. Uncertainty remains about exactly what shape that implementation will take, but it remains part of the Government's plan alongside new cuts in welfare spending totalling £12 billion. These will reduce the benefit cap, reduce benefit payments to younger people and limit increases in benefits more generally.

Whilst the economy showed more solid signs of recovery, many of the communities where we operate continue to struggle. Residential development continues to fall far short of the levels many commentators believe are necessary. On the face of it, the housing market experienced strong growth, with the Land Registry recording a 6.7% year-on-year rise in house prices nationally. But the picture across the country was far from even, with prices in the North East falling 0.7% compared with a 13.9% increase in London. There continue to be a number of signs that the market is cooling, especially in London, and many commentators are forecasting limited house price inflation over the next year with prices in London potentially reducing. For example, at the start of 2016 a number of hedge funds took short positions in the stock of some of the capital's major resident developers. This comes at a time of continued low levels of grant leading the sector to increase development for sale activity in order to provide a cross-subsidy for much needed new social housing.

> "The Housing and Planning Bill made proposals to extend the Right to Buy to all housing association tenants."

Interest rates remained low, with the base rate unchanged at 0.5% for over seven years, maintaining the benign borrowing environment for the sector. A year ago this seemed likely to change over the short term, with some economists then forecasting a rise to 1.25% by the end of 2016 and to 2% by the end of 2017. However, the consensus now seems to be that base rate increases will be more likely to be at the end of the decade. In the meantime, the borrowing landscape for associations remains benign.



1%

Amount rents must be reduced by in each of the next four years.

REPORT OF THE BOARD INCLUDING STRATEGIC REPORT

RISKS AND UNCERTAINTIES

These challenges, and others, have meant that we have continued to focus during the year on our response to the following chief risks:

- A weakening financial position as a result of the 1% rent reductions imposed by the Government;
- The planned extension of Right to Buy to all housing association tenants;
- The failure of our processes and systems to meet the challenges we face over the medium term in a way which enables us to maintain responsive service delivery which meets the expectations of our changing customer base;
- The potential for a corrective movement in the property market, especially in London;
- The potential for a material weakening of our strong financial position as a result of exposure to the current investment model, especially the impact on our debt levels;
- A reduction in appetite from investors in sector debt as a result of deregulatory measures and changes to the sector's development model;
- Higher arrears and bad debts caused by the roll-out of the new Universal Credit system and other changes to welfare benefits and their payment terms, particularly the planned reduction in the benefit cap and the withdrawal of automatic housing benefit for 18 to 21-year-olds;
- 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;
- 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;
- The potential for failure among our key suppliers, in particular, house builders, developers and maintenance contractors;
- Our ability to deliver successful maintenance services through our newly in-sourced function; and
- 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.

> "
> **Our joint business plan for the merged group was approved in September 2015.**
> "

MERGER WITH CIRCLE HOUSING GROUP

Circle Housing Group and Affinity Sutton Group announced in July last year that we were in discussions over a possible merger. Our early pace was affected by the announcement of the rent cuts, which occurred as we were developing a business plan for the new Group. The prospect of the rent cuts forced the two Groups to re-focus on ensuring that their own business plans were re-calibrated to reflect significant negative impact.

The new business plan was approved by the Group board in September.

In the year since then we have made excellent progress towards achieving that goal. Key developments during the year included:

- The creation of a shadow board and designate senior executive team for the new Group;
- The completion of a comprehensive programme of due diligence on both sides, focussed in particular on areas of high risk;
- The completion of a business plan for the combined organisation which set out plans to deliver the aspiration of building 50,000 homes from the 10 years from 2020; and
- A funding and treasury strategy designed to create a solid foundation from which to launch the new group.

The Group has adopted the National Housing Federation's 'Mergers, Group Structures and Partnerships' voluntary code.

50,000

New homes planned in the 10 years from 2020.

REPORT OF THE BOARD INCLUDING STRATEGIC REPORT

> "
> **Our Future Foundations programme will provide our customers with more accessible and responsive services.**
> "

OUR FUTURE FOUNDATIONS PROGRAMME

Two years ago we took the significant step of approving plans to select a new enterprise-wide systems solution and – following a rigorous tender and assessment process – in July 2015 we signed a contract with Hitachi Solutions to work with us to implement a Microsoft Dynamics solution.

By creating seamless interfaces between different parts of the business, streamlining processes, and enabling more powerful use of data, all in a single system, it will support us in fundamentally transforming the way we do business. And as well as providing our customers with more accessible and responsive services, we expect to achieve significant long-term efficiencies, which will improve our delivery of value for money.

A core part of the Programme, our Customer Strategy will enable us to make decisions founded on strong evidence and insights about what success means for the organisation and for the customer. It aims to articulate the shift in organisational behaviour that puts emphasis on the customer experience and recognises where and how to add value, giving us the flexibility we need to respond effectively to change.

Through the "Ways of Working" strand of the Programme we are challenging the way we operate through a root and branch analysis of our processes aimed at eliminating duplication and challenging the status quo. We will develop better and more cost-effective ways of delivering services. We made significant progress in the year to redesign our processes ready for the implementation of new systems.

Over the year since then we have made very good progress in developing the design of the new system, working with the business on the detail of those processes and how they will operate in the ERP environment. Since the year-end we have moved into the "Build" stage of the programme which we expect to be completed later this financial year.

REPORT OF THE BOARD INCLUDING STRATEGIC REPORT

INVESTMENT IN NEW HOMES

In 1900 William Sutton bequeathed £1.5 million to build homes for working people and building homes for those who need them remains a core objective of the Group. The availability of housing is an increasing concern of the British public and over the past few years this has been captured by the respected Economist/Ipsos Mori Issues Index. Whereas in April 2012 'Housing' was not even among the top ten issues, this May it was 7th, and it is consistently important across both age and social groups; somewhat unsurprisingly, the May 2016 index also shows it to be the single most important issue amongst Londoners.

The 2011-15 Affordable Homes Programme ended in March 2015, and we have considered how to continue to meet one of our core objectives which is to build new homes for those who need them.

This will be a challenge, especially in the light of falling rent levels, but our analysis is that our financially strong profile will enable an on-going programme without the support of grant from government. Inevitably this will increase our risk profile in a number of ways, and our surpluses will play a key part in mitigating those risks. Whilst much of our focus has been on the development plans for the organisation formed from the merger of Circle and Affinity Sutton, we developed strong plans for growth for Affinity Sutton as a standalone association.

> **"Building homes for working people and for those who need them remains a core objective of the Group."**

REPORT OF THE BOARD INCLUDING STRATEGIC REPORT

WELFARE REFORM

The last Government fundamentally changed the welfare benefits landscape for many, including for many housing association tenants. The removal of the "spare room subsidy" and the benefit cap were rolled out in 2013/14 and in April 2013 the first pilot for Universal Credit started, albeit on a very limited basis. By April 2016 just 248,000 people were on Universal Credit compared with the Government's March 2013 assumption of 4.5 million. The Government now plans that roll-out will substantially complete - to an estimated 8 million claimants - in 2021.

Thus far the impact on us from this first round of welfare cuts has been less than expected. However, the new Government has confirmed that it intends to save a further £12 billion in welfare reform over the life of the Parliament. Whilst full details are not yet clear, the July 2015 Budget incorporated provisions for:

- A reduction in the benefit cap from £26,000 to £23,000 in London and £20,000 outside London;
- The removal of housing benefit for most 18 to 21-year-olds; and
- A freeze on working age benefits for the next four years.

Additionally, the November 2015 Autumn Statement announced that for social housing tenancies signed from 1 April 2016, Housing Benefit would be capped to Local Housing Allowance rates, effective from 1 April 2018. In particular, this means that the Shared Accommodation Rate will apply to new housing association tenants who are under the age of 35, single and without dependants.

These policy decisions have the potential to have a much greater impact on many of our residents than those implemented in 2013 and we will seek to understand the potential impact on them and us as fuller details become clear. Nevertheless, we expect a significant adverse impact on rent collection performance and we will continue to incorporate prudent assumptions into our financial planning.

"The impact on us from the first round of welfare cuts has been less than expected."

REPORT OF THE BOARD INCLUDING STRATEGIC REPORT

FINANCIAL PERFORMANCE[1]

Affinity Sutton Group has delivered another year of strong financial performance. The Group generated a surplus of £145 million (2014/15: £126 million) on a turnover of £386 million (2014/15: £416 million).

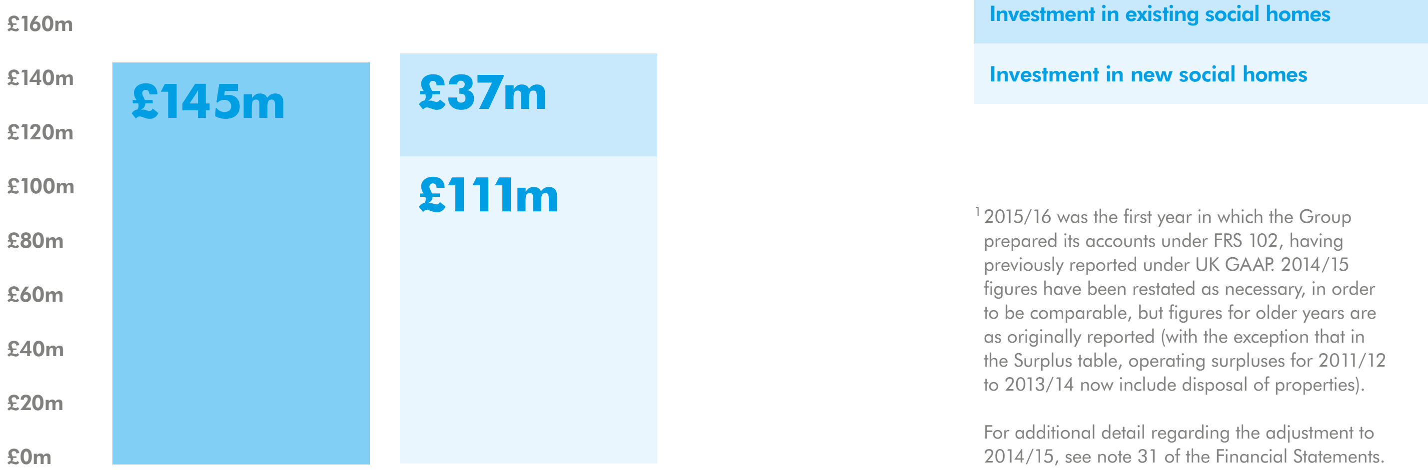
Affinity Sutton has a reputation for robust financial management. This is recognised in the sector-leading Aa3 credit rating we hold with Moody's and our V1 viability rating, which is the highest the HCA can assign. We see maintaining this strong financial position as one of our core objectives, because without it we would not be able to achieve our broader aims.

This year's surplus is significant but it is once again smaller than the £148 million long-term investment in social housing we made over the last twelve months (2014/15: £145 million). Net of grant, we invested £111 million into the construction of new social housing properties and a further £37 million in capital major works to our existing homes (2014/15: investment of £109 million and £36 million respectively). Therefore, once again our entire annual surplus was applied to our core social housing activity through a programme of planned improvements, as well as the development of new social housing.

Because of our surplus and our exceptional sales performance in the year, we have been able to make all this investment yet still reduce our outstanding net debt by £80 million (2014/15: £17 million). This places us in an extremely strong position as we continue to face the challenge of developing with limited or no grant in the future.

"Affinity Sutton has delivered another year of strong financial performance."

Surplus vs Long-term investment in social housing (net of grant)
Fig.1



[1] 2015/16 was the first year in which the Group prepared its accounts under FRS 102, having previously reported under UK GAAP. 2014/15 figures have been restated as necessary, in order to be comparable, but figures for older years are as originally reported (with the exception that in the Surplus table, operating surpluses for 2011/12 to 2013/14 now include disposal of properties).

For additional detail regarding the adjustment to 2014/15, see note 31 of the Financial Statements.

> "Our surplus for the year was £145m and over the last 12 months we invested £148m in social housing."

SURPLUS

	2015/16 £m	2014/15 £m	2013/14 £m	2012/13 £m	2011/12 £m
Turnover	**386**	**416**	**320**	**305**	**273**
Cost of sales	(40)	(74)	(32)	(35)	(23)
Operating costs	(198)	(177)	(166)	(163)	(155)
Disposal of properties	10	3	-	2	-
Exceptional items	-	-	-	-	(4)
Operating surplus	**158**	**168**	**122**	**109**	**91**
Gain on revaluation	5	5	-	-	-
Disposal of other assets	1	-	-	-	-
Share of joint ventures	33	5	-	-	-
Net financing costs	(52)	(52)	(47)	(49)	(45)
Surplus for the year	**145**	**126**	**75**	**60**	**46**

The table above provides a summary of the Group's results for the last five years.

Social lettings income increased by £13 million, with increases to both the rents we can charge and the number of homes we manage.

However, overall turnover fell by £30 million as direct sales revenue fell by £42 million, with £39 million of this decrease relating to private sales. This year most of the Group's outright sale activity was delivered mainly by joint ventures with commercial partners, and the £33 million share of surpluses was based on a £117 million share of sales. This is significantly up from the £5 million surplus which was made on £24 million of sales in 2014/15, coming mainly from our City Road development which completed late in the year.

We also realised a £10 million surplus on disposals of existing properties, £7 million higher than last year. This increase is chiefly the result of shared ownership residents taking advantage of low mortgage rates to purchase further shares in their homes through staircasing.

The fall in cost of sales corresponds to the decrease in direct sales, and the impact of the overall increase in sales activity is a £28 million increase in the surplus for the year.

However, operating costs also increased by £21 million and most of this increase relates to just three areas which were out of our control:

- Due to the 1% rent cut which was announced in the July 2015 Budget, we have assessed the affected properties for impairment, leading to a £5.1 million write-down;
- Due to an increase in the deficit of the defined benefit section of the Social Housing Pension Scheme, additional employer contributions over the next ten years were agreed during the year. The net present value of these is £4.7 million and, under FRS 102, this has been provided for in full in 2015/16; and
- Thirdly, we have recognised a £3.5 million provision for refunds of water charges to tenants, following a landmark High Court decision against Southwark Council, whose arrangements are similar to our own.

Excluding this £13 million, operating costs have increased by £8 million, or 4.4%. Factoring in the 1.4% increase in homes managed, this is a 2.9% increase and only slightly above the 2.3% inflationary target we had set ourselves.

FINANCIAL POSITION

As at 31 March	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Tangible fixed assets	2,940	2,857	1,763	1,608	1,507
Net current assets	53	72	112	101	95
Creditors due in over one year	(2,233)	(2,313)	(1,312)	(1,214)	(1,164)
Other	(47)	(47)	(29)	(37)	(40)
Total net assets	**713**	**569**	**534**	**458**	**398**
Income and expenditure account	843	692	529	453	391
Cash flow hedge and other reserves	(130)	(123)	5	5	7
Total capital and reserves	**713**	**569**	**534**	**458**	**398**

The table above summarises the Group Statement of Financial Position for the last five years.

Tangible fixed assets increased by £83 million as a result of investment in both existing and new homes. This was effectively funded by the increase in the Income and expenditure account as a result of the £145 million surplus for the year. Long-term creditors have decreased by £80 million as the remainder of the cash generated in the year was used to repay £80 million of loans.

"As a result of the investment in new and existing homes tangible fixed assets increased by £83m."

KEY GROUP FINANCIAL INDICATORS

	2015/16 Actual	2015/16 Target/Budget	2014/15 Actual
Operating margin	**40.9%**	38.8%	40.3%
Operating costs per home	**£3,970**	£3,747	£3,597
Adjusted cash generation from operations	**£60.7m**	£48.0m	£64.9m
Interest cover	**323.4%**	262.9%	329.4%
Net margin	**37.5%**	26.7%	30.4%
Gearing	**75.5%**	75.5%	80.0%
Net debt per unit	**£22,878**	£25,259	£24,725
Net debt: turnover plus share of joint ventures' sales	**2.3:1**	2.9:1	2.8:1
Ratio of committed development spend covered by cash and available loans	**4.8:1**	>1.0 :1	2.8:1

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

Given the strong result for the year, most of these measures are better than the prior year and the generally prudent targets we had set ourselves.

Operating costs per home (excluding leaseholds) is a key measure of our efficiency and our target for every year is to keep increases below inflation.

This year's budget assumed inflation of 2.3% and the 10.4% actual increase clearly did not meet this, with most of the excess increase due to the three reasons listed in the Surplus commentary on page 27. And while on this occasion we have not met our target, even with this additional £13 million of costs we rank 10th – so above-average - amongst our 27- strong peer group (see Benchmarking section on page 36).

"Most of these measures are better than last year as well as the prudent targets we set ourselves."

REPORT OF THE BOARD INCLUDING STRATEGIC REPORT

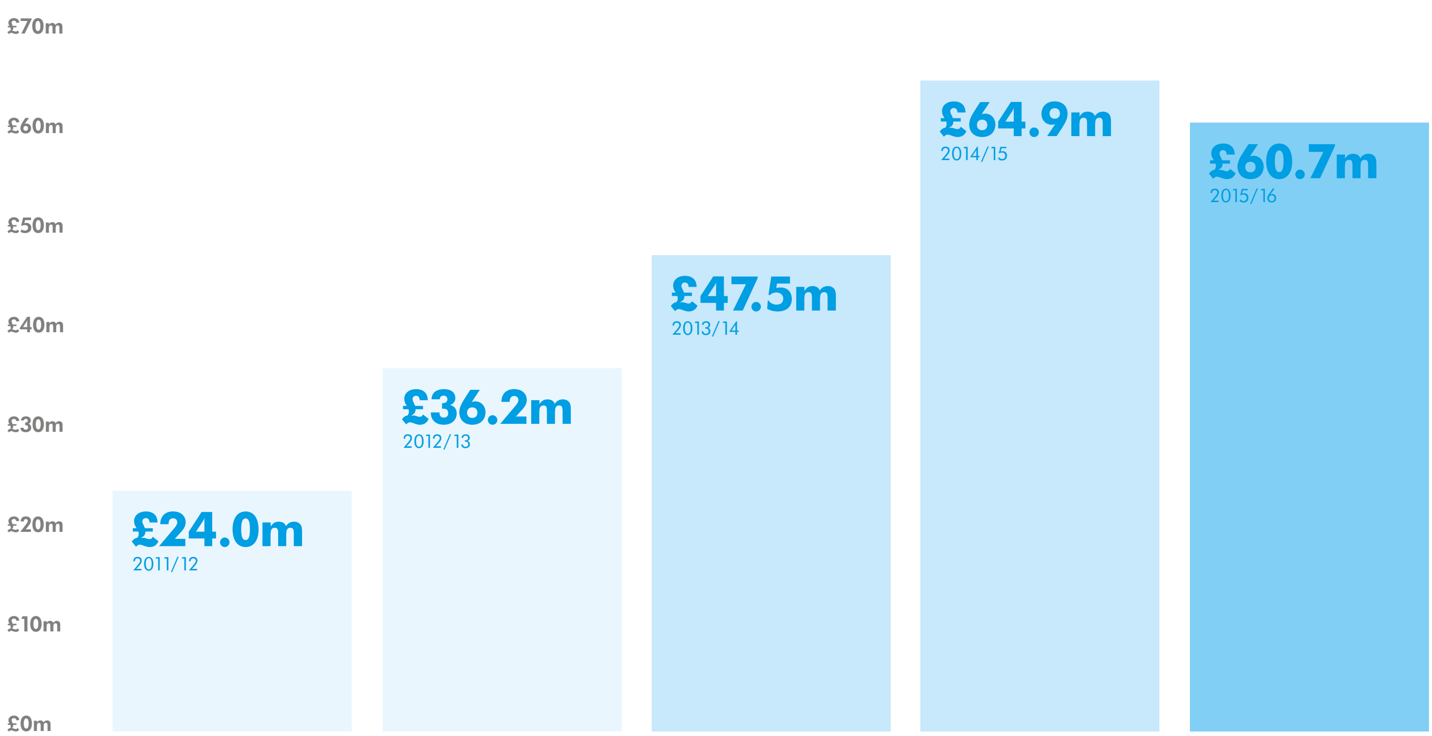
Adjusted cash generation is once again strong, reaching £60.7 million this year. This is a critically important measure since it provides an indication of our ability to meet the underlying obligations of our properties without recourse to debt finance and without reliance on property sales. Positive cash generation provides vital support for our investment in social housing, including critically the development of new homes, whilst keeping debt levels lower than they might otherwise be.

The Group's five-year adjusted cash generation from operations, shown in Fig.2 below, demonstrates a generally improving profile.

As a result of our strong performance, three of our four measures relating to debt have improved this year, and this puts us in a good position to secure further funding in the medium term.

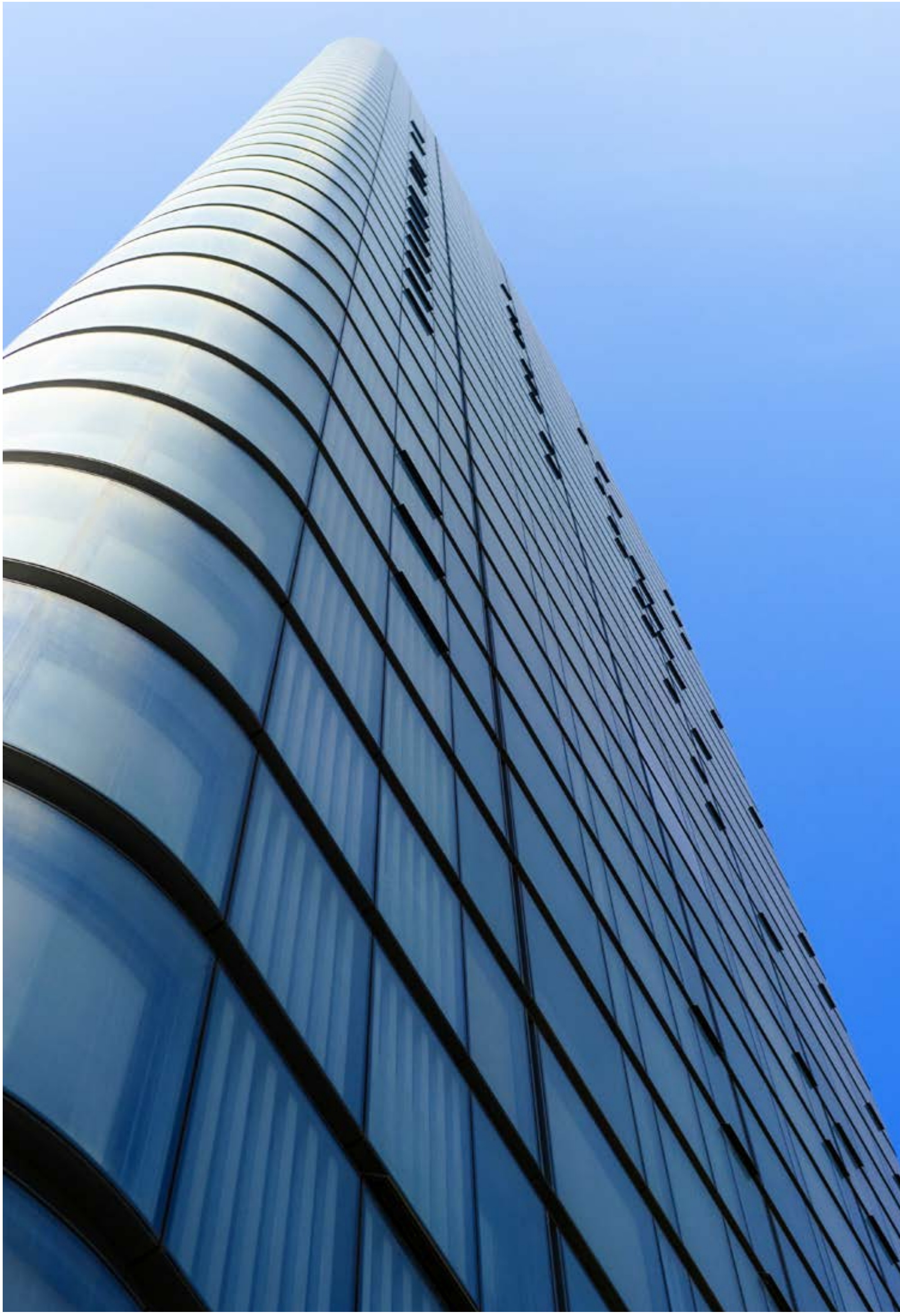
> **"As a result of our strong performance, three out of our four measures relating to debt have improved this year."**

Adjusted Cash Generation from Operations
Fig.2



FRS 102 – THE NEW ACCOUNTING STANDARD

This is the first set of accounts that the Group has prepared under the new accounting standards: a transition which also affects most of the social housing sector and many organisations outside. Further details are provided in the Notes to the Financial Statements, particularly note 31, but it should be noted that despite material changes to some of the 2014/15 figures previously reported under UK GAAP, last year's surplus was only restated by £2 million, or by less than 2%.



REPORT OF THE BOARD INCLUDING STRATEGIC REPORT

OPERATIONAL PERFORMANCE

	2015/16 Actual	2015/16 Target	2014/15 Actual	Target Met
Current rent arrears as a % of rent debit (Social Housing)	3.80%	<4.50%	3.71%	Yes
Rent loss due to voids	2.00%	<1.70%	1.70%	No
Occupancy rate	97.9%	>98.0%	98.3%	No
Residents' satisfaction overall	83.4%	>80.0%	80.3%	Yes
Residents' satisfaction with repairs	89.6%	>85.0%	87.9%	Yes
Properties meeting Decent Homes Standard	100.0%	100.0%	100.0%	Yes

The table above shows some of our key measures of operational performance.

83.4%

The highest level of overall residents' satisfaction recorded for seven years with an overall index of 83.4%.

Current rent arrears as a % of rent debit (Social Housing)

Arrears have remained broadly in line with the previous year whilst there have been far fewer evictions. This reflects the strong performance of our customer-facing teams even with the challenges that welfare reform have brought. Over the course of the year our Welfare Benefits Team has secured a £2.1 million increase in residents' benefits income, and we will maintain our assistance to residents as they move on to Universal Credit and face hardship from other benefit reforms.

Rent loss due to voids and occupancy rate

Welfare reforms, and the 'bedroom tax' in particular, have impacted on our ability to let some of our properties. This has been a particular issue in some of our less popular areas in the North and North East. We have reviewed our approach to letting, including our digital offer and have made some progress letting properties. We continue to focus on lettings performance, utilising tenant incentives and new marketing campaigns to increase demand.

Residents' satisfaction overall

This year, our focus for improving satisfaction has been keeping customers informed on all queries and continuously improving the service delivery from our repairs providers. The objective was to remain above 80% for every quarter of 2015/16.

The insight provided from our resident surveys made it clear that speed is important so an additional target of updating all open processes every 14 days was added. Our Contact Centre was tasked with achieving 80% of calls answered within 30 seconds every month and resolving over 70% of queries at first contact. All of these targets were achieved.

Last year's score of 80.3% averaged the 87.9% repairs satisfaction with 72.6% for all other transactions. The results for the final quarter of this year show what an incredible effort all teams have made this year to best serve our customers: repairs have recorded an amazing 89.6% while the transactional element has significantly improved to 77.2%. This gives us an overall index of 83.4% - the highest level recorded for seven years.

Residents' satisfaction with repairs

During 2015/16, 700 customer interviews were conducted each month, spread across our repairs contracts. Satisfaction with the overall repair service reached 89.6% in March 2016, which was second only to July 2015 when we broke through the 90% threshold.

Of particular significance is the convergence between the upper and lower scores compared to where we were a year ago. This is a good indication that we are providing a consistently good service across all contracts and Affinity Sutton Repairs have ended the year strongly with the 85% target exceeded for 3 months in a row.

Properties meeting Decent Homes Standard

This year we invested £37 million in our stock, carrying out a range of component renewals, upgrades and estate regeneration to over 15,000 homes through our 2015/16 Planned Investment and Regeneration programme. This included measures to achieve and exceed 'Decent Homes' compliance. Works were completed to a high standard with resident satisfaction averaging 91.5%.

To ensure future compliance we continue to follow a policy of updating and refreshing the data we hold about the condition of all our homes. In support of this policy we introduced a new software solution to enable surveys to be collected via mobile devices. During the year we surveyed 4,500 homes to further enhance the quality and accuracy of data we use to plan and prioritise investment in our stock.

+£2.1m

Our Welfare Benefits Team has secured a £2.1 million increase in residents' benefits income over the course of the past year.

REPORT OF THE BOARD INCLUDING STRATEGIC REPORT

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. We see delivering value for money as integral to our business philosophy. The importance of VfM and efficiency are well understood by staff throughout the business, and we continue to work to ensure that we are engaging residents in VfM effectively.

Our full statement on how we deliver on Value for Money is available on our website at *www.affinitysutton.com/valueformoney*.

We believe that the Group offers excellent VfM for the public purse through its investment in the development of new homes. This year £37 million of our surplus went directly into improvements to existing properties and the remainder was used to meet most of the £111 million (net of grant) we invested in building new social and Affordable homes.

In partnership with the Greater London Authority ("GLA") (for homes in London) and the Homes and Communities Agency ("HCA"), the Group is participating in the 2015-17 and 2015-18 Affordable Homes Programmes ("AHP"). We have agreed to build 1,966 homes in total – 1,192 for social or Affordable rent and 774 for low cost home ownership – at an overall grant level of just 5%.

This year we finished construction on 870 social and Affordable homes, at a cost of £154 million. Just £14 million (9%) of this was funded through grants.

In addition, we continue to utilise our capacity to build homes for sale in order to generate profits, thus further leveraging the limited grant available.

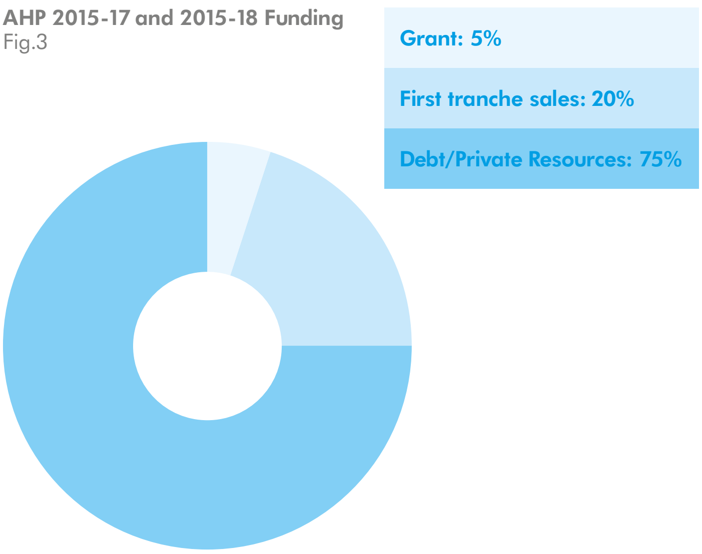
£154m

This year we finished construction on 870 social and Affordable homes, at a cost of £154 million.

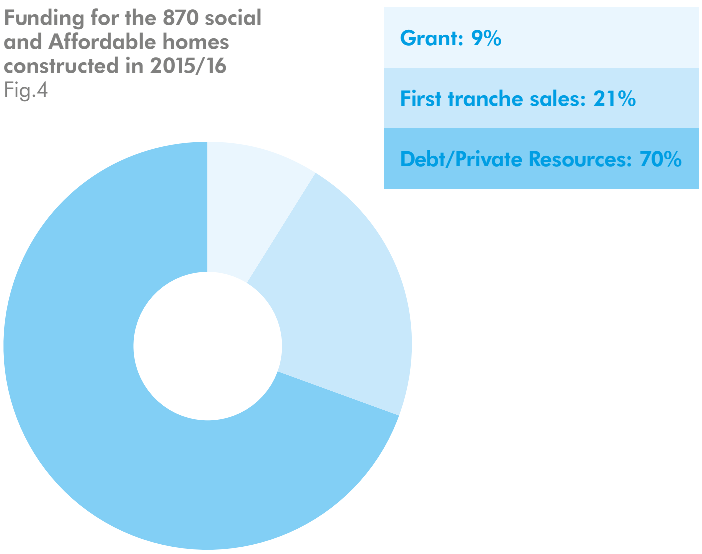
£14m

Just £14 million (9%) of the £154 million used to construct social and Affordable homes was funded through grants.

AHP 2015-17 and 2015-18 Funding
Fig.3



Funding for the 870 social and Affordable homes constructed in 2015/16
Fig.4



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 understand the importance of securing more out of our available resources to provide more quality homes and good customer service. 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, which we had proudly achieved for a number of years. However - as explained in the 'Surplus' analysis on page 27 - this year operating costs were adversely affected by one-off costs which are largely accounting related, such as the impairment charge and the recognition of the net present value of additional pension deficit contributions required by FRS 102. But for these changes, the real increase in unit costs is less than 1% and is attributable to the increase in housing property depreciation which, as a result of continuous investment in new and existing housing properties, increased by 8% - significantly above inflation.

The Group's operating costs, key financial indicators and operational performance, are regularly bench-marked against two peer groups: the largest housing associations (those which manage 20,000 units or greater) and the largest London associations (the G15).

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 historically generated major savings in operating costs which are probably unprecedented in the sector. About £5.7 million of savings per annum have been generated from mergers alone. Additionally we have adopted cost reduction plans which have generally seen year-on-year decreases in real operating costs. Since 2007 some £16 million of recurring costs per annum have been removed from the business at the same time as resident satisfaction has increased.

"Chief among the ways in which we seek to improve efficiency and VfM is growth through merger."

In addition VfM achievements in the year include:

- A range of office environmental initiatives generated savings of £0.4 million in the year;
- Shared savings with our major works partners totalled £0.7 million for the year;
- The introduction of a new tree management contract, netting savings of £0.3 million over the next four years;
- We secured an additional £2.1 million of benefit payments for our residents in the year which was provided by a team of dedicated welfare benefit advisors; and
- External funding contributed £0.5 million towards installing solid wall insulation to 80 properties in Bromley.

REPORT OF THE BOARD INCLUDING STRATEGIC REPORT

Financial VfM analysis	Affinity Sutton 2015/16	Affinity Sutton 2014/15	Peer group weighted average 2014/15	Affinity Sutton peer group ranking	National average 2014/15
Operating costs per home	£3,970	£3,597	£4,517	10	£4,077
Management cost per home	£729	£656	£1,055	7	£1,037
Service charges cost per home	£383	£353	£624	9	£513
Maintenance and major repairs expenditure (including capitalised) per home	£2,192	£2,113	£1,963	19	£1,945
Rent void losses per home (general needs and Affordable properties, excluding garages)	£84	£58	£57	22	N/A
Social housing lettings operating margin	43.1%	46.9%	32.5%	4	28.3%
Board and Executive pay per home	£27.70	£27.30	£26.80	13	N/A
Chief Executive pay per home	£5.50	£5.20	£5.80	9	N/A
Ratio of Chief Executive emoluments to average staff emoluments (excluding employer's pension contribution)	9.2:1	8.7:1	9.0:1	22	N/A
Housing management VfM analysis					**HouseMark >10,000 units 2014/15**
Current rent arrears - social housing properties	3.80%	3.71%	3.98%	13/25	3.37%
Rent loss due to voids	2.00%	1.70%	1.47%	24/27	N/A
Residents' satisfaction overall[3]	83.4%	80.3%	80.3%	9/21	N/A
Residents' satisfaction with repairs[3]	89.6%	87.9%	85.4%	8/18	N/A

At £3,970, this is a 10.4% increase on last year, but still considerably lower than the peer group average of £4,517 and lower than the national average of £4,077. If we adjust for one-off items identified in the Surplus analysis on page 27 this reduces to £3,702, an underlying increase of 2.9% which is only marginally higher than the 2.3% inflation rate we had assumed when setting our budget for the year.

We remain a top quartile performer at £729, despite staff costs increasing as a result of additional employer contributions being agreed to tackle the Social Housing Pension Scheme's deficit.

At £383, these have increased by 8.5% and reflect expenditure on utilities, caretaking and cleaning costs. They remain significantly below the peer group average of £624 and the national average of £513.

Our cost of £2,192 is an increase of 3.8% from last year, which in part reflects the mobilisation costs and legacy works required to bring in-house the remainder of our day-to-day maintenance services. Our investment in our homes (several hundred of which are over 100 years old) remains higher than the national and peer group averages of £1,945 and £1,963 respectively. Steady investment in our housing assets remains a priority for the business.

At £84, we have experienced difficulties letting a number of properties which became empty. This is due to pockets of stock in the North and North East which remain challenging to let and are adversely affected by welfare reform changes. The Group remains a bottom quartile performer but we are working hard to address performance and are actively letting as many empty properties as possible, utilising tenant incentives and new marketing campaigns to generate increased demand.

At 43.1% we remain a top quartile performer which demonstrates our continued commitment to deliver operational and financial efficiencies. This sustained focus on efficiency and surplus generation allows us to provide resources for investment in our social activities.

Board pay per home is mid-ranked; the Group's Remuneration Committee agrees Executive pay and for Non Executives it makes recommendations to the Board.

As for Board and Executive pay, Chief Executive pay per home is mid-ranked. Our performance at £5.50 is marginally up on last year but below the weighted peer group average of £5.80.

At 9.2:1, the ratio of Chief Executive pay as compared to average staff pay is slightly higher than last year. This year's figure is based on average staff pay at Affinity Sutton of £35,570 per annum.

Our arrears performance of 3.80% is marginally higher than last year's 3.71%, but well-within our internal target of 4.50%. Although a number of residents are impacted by welfare reform changes, arrears performance remains steady and better than the peer group average of 3.98%. However, we remain behind the 3.37% average for housing associations with more than 10,000 units.

At 2.00%, void rent loss has increased compared to last year and we are ranked in the bottom quartile. This has been a challenging year and reducing the level of voids remains an operational performance priority for the following year.

The year-end satisfaction rating of 83.4%, 3.1% up on last year is based on an independent survey by the Leadership Factor. It exceeds our internal target of 80.0% and is better than the peer group average of 80.3%.

Our residents' satisfaction with repairs at 89.6% has increased almost 2% on last year and remains above our 85.0% internal target. It compares well with the peer group average of 85.4%.

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[2].

The table opposite shows Affinity Sutton's performance for 2015/16 (with 2014/15 comparatives) and ranks this with our peer group's 2014/15 published data (where available). Where available and relevant, we have also included national averages (as per the HCA's 2015 Global Accounts of Housing Providers) and HouseMark data for housing organisations with 10,000 units or greater.

"By comparing our performance with that of our peers we create an important benchmark."

[2] Previously, the peer group comprised of large London housing associations (the G15 group) and five of the largest national housing associations. This year, we have revised our peer group to comprise the 27 housing association groups in England with 20,000 units or greater under management. This means that we now benchmark ourselves against all of the largest housing associations, regardless of where in the country they are based.

[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.

REPORT OF THE BOARD INCLUDING STRATEGIC REPORT

PROPERTY DEVELOPMENT AND SALES

During the year we finished constructing 1,041 new homes, including 588 for rent, 282 for low cost home ownership and 171 for sale on the open market (including 139 for our share of homes constructed through joint ventures).

In order to continue this success in future years, we started construction on nearly 700 new homes, of which 394 were for social or Affordable rent and 253 for shared ownership, as well as 29 for sale on the open market. Plus, on 1 April 2016, the Group entered into the Linden (York Rd) LLP joint venture with Galliford Try plc on a site in Battersea, central London. The scheme has a gross development value of £108 million and will see over 170 new homes built.

Our sales performance in 2015/16 has once again been exceptional with 492 units sold in total. Of these, 355 were completed directly by the Group - 309 shared ownership first tranches, 43 homes sold outright on the open market and three commercial units sold on long leases - leading to revenues of £64 million.

Sales performance continues to be strong for both shared ownership and private sales, with homes selling in an average of five weeks and receipts continuing to exceed independent valuations based on the RICS “Red Book”. Additionally, our joint ventures sold 274 homes on the open market for £235 million in total, and our share of the surplus was £33 million.

We also completed £17 million of shared ownership staircasings and resales, and £9 million of Right to Buy, Right to Acquire and other property disposals.

The total surplus from all of this sales and disposal activity was £66 million, a surplus which has been fully reinvested in new and existing social housing.

“We completed 1,041 new homes last year, with over half of these for social or Affordable rent.”

REPORT OF THE BOARD INCLUDING STRATEGIC REPORT

TREASURY MANAGEMENT

As at 31 March, the Group had £1.74 billion of committed debt funding, with drawn funding totalling £1.23 billion, down on £1.31 billion in 2015 as repayments were made using part of the surplus for the year.

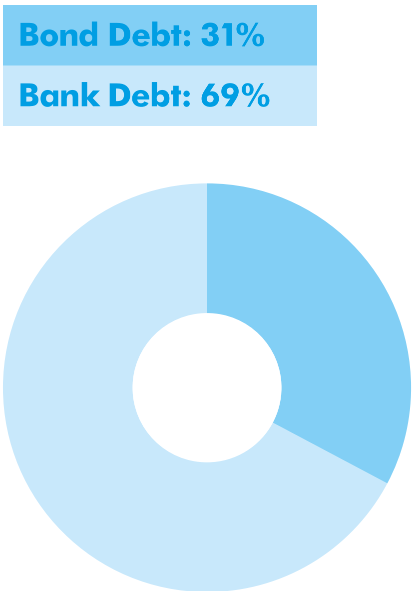
The Group seeks to maintain diversification in its funding sources, with 31% of committed funding coming from the capital markets and 69% bi-lateral loans from six banks and building societies. (See Fig.5)

The Group has limited re-financing risk in the next five years with nearly three-fifths of the Group's debt maturing after ten years. (See Fig.6)

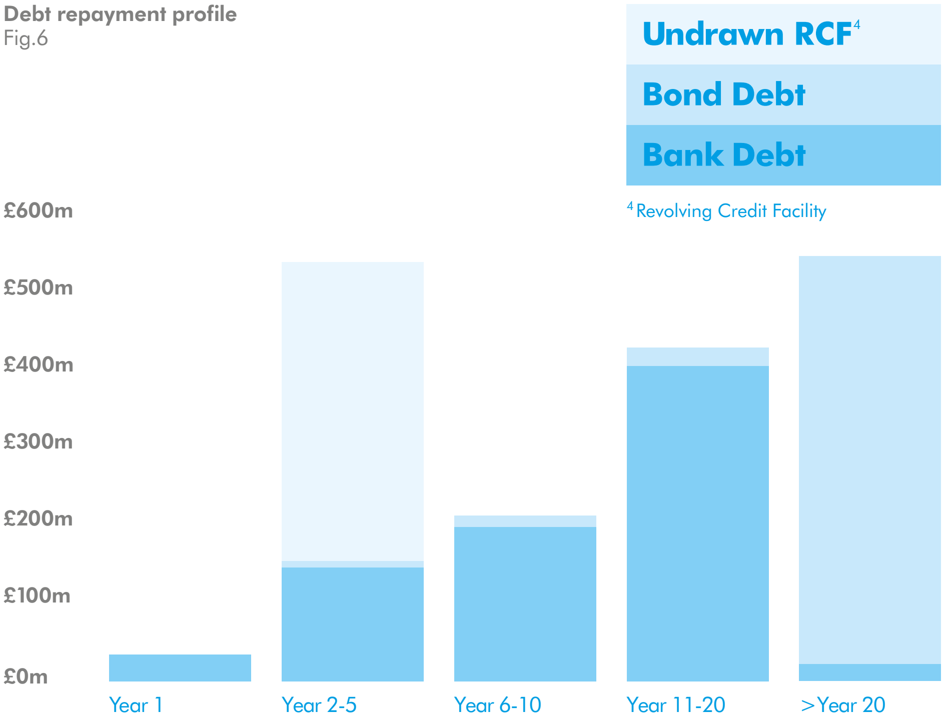
As at 31 March, the Group maintained £517 million of committed undrawn facilities and £85 million of cash, representing total liquidity of £602 million, in line with the Group's prudent polices on liquidity management. These resources are more than sufficient to meet all of the Group's contractual commitments to developers and housebuilders. (See Fig.7)

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, 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 82% fixed-rate and 18% floating-rate. The Group does not have any non-Sterling interest rate or exchange rate exposures. (See Fig.9)

Bank vs Bond debt
Fig.5



Debt repayment profile
Fig.6



"Affinity Sutton seeks to maintain diversification in its committed funding through both the capital markets and banks/building societies."

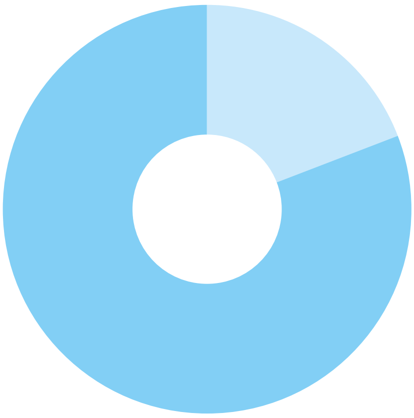
The Group maintains its desired interest rate profile through a mixture of embedded instruments (including fixed rate bank loans and bonds) and stand alone interest rate swaps. As at year-end, 69% of the Group's hedging activities were undertaken through embedded instruments and 31% through stand alone swaps. All of the Group's swap transactions allow social housing assets to be used as collateral to cover mark-to-market positions.

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.

Liquidity
Fig.7

Cash: £85m

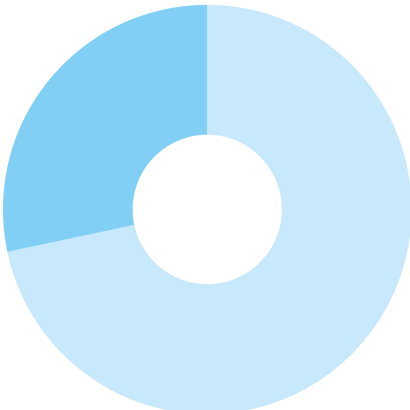
Undrawn debt: £517m



Total committed funding
Fig.8

Drawn debt: £1,226m

Undrawn debt: £517m

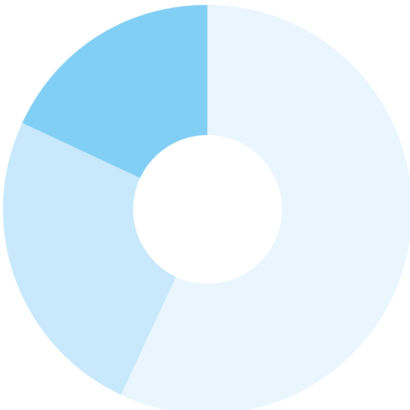


Hedging Activity
Fig.9

Fixed through loan documents: 57%

Fixed through free-standing contracts: 25%

Floating: 18%



REPORT OF THE BOARD INCLUDING STRATEGIC REPORT

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 seven Non Executive Directors and three Executive Directors who bring a broad range of skills, experience and knowledge to their roles from fields ranging from legal services, finance and regulation, to the governance and management of housing associations[5]. The Group has adopted and complies with the requirements of the National Housing Federation Code of Governance.

[5] For more information about each of the Group's Board members please visit *www.affinitysutton.com/groupboard*.

> "The Group continues to encourage and foster resident involvement in its decision making."

The Group has continued to encourage and foster 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 the National Residents' Council. The involvement structures 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.

The Group Board has five Committees, and their responsibilities include:

- Audit: advises the Group and subsidiary Boards on whether effective controls and an adequate risk management framework are in place across the business;
- Remuneration: agrees Executive and staff pay levels, changes to employment terms and conditions, and overseeing the annual appraisals of the Executive Directors;
- Nominations: recommends to the Group Board the appointment of the Chief Executive, succession planning for Executive Directors and the recruitment and appraisal of non executive directors;
- Treasury: with delegated authority from the Group and Affinity Sutton Homes Boards to arrange or approve financing (including the related charging of the Group's assets); and
- Project Approval: ensures that proposed major capital investment is rigorously examined prior to approval with delegated authority within certain limits, and to subsequently report on progress to the Group and Affinity Sutton Homes Boards.

As part of being regulated by the HCA we are given a rating for our governance, as assessed against their Governance and Financial Viability standard. Our G1 rating – "the provider meets the requirements", the strongest rating on the scale – was last reaffirmed in January 2016.

GOVERNANCE AND FINANCIAL VIABILITY STANDARD

For the first time registered providers are required by their regulator, the Housing and Communities Agency, to certify their compliance with the Governance and Financial Viability Standard. The Board confirms that Affinity Sutton Group complies in all material respects with the standard.

REPORT OF THE BOARD INCLUDING STRATEGIC REPORT

> "The Board aims not to pay the highest salaries in the market but instead to offer a competitive package of salary plus other benefits."

PAY AND REWARD

The Remuneration 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 2015 pay rates increased by 2.0% for all Executive 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. We have reported the ratio of the Chief Executive's earnings to average staff earnings on page 36.

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

Director	Role(s)	Reference salary £	Salary £	Fee £	Other benefits £	2015/16 Total £	2014/15 Total £
Non Executive Directors							
Neil Goulden	Group Chairman, Chair of Nominations Committee	-	-	25,000	-	**25,000**	25,000
Colin Sturgeon	Group Vice Chairman, Chair of Treasury Committee	-	-	14,234	-	**14,234**	12,500
Helen Bailey[a]	Chair of Remuneration Committee	-	-	-	-	**-**	-
Nick Jones	Chair of Affinity Sutton Community Foundation	-	-	12,500	-	**12,500**	12,500
Sue Killen[b]	Chair of Affinity Sutton Homes	-	-	12,500	-	**12,500**	11,333
Simon Neville	Member of Audit and Treasury Committees	-	-	10,000	-	**10,000**	10,000
Jonathan Paine	Chair of Audit Committee	-	-	12,571	-	**12,571**	12,559
Mike Herring[c]	Group Vice Chairman until 23 July 2015	-	-	5,000	-	**5,000**	15,000
			-	**91,805**	**-**	**91,805**	98,892
Executive Directors							
Keith Exford CBE	Group Chief Executive	271,320	271,307	-	54,220	**325,527**	301,604
Jonathan Cawthra	Group Resources Director	134,185	117,680	-	33,066	**150,746**	143,746
Kerry Kyriacou	Group Development Director	169,380	148,546	-	42,732	**191,278**	200,105
Neil McCall	Group Operations Director	172,768	172,768	-	38,335	**211,103**	206,662
Clare Miller	Group Director of Governance and Compliance, Company Secretary	134,185	119,425	-	30,985	**150,410**	147,646
Michelle Reynolds	Group Commercial Director	133,173	116,793	-	28,875	**145,668**	138,039
Mark Washer	Group Finance Director, Chair of Project Approval Committee	172,764	151,514	-	39,533	**191,047**	186,341
			1,098,033	**-**	**267,746**	**1,365,779**	1,324,143

The Group operates a voluntary salary sacrifice scheme in order to reduce National Insurance costs on pension contributions, as approved by HMRC, and the reference salaries shown above are prior to sacrifice.

Other benefits includes bonus, car allowance, holiday trading and medical insurance.

[a] Remuneration not drawn.
[b] Remuneration paid to employer, St John Ambulance.
[c] Resigned 23 July 2015.

REPORT OF THE BOARD INCLUDING STRATEGIC REPORT

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 - but not absolute - assurance against material misstatement or loss.

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;
- 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;
- A Group-wide Health and Safety function. The Group retained the Royal Society for the Prevention of Accidents (RoSPA) Gold Awards for the management of Health and Safety;
- Management structures providing balance and focus within the Group;
- A Group-wide risk management process, which enables management to manage risk so that residual risk, after appropriate mitigation, can be absorbed without serious permanent damage to the Group or its subsidiaries. This includes a formal risk management approach to new business and major development initiatives and action plans to mitigate the worst effects of the risks. Risk management is considered at each Audit Committee meeting, through reviews of individual risk areas and/or risk maps, as well as considered regularly by the Board;
- The Group and its subsidiaries have annual budgets and long-term business plans. Throughout the year, Boards and managers regularly monitored performance against budgets and other indicators. An important tool in this process is the Group's Balanced Scorecard which identifies performance against key performance indicators, underpinned by supporting performance indicators and management information;
- Regulatory requirements and service objectives with managers ensuring that variances are investigated and acted upon;
- An anti-fraud and anti-bribery culture which is supported by a policy and procedure for dealing with suspected fraud, bribery and whistleblowing. The Group participated in the 2014/15 National Fraud Initiative, sponsored by the Audit Commission;

> "The Group Board is committed to the highest standards of business ethics and conduct across all of Affinity Sutton's operations."

- 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 2016 and up to the date of approval of the Annual Report and the Financial Statements. The Group Audit Committee and the Group Board have expressed their satisfaction with these arrangements.

STATUS

No weaknesses were found in internal controls which resulted in material losses, contingencies or uncertainties that require disclosure in the financial statements, for the year ended 31 March 2016 and up to the date of approval of the financial statements.

GOING CONCERN

After reviewing the Group's budget for 2016/17 and those of its subsidiaries, the 30-year business plan, 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 at least twelve months from the date of approval of the financial statements.

DISCLOSURE OF INFORMATION TO AUDITOR

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

AUDITOR

KPMG LLP have expressed their willingness to continue in office as the Group's auditor. In accordance with the Rules of the Association, the Board has resolved to reappoint them as auditor. Shareholders will note this at the forthcoming Annual General Meeting.

Neil Goulden
Group Chairman
7 July 2016

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 Report of the Board and the financial statements in accordance with applicable law and regulations.

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

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

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

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements; 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 books of account that disclose with reasonable accuracy at any time the financial position of the Group and the Association and enable the Board to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008, and the Accounting Direction for Private Registered Providers of Social Housing 2015. The Board has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the Group and 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.

INDEPENDENT AUDITOR'S REPORT TO AFFINITY SUTTON GROUP LIMITED

We have audited the financial statements of Affinity Sutton Group Limited for the year ended 31 March 2016 set out on pages 53 to 95. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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

RESPECTIVE RESPONSIBILITIES OF THE BOARD AND AUDITOR

As more fully explained in the Statement of Board's Responsibilities set out on page 48, 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 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 Financial Reporting Council's website at *www.frc.org.uk/auditscopeukprivate*.

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 2016 and of the income and expenditure of the Group and the Association for the year then ended;
- Comply with the requirements of the Co-operative and Community Benefit Societies Act 2014; and
- Have been properly prepared in accordance with the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

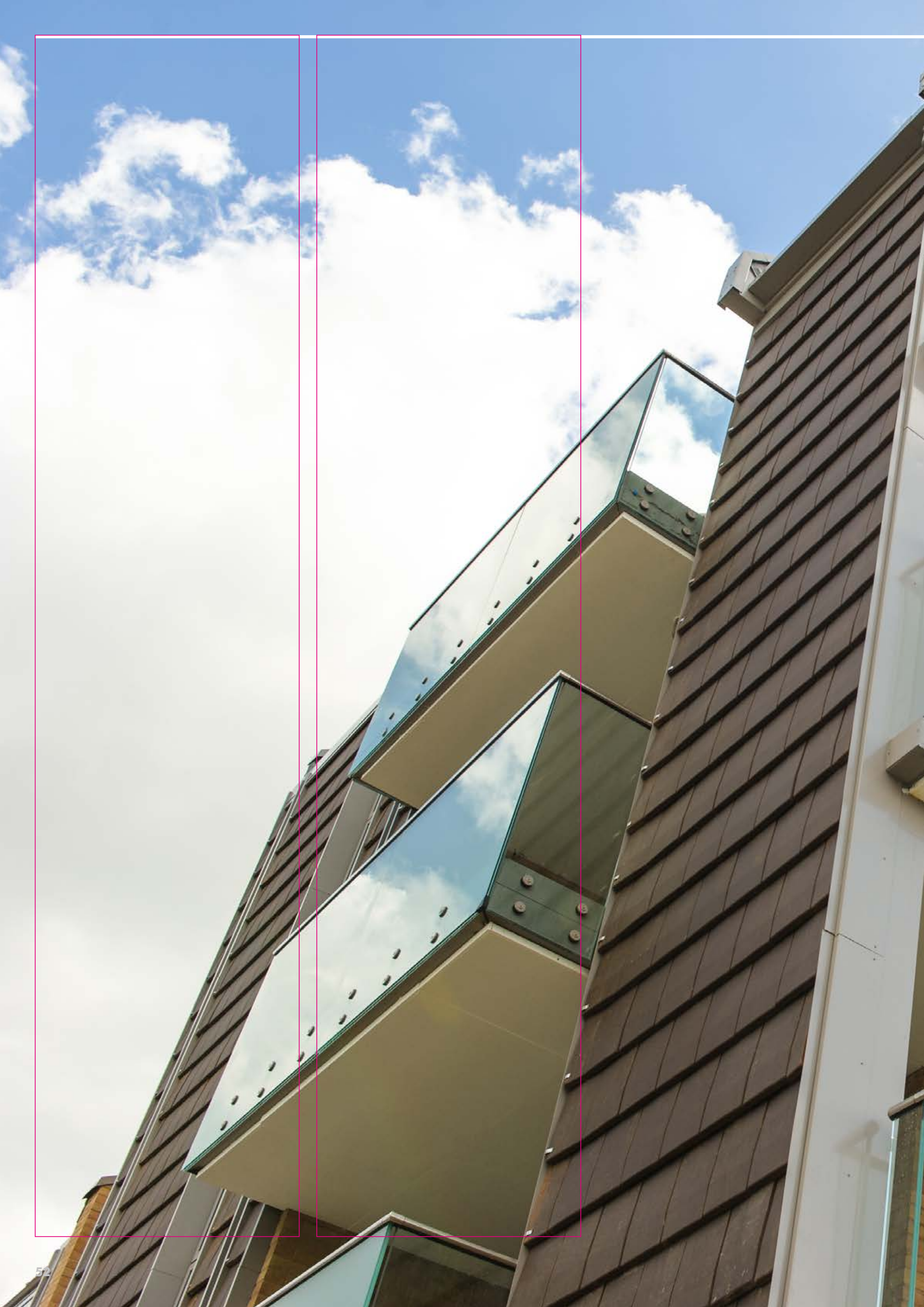
We have nothing to report in respect of the following matters where the Co-operative and Community Benefit Societies Act 2014 require us to report to you if, in our opinion:

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

Harry Mears
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square, London, E14 5GL

13 July 2016



GROUP AND ASSOCIATION STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2016

Group

	Notes	2016 £'000	Restated 2015 £'000
Turnover	3a	**386,423**	415,545
Cost of sales	3a	**(40,106)**	(74,350)
Operating costs	3a	**(197,928)**	(176,838)
Surplus on disposal of properties	3a	**9,598**	3,252
Operating surplus	3a	**157,987**	167,609
Gain on revaluation of investment properties	12	**5,262**	4,895
Surplus/(deficit) on disposal of other fixed assets	3a	**718**	(228)
Share of operating surplus of joint ventures	13	**32,940**	4,700
Interest receivable		**1,474**	1,619
Interest payable and similar charges	6	**(51,938)**	(49,884)
Change in fair value of cash flow hedges – ineffective	23	**(44)**	(402)
Other finance cost	27	**(1,407)**	(1,855)
Surplus on ordinary activities before taxation	7	**144,992**	126,454
Tax charge on surplus on ordinary activities	8	**(213)**	(222)
Surplus for the year		**144,779**	126,232
Actuarial gains/(losses) on pensions schemes	27	**6,169**	(6,534)
Change in fair value of cash flow hedges – effective	23	**(6,075)**	(57,437)
Total recognised surplus for the year		**144,873**	62,261

All operations are continuing.

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

Neil Goulden
Group Chairman

Mark Washer
Group Finance Director

Clare Miller
Company Secretary

7 July 2016

GROUP AND ASSOCIATION STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2016 (continued)

Association

	Notes	**2016** **£'000**	Restated 2015 £'000
Turnover	3a	**65,650**	64,034
Operating costs		**(64,754)**	(63,810)
Operating surplus		**896**	224
Interest receivable		**5**	6
Interest payable and similar charges	6	**(286)**	(230)
Surplus on ordinary activities before taxation	7	**615**	–
Tax charge on surplus on ordinary activities	8	**(1)**	–
Surplus for the year		**614**	–

All operations are continuing.

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

Neil Goulden
Group Chairman

Mark Washer
Group Finance Director

Clare Miller
Company Secretary

7 July 2016

GROUP AND ASSOCIATION STATEMENTS OF FINANCIAL POSITION AS AT 31 MARCH 2016

	Notes	Group 2016 £'000	Group Restated 2015 £'000	Association 2016 £'000	Association Restated 2015 £'000
Fixed assets					
Intangible assets	9	**14,424**	7,845	**14,008**	6,783
Housing properties	10	**2,809,674**	2,708,785	**–**	–
Non-housing fixed assets	11	**18,887**	19,680	**2,749**	3,313
Investment properties	12	**66,931**	61,996	**–**	–
Interest in joint ventures	13	**27,349**	56,109	**–**	–
Other fixed asset investments	14	**2,364**	2,508	**350**	350
		2,939,629	2,856,923	**17,107**	10,446
Current assets					
Stock	15	**41,693**	50,183	**–**	–
Debtors	16	**20,193**	24,035	**5,467**	4,512
Debtors falling due after more than one year	16	**100**	100	**100**	100
Current investments	17	**2,663**	2,263	**–**	–
Cash at bank and in hand		**85,176**	89,968	**1,625**	180
		149,825	166,549	**7,192**	4,792
Current liabilities					
Creditors: amounts falling due within one year	18	**(97,208)**	(94,396)	**(6,799)**	(6,452)
Net current assets/(liabilities)		**52,617**	72,153	**393**	(1,660)
Total assets less current liabilities		**2,992,246**	2,929,076	**17,500**	8,786
Creditors: amounts falling due after more than one year					
Housing loans and bonds	19	**(1,184,559)**	(1,267,301)	**–**	–
Derivative financial instruments	19	**(139,013)**	(132,894)	**–**	–
Housing property grants	19	**(897,659)**	(901,160)	**–**	–
Other creditors	19	**(11,229)**	(11,792)	**(17,500)**	(9,400)
		(2,232,460)	(2,313,147)	**(17,500)**	(9,400)
Provisions for liabilities and charges					
Pension assets/liabilities	21	**(23,990)**	(32,516)	**–**	–
Deferred tax liability	21	**(1,324)**	(1,184)	**–**	–
Other provisions	21	**(21,080)**	(13,710)	**–**	–
		(46,394)	(47,410)	**–**	–
Total net assets/(liabilities)		**713,392**	568,519	**–**	(614)
Capital and reserves					
Share capital	22	**–**	–	**–**	–
Cash flow hedge reserve	23	**(129,521)**	(123,446)	**–**	–
Income and expenditure reserve		**842,913**	691,965	**–**	(614)
Total capital and reserves		**713,392**	568,519	**–**	(614)

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

Neil Goulden
Group Chairman

Mark Washer
Group Finance Director

Clare Miller
Company Secretary

7 July 2016

GROUP AND ASSOCIATION STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2016

Group

	Share capital £'000	Revaluation reserve £'000	Cash flow hedge reserve £'000	Income and expenditure reserve £'000	Total capital and reserves £'000
At 1 April 2014	–	5,428	–	528,298	533,726
Change in accounting policy (see note 31)	–	(5,428)	(66,009)	43,969	(27,468)
At 1 April 2014 (restated)	–	–	(66,009)	572,267	506,258
Surplus for the year	–	–	–	126,232	126,232
Comprehensive income for the year					
Remeasurements of the net defined benefit liability	–	–	–	(6,534)	(6,534)
Effective portion of changes in fair value of cash flow hedges	–	–	(57,437)	–	(57,437)
	–	–	(57,437)	(6,534)	(63,971)
At 31 March 2015 and 1 April 2015	–	–	(123,446)	691,965	568,519
Surplus for the year	–	–	–	144,779	144,779
Comprehensive income for the year					
Remeasurements of the net defined benefit liability	–	–	–	6,169	6,169
Effective portion of changes in fair value of cash flow hedges	–	–	(6,075)	–	(6,075)
	–	–	(6,075)	6,169	94
At 31 March 2016	**–**	**–**	**(129,521)**	**842,913**	**713,392**

Association

	Share capital £'000	Income and expenditure reserve £'000	Total capital and reserves £'000
At 1 April 2014	–	(614)	(614)
Change in accounting policy (see note 31)	–	–	–
At 1 April 2014 (restated)	–	(614)	(614)
Surplus for the year	–	–	–
At 31 March 2015 and 1 April 2015	–	(614)	(614)
Surplus for the year	–	614	614
At 31 March 2016	**–**	**–**	**–**

GROUP STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2016

	2016		Restated 2015	
	£'000	**£'000**	£'000	£'000
Surplus for the year	**144,779**		126,232	
Less:				
Gain on revaluation of investment properties	**(5,262)**		(4,895)	
(Surplus)/deficit on disposal of other fixed assets	**(718)**		228	
Share of operating surplus of joint ventures	**(32,940)**		(4,700)	
Net financing costs	**51,915**		50,522	
Tax charge on surplus on ordinary activities	**213**		222	
Operating surplus	**157,987**		167,609	
Adjustments for:				
Surplus on disposal of properties	**(9,598)**		(3,252)	
Amortised government grants	**(9,394)**		(9,634)	
Corporation tax paid	**(29)**		(215)	
Amortisation of intangible assets	**1,661**		1,874	
Depreciation	**39,633**		36,821	
Impairment of housing properties and stock: charge/(write back)	**5,418**		(400)	
Decrease in stock	**8,186**		30,575	
Increase in debtors	**(2,076)**		(869)	
Increase in trade and other creditors	**1,763**		4,026	
Amortisation of loan and bond set-up costs	**400**		411	
Unwinding of bond liability	**51**		50	
Pension contributions in excess of expense	**(5,078)**		(5,727)	
Other increase in other provisions	**8,684**		707	
Net cash from operating activities		**197,608**		221,976
Cash flows from investing activities				
Proceeds from disposal of properties	**23,362**		16,188	
Proceeds from disposal of other fixed assets	**907**		306	
Interest received	**1,474**		1,619	
Acquisition of intangible assets	**(8,050)**		(4,316)	
Acquisition of housing properties	**(115,400)**		(136,201)	
Spend on capital major works	**(37,779)**		(34,464)	
Acquisition of non-housing fixed assets	**(1,846)**		(1,570)	
Acquisition of investment properties	**–**		(2,562)	
Repayment of investment in joint ventures	**32,845**		4,650	
Distributions from joint ventures	**28,775**		–	
Increase in current investments	**(400)**		(750)	
Housing property grants received	**12,340**		27,634	
Net cash from investing activities		**(63,772)**		(129,466)
Cash flows from financing activities				
Interest paid	**(57,720)**		(58,319)	
Net repayment of loans and bonds	**(79,692)**		(17,009)	
Set-up costs paid	**(1,141)**		(295)	
Payment of finance lease capital	**(75)**		(70)	
Net cash from financing activities		**(138,628)**		(75,693)
Net (decrease)/increase in cash		**(4,792)**		16,817
Cash at 1 April		**89,968**		73,151
Cash at 31 March		**85,176**		89,968

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

1. Accounting policies

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

Affinity Sutton Group Limited, and its subsidiaries Affinity Sutton Homes Limited and Affinity Sutton Community Foundation, are public benefit entities.

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

Basis of preparation

The financial statements are prepared on the historical cost basis of accounting, with the exception of investment properties and derivative financial instruments which are held at their fair value.

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 at least twelve months from the date of approval of the financial statements. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

The Group (through Downland Regeneration Limited, the LLP partner) has provided confirmation of support to one of its joint ventures, Linden/Downland Graylingwell LLP, for at least twelve months after their financial statements for the year ended 31 March 2016 are signed.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of all members of the Group as at the reporting date, using merger and acquisition accounting where appropriate. The Group's share of jointly controlled entities is included using the equity method.

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

Adoption of FRS 102

This is the first year in which the Group has prepared its financial statements in accordance with FRS 102; it previously reported in accordance with UK GAAP ("Generally Accepted Accounting Practice"), the *Statement of Recommended Practice (SORP): Accounting by Registered Social Housing Providers (Update 2010)* and *The Accounting Direction for Social Housing in England from April 2012.*

An explanation of how the transition to FRS 102 has affected the financial position and financial performance of both the Group and the Association is provided in note 31.

As part of this, the Group has taken the exemption not to restate business combinations that took place prior to 1 April 2014.

Comparatives have been restated where necessary for the resulting changes in accounting policy.

Turnover

Rental and service charge income from residential and commercial properties is recognised when it falls due. Grants receivable in respect of revenue are recognised in the same period as the expenditure to which they relate.

Two percent of Social Housing Grant is recognised in revenue in the year of receipt, in order to offset development costs which the Group is not permitted to capitalise. The remaining grant, including other property grants, is amortised over 100 years from when the property is completed, in line with the Group's depreciation policy for the structure of housing properties. This 100-year period also applies to grants relating to shared ownership properties, even though these properties are not depreciated.

Sales of properties are recognised on legal completion. Turnover includes receipts from the sale of properties developed for outright sale as well as the sale of the first tranches of shared ownership properties; the sales of subsequent tranches (i.e. "staircasing") are shown as disposals.

Housing properties, stock and cost of sales

Housing properties and stock are stated at cost which includes the cost of land, construction works and professional fees, as well as directly attributable development staff costs and interest capitalised during the construction period (calculated by reference to the Group's average cost of borrowing).

The cost of completed housing properties is split into components (see 'Depreciation and amortisation' policy). Major repairs are capitalised on a component level, to the extent that they are either a full replacement of the previous component, or an enhancement to the existing component which will reduce future repair costs, extend the life of the property or result in increased rental income. Major repairs are expensed as incurred in other circumstances.

No provision is recognised for future planned and routine maintenance of housing properties.

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 staff or interest costs are capitalised on land banking.

The expected first tranche proportion of shared ownership properties is shown as stock with the remainder included in housing properties. Properties developed for outright sale are only shown as stock. Cost of sales comprises the cost of stock sold as well as marketing costs incurred in the year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (continued)

1. Accounting policies (continued)

Depreciation and amortisation

All depreciation and amortisation is accounted for on a straight-line basis over the assets' useful economic lives, from the date the asset is available for use.

Intangible assets:

ERP System	10 years
Other computer software	3-4 years

The cost of housing properties is composed of the following components:

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

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

Non-housing fixed assets:

Freehold offices	40-50 years
Leasehold office properties	Over the period of the lease
Office furniture & equipment	4-20 years
Computer equipment	3-4 years
Motor vehicles	3-4 years

In accordance with FRS 102, no depreciation is provided in respect of land or investment properties.

Impairment

Properties held in stock are assessed for impairment at each reporting date by comparing their carrying amount to their estimated market value less costs to complete and sell.

Tenant and other debtors are assessed for recoverability at each reporting date, with any impairment loss recognised in income or expenditure.

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

Investment properties

Non-social rented properties i.e. those which are held to earn a commercial rental income and/or for capital appreciation are treated as investment properties. These properties are initially recognised at cost and then revalued at each reporting date.

Investment properties under construction are initially included in 'Housing Properties in the course of construction' and are reclassified as investment properties when they are substantially complete and their fair value can be reliably measured.

Housing property grants

These grants are treated as deferred income, but the original balance may become repayable if the conditions of the grant are not complied with; for example, if the related properties cease to be used for the provision of affordable rental accommodation.

Recycled Capital Grant Fund and Disposal Proceeds Fund

The Group has the option to recycle housing property grants, which would otherwise be repayable, for use on new developments. If unused within a three-year period, the grant will be repayable to either the Homes and Communities Agency or the Greater London Authority, with interest.

Any grant held within the funds, which it is anticipated will not be used within one year, is included under 'creditors due after one year'. The remainder is included under 'creditors due within one year'.

Fixed asset investments

Fixed asset investments are recognised at the lower of the investment made and the net realisable amount. 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.

This treatment also applies to the Group's equity loans. These have been made to homeowners as part of the Group's social housing objectives, at below-market rates of interest and are not repayable on demand, and so qualify for treatment as public benefit entity concessionary loans under FRS 102.

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 recognised 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 included in interest payable, 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 expensed on a straight line basis over the life of the lease.

Taxation

Affinity Sutton Community Foundation, Affinity Sutton Group Limited and Affinity Sutton Homes Limited almost wholly undertake charitable activities which are exempt from corporation tax. The remaining members of the Group, and, effectively, the jointly controlled entities 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 reporting date where material. Amounts recognised in respect of deferred tax are not discounted, in accordance with FRS 102.

1. Accounting policies (continued)

Value Added Tax

For the majority of the Group's members, 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 the input VAT it incurs. Expenditure is therefore shown inclusive of VAT with non-attributable tax recovered being credited against operating costs.

Basic financial instruments

Loans and other borrowings are stated at the amount of net proceeds. Where a premium or discount has been incurred on a bond issue, this is released over the term of the debt using the effective interest rate method.

Likewise, eligible finance set-up costs are deducted from the Group's borrowings and amortised over the remaining term, or a shorter period if more appropriate, using the effective interest rate method.

Tenant and other debtors and creditors are initially recognised at the transaction price, unless the arrangement constitutes a financing transaction, in which case the present value of the future receipts discounted at a market rate of interest is used.

Cash at bank and in hand includes cash balances and call deposits. Overdrafts are repayable on demand and so are included in creditors due within one year.

Derivative financial instruments and hedging

As part of managing its interest cost on variable-rate loans, the Group has entered into a number of fixed-rate interest rate swaps. These swaps are shown at fair value and, by default, the gain (or loss) on remeasurement is recognised as financing income (or costs). However the Group has, as far as possible, applied cash flow hedge accounting between its loans and swaps and so the portion of the fair value movement that is effectively hedged is shown in other comprehensive income.

As part of this, a cash flow hedge reserve has been recognised for the cumulative effectively-hedged fair value movement.

Pension costs

The Group participates in six defined benefit and two defined contribution pension schemes; however, the defined benefit section of the Social Housing Pension Scheme ("SHPS"), is accounted for as a defined contribution scheme as a result of being a multi-employer scheme.

Contributions to schemes accounted for as defined contribution are recognised as an expense as they fall due, with a provision recognised for any agreed "deficit-funding" contributions to be made in the future.

For schemes accounted for as defined benefit schemes, the net liability (or asset) is calculated by estimating the amount of future benefit that employees have earned to date, discounted to present value, and deducting the fair value of the scheme's assets.

Changes in this net defined benefit liability arising from employee service, introductions, benefit changes, curtailments and settlements during the period are recognised in operating costs. The net interest expense (or income) on the net liability (or asset) for the period is recognised as other finance cost (or income). Remeasurement of the net liability (or asset) is recognised as actuarial gains/losses in other comprehensive income.

The assets of these pension schemes are held separately to those of the Group.

2. Significant judgements and accounting estimates

Significant judgements

In applying the Group's accounting policies, the following significant judgements have been made:

1 Identifying cash-generating units for the purposes of impairment testing (see note 10).

2 Determining which housing properties and non-housing fixed assets meet the definition of investment properties (see note 12).

Accounting estimates

The following accounting estimates have been made, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

1 The useful economic lives of intangible assets, housing properties and non-housing fixed assets.

The Group believes that the lives used are reasonable based on their experience. The most material assumption is the lives of housing property components: these were determined in 2011 when component accounting was first adopted, with the input of the Group's repairs and maintenance staff, and were benchmarked against the lives chosen by other housing associations.

2 The allocation of property development costs between tenures, between housing properties and stock for shared ownership, and between components for rented properties.

Allocation is generally carried out on a floor area basis, with 30% of shared ownership properties classified as stock as this is close to the average first tranche sales percentage. The non-land cost of rented properties is allocated to components on the basis of an internal review of a sample of development scheme costs carried out in 2011.

3 The calculation of the recoverable amount for impairment testing, including the depreciated replacement cost of housing properties held for social benefit.

See note 10.

4 The valuation of investment properties.

See note 12. These have been professionally valued, with the exception of a small number of immaterial properties which have been valued internally using the professional valuations as a guide.

5 The recoverable amount of the investment in Linden/Downland Graylingwell LLP.

See note 13.

6 The recoverable amount of stock.

Costs (including costs to complete for properties in the course of construction) have been compared to valuations (although in general this should not be a significant risk due to the Group's high average sales margins).

7 The recoverable amount of tenant and other debtors.

Current tenant debtors are provided for at around 40%, based on reviews of individual balances, while former tenants are provided for in full. Other debtors are reviewed on a case-by-case basis.

8 The fair value of derivatives.

See note 23.

9 The valuation of defined benefit pension schemes

See note 21 for the valuation of the SHPS deficit funding contributions and note 27 for valuations of defined benefit assets/liabilities. The valuation of the latter has been carried out by qualified actuaries, and the discount rate used for the SHPS provision is in line with their assumptions.

10 The tax rate used for deferred tax liabilities.

See note 21.

11 The amount of the Thames Water provision.

See note 21.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016 (continued)

3. Turnover, cost of sales, operating costs and operating surplus

3a Particulars of turnover, cost of sales, operating costs and operating surplus

Group

	2016				Restated 2015	
	Turnover £'000	**Cost of sales £'000**	**Operating costs £'000**	**Operating surplus £'000**	Turnover £'000	Operating surplus £'000
Social housing activities						
Social housing lettings (note 3b)	**305,384**	**–**	**(173,707)**	**131,677**	292,728	137,287
Development for sale – social						
Shared ownership first tranche sales	37,528	(21,239)	(184)	**16,105**	40,055	12,766
Impairment (charge)/write back	–	(304)	–	**(304)**	–	400
Total	**37,528**	**(21,543)**	**(184)**	**15,801**	40,055	13,166
Other social housing activities						
Charges for support services	3,410	–	(3,341)	**69**	3,351	145
Supporting people contract income	238	–	(225)	**13**	529	23
Development costs not capitalised	85	–	(3,032)	**(2,947)**	597	(2,034)
Community Investment	283	–	(4,993)	**(4,710)**	202	(4,984)
Other	6,490	–	(9,173)	**(2,683)**	6,360	779
Total	**10,506**	**–**	**(20,764)**	**(10,258)**	11,039	(6,071)
Surplus on disposal of housing properties	**–**	**–**	**–**	**9,195**	–	3,207
Total social housing activities	**353,418**	**(21,543)**	**(194,655)**	**146,415**	343,822	147,589
Non-social housing activities						
Development for sale – non-social						
Outright sales on the open market – direct	26,500	(18,563)	(291)	**7,646**	65,617	17,275
Total	**26,500**	**(18,563)**	**(291)**	**7,646**	65,617	17,275
Other non-social housing activities						
Market rent and student lettings	1,176	–	(516)	**660**	1,231	(273)
Commercial tenancies	2,616	–	(580)	**2,036**	2,289	1,963
Other	2,713	–	(1,886)	**827**	2,586	1,010
Total	**6,505**	**–**	**(2,982)**	**3,523**	6,106	2,700
Surplus on disposal of investment properties	**–**	**–**	**–**	**403**	–	45
Total non-social housing activities	**33,005**	**(18,563)**	**(3,273)**	**11,572**	71,723	20,020
Total social and non-social housing	**386,423**	**(40,106)**	**(197,928)**	**157,987**	415,545	167,609
Analysis of disposals						
Properties	*26,042*	*(15,895)*	*(549)*	**9,598**	19,710	3,252
Other fixed assets	*983*	*(216)*	*(49)*	**718**	432	(228)

Association

The Association's turnover includes corporate recharges to operating companies (see note 29) and other revenue grants.

3. Turnover, cost of sales, operating costs and operating surplus (continued)

3b 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	Other £'000	Total 2016 £'000	Restated Total 2015 £'000
Income						
Rent receivable net of identifiable service charges	245,115	19,211	9,367	4,292	**277,985**	263,417
Garage rents	–	–	–	960	**960**	876
Service charge income	9,355	3,961	1,867	1,822	**17,005**	18,722
Amortised government grants	8,347	558	402	87	**9,394**	9,634
Other revenue grants	–	40	–	–	**40**	79
Turnover from social housing lettings	**262,817**	**23,770**	**11,636**	**7,161**	**305,384**	292,728
Expenditure						
Management	(29,575)	(4,424)	(421)	(1,945)	**(36,365)**	(32,233)
Service charge costs	(10,741)	(4,301)	(2,038)	(2,014)	**(19,094)**	(17,357)
Routine maintenance	(36,841)	(2,728)	–	(119)	**(39,688)**	(36,540)
Planned maintenance	(15,308)	(572)	–	(12)	**(15,892)**	(15,770)
Major repairs expenditure	(15,792)	(846)	–	(338)	**(16,976)**	(14,898)
Bad debts	(2,196)	(217)	–	(92)	**(2,505)**	(3,361)
Depreciation of housing properties	(34,754)	(2,332)	–	(365)	**(37,451)**	(34,666)
Impairment of housing properties	(5,114)	–	–	–	**(5,114)**	–
Other costs	(405)	(18)	(3)	(196)	**(622)**	(616)
Operating costs on social housing lettings	**(150,726)**	**(15,438)**	**(2,462)**	**(5,081)**	**(173,707)**	(155,441)
Operating surplus on social housing lettings	**112,091**	**8,332**	**9,174**	**2,080**	**131,677**	137,287
Void losses	**3,548**	**1,211**	**223**	**1,081**	**6,063**	4,882

4. Directors' remuneration

For the purpose of this disclosure, "directors" includes all Non Executive and Executive Directors.

	2016 £'000	2015 £'000
Non Executive Directors	**92**	99
Executive Directors	**1,366**	1,324
Pension contributions, or pay in lieu thereof, in respect of services as directors	**173**	153
	1,631	1,576

	2016 £	2015 £
Highest paid director	**325,527**	301,604
Pension contributions, or pay in lieu thereof, in respect of the highest paid director	**14,700**	13,470

	2016 £'000	2015 £'000
Expenses reimbursed to directors not chargeable to United Kingdom income tax	**11**	12

In line with all other employees, the Executive Directors received a 2.0% cost of living increase on 1 April 2015.

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

5. Employee information

The average monthly number of persons, including Executive Directors, employed during the year was:

	Group		Association	
	2016 Number	2015 Number	**2016 Number**	2015 Number
Full time equivalents ("FTEs")	**1,499**	1,486	**1,171**	1,143

FTEs are based on a standard working week, which varies between 35 and 42 hours, but is 36 hours for most employees, including all of the Association's.

	Group		Association	
	2016 £'000	Restated 2015 £'000	**2016 £'000**	Restated 2015 £'000
Staff Costs:				
Wages and salaries	**53,319**	51,575	**42,107**	40,601
Social security costs	**4,905**	4,657	**3,844**	3,596
Pension costs	**6,435**	2,817	**1,284**	2,506
	64,659	59,049	**47,235**	46,703

The number of employees, 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:

	Group	
	2016 Number	2015 Number
£320,000 to £329,999	**1**	–
£300,000 to £309,999	**–**	1
£210,000 to £219,999	**1**	2
£190,000 to £199,999	**2**	–
£180,000 to £189,999	**–**	1
£150,000 to £159,999	**2**	–
£140,000 to £149,999	**1**	2
£130,000 to £139,999	**–**	1
£120,000 to £129,999	**1**	1
£110,000 to £119,999	**2**	2
£100,000 to £109,999	**7**	5
£90,000 to £99,999	**4**	5
£80,000 to £89,999	**4**	7
£70,000 to £79,999	**18**	11
£60,000 to £69,999	**28**	30
Total	**71**	68

6. Interest payable and similar charges

	Group		Association	
		Restated		
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Interest on loans and overdrafts	**55,308**	56,010	**–**	2
Interest on intercompany loan	**–**	–	**190**	145
Interest payable on finance leases	**464**	470	**–**	–
Other charges	**1,991**	1,867	**96**	83
	57,763	58,347	**286**	230
Less: interest capitalised	**(5,825)**	(8,463)	**–**	–
	51,938	49,884	**286**	230

Interest is capitalised on properties under construction using the Group's weighted average interest rate for borrowings of 4.37% (2015: 4.18%).

7. Surplus on ordinary activities before taxation

	Group		Association	
		Restated		Restated
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Surplus on ordinary activities before taxation is stated after charging/(crediting):				
Depreciation	**39,633**	36,821	**985**	902
Amortisation	**1,661**	1,874	**1,000**	1,037
Impairment of housing properties and stock: charge/(write back)	**5,418**	(400)	**–**	–
Operating lease rentals – land and buildings	**2,084**	2,036	**1,652**	1,574
Operating lease rentals – motor vehicles	**1,776**	1,267	**348**	286
Charitable donations	**35**	72	**29**	72

	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Auditors' remuneration (excluding VAT)				
– in capacity as auditors	**181**	146	**25**	23
– other services	**62**	53	**45**	35
	243	199	**70**	58

8. Taxation

Analysis of charge in period

	Group 2016 £'000	Group Restated 2015 £'000	Association 2016 £'000	Association 2015 £'000
Current tax:				
Current tax on income for the period	**71**	110	**–**	–
Adjustment in respect of prior periods	**2**	66	**1**	–
	73	176	**1**	–
Deferred tax (see note 21):				
Origination and reversal of timing differences	**140**	105	**–**	–
Change in tax rate	**–**	(59)	**–**	–
	140	46	**–**	–
Tax charge	**213**	222	**1**	–
Recognised in income and expenditure	**213**	222	**1**	–

The tax charge for the Group for the period is less than 20% (2015: less than 21%), the rate (2015: the main rate) of corporation tax in the UK. The current tax charge for the Association for the period is less than 20% (2015: equal to 21%), the rate (2015: the main rate) of corporation tax in the UK. The differences are explained below:

Tax reconciliation

	Group 2016 £'000	Group Restated 2015 £'000	Association 2016 £'000	Association 2015 £'000
Surplus on ordinary activities before taxation	**144,992**	126,454	**615**	–
Tax at 20% (2015: 21%)	**28,998**	26,555	**123**	–
Effects of:				
Adjustment in respect of prior periods	**2**	66	**1**	–
Charitable surpluses not taxed	**(28,745)**	(26,166)	**(123)**	–
Investment properties timing difference	**(15)**	(61)	**–**	–
Expenses not deductible for tax purposes	**47**	25	**–**	18
Capital allowances in excess of depreciation & amortisation	**(31)**	(28)	**–**	(32)
Utilisation of tax losses	**–**	(96)	**–**	–
Unrealised tax losses arising in period	**–**	14	**–**	14
Entities charged at the small profits rate of 20%	**–**	(108)	**–**	–
Entities not subject to UK corporation tax	**(43)**	21	**–**	–
Total tax charge recognised in income and expenditure	**213**	222	**1**	–

8. Taxation (continued)

Factors affecting the tax charge for the period:

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

Factors that may affect future tax charges:

The rate of UK corporation tax that was substantively enacted at the balance sheet date was 20%. The UK government's latest plans, as announced in the 2016 Budget, are that from 1 April 2017 the rate will fall to 19%, and from 1 April 2020 it will reduce further to 17%.

9. Intangible assets

Group	Enterprise Resource Planning System £'000	Other Computer Software £'000	Total £'000
Cost			
At 1 April 2015	–	–	**–**
Reclassification from tangible fixed assets	2,778	12,011	**14,789**
At 1 April 2015 (restated)	2,778	12,011	**14,789**
Additions	7,182	1,058	**8,240**
At 31 March 2016	**9,960**	**13,069**	**23,029**
Amortisation			
At 1 April 2015	–	–	**–**
Reclassification from tangible fixed assets	–	(6,944)	**(6,944)**
At 1 April 2015 (restated)	–	(6,944)	**(6,944)**
Charge for the year	–	(1,661)	**(1,661)**
At 31 March 2016	**–**	**(8,605)**	**(8,605)**
Net book value			
At 31 March 2016	**9,960**	**4,464**	**14,424**
Net book value			
At 31 March 2015 (restated)	2,778	5,067	7,845

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016 (continued)

9. Intangible assets (continued)

Association	**Enterprise Resource Planning System £'000**	**Other Computer Software £'000**	**Total £'000**
Cost			
At 1 April 2015	–	–	**–**
Reclassification from tangible fixed assets	2,778	7,294	**10,072**
At 1 April 2015 (restated)	2,778	7,294	**10,072**
Additions	7,182	1,043	**8,225**
At 31 March 2016	**9,960**	**8,337**	**18,297**
Amortisation			
At 1 April 2015	–	–	**–**
Reclassification from tangible fixed assets	–	(3,289)	**(3,289)**
At 1 April 2015 (restated)	–	(3,289)	**(3,289)**
Charge for the year	–	(1,000)	**(1,000)**
At 31 March 2016	**–**	**(4,289)**	**(4,289)**
Net book value			
At 31 March 2016	**9,960**	**4,048**	**14,008**
Net book value			
At 31 March 2015 (restated)	2,778	4,005	6,783

10. Housing properties – Group

	Housing Properties £'000	Shared Ownership Properties £'000	Housing Properties in the course of construction £'000	Shared Ownership Properties in the course of construction £'000	Commercial Properties £'000	Total £'000
Cost						
At 1 April 2015	2,657,948	232,548	108,935	41,432	6,811	**3,047,674**
Reclassification to investment properties	(7,421)	–	–	–	(6,811)	**(14,232)**
At 1 April 2015 (restated)	2,650,527	232,548	108,935	41,432	–	**3,033,442**
Additions	36,748	–	78,389	41,864	–	**157,001**
Properties completed	100,476	35,555	(100,476)	(35,555)	–	**–**
Transfer from non-housing fixed assets	85	–	–	–	–	**85**
Transfer to investment properties	(46)	–	–	–	–	**(46)**
Transfer to stock	–	(261)	–	–	–	**(261)**
Disposals (including replaced components)	(10,564)	(9,686)	–	–	–	**(20,250)**
At 31 March 2016	**2,777,226**	**258,156**	**86,848**	**47,741**	**–**	**3,169,971**
Depreciation and impairment						
At 1 April 2015	(263,750)	–	–	–	(784)	**(264,534)**
Reclassification to investment properties	926	–	–	–	784	**1,710**
Historic gross depreciation	(61,833)	–	–	–	–	**(61,833)**
At 1 April 2015 (restated)	(324,657)	–	–	–	–	**(324,657)**
Charge for the year	(37,451)	–	–	–	–	**(37,451)**
Impairment	(3,312)	–	(1,802)	–	–	**(5,114)**
Transfer to investment properties	6	–	–	–	–	**6**
Eliminated on disposals	6,919	–	–	–	–	**6,919**
At 31 March 2016	**(358,495)**	**–**	**(1,802)**	**–**	**–**	**(360,297)**
Net book value						
At 31 March 2016	**2,418,731**	**258,156**	**85,046**	**47,741**	**–**	**2,809,674**
Net book value						
At 31 March 2015 (restated)	2,325,870	232,548	108,935	41,432	–	2,708,785

Under FRS 102, grants relating to the Group's housing properties are no longer offset against their cost but presented as a creditor. Depreciation is now charged on the gross cost and so the charge is higher.

10. Housing properties – Group (continued)

	2016 £'000	Restated 2015 £'000
Housing Properties comprise		
Freeholds	**2,725,384**	2,627,521
Long leaseholds	**84,290**	81,264
	2,809,674	2,708,785

Development and major works additions and improvements to housing properties during the year include capitalised interest of £5.8 million (2015: £8.5 million) and capitalised administration costs of £4.3 million (2015: £3.8 million).

Total expenditure in 2016 on works to existing properties was £53.7 million (2015 restated: £51.6 million) of which £36.7 million (2015 restated: £36.7 million) has been capitalised.

Under the SORP, the 1% rent cut which was announced in the July 2015 Budget was an indicator of impairment, and so the Group's affected housing properties – all but those classed as shared ownership, leasehold or market rent – were assessed for impairment. This affected the 46,952 properties as per note 26, as well as 913 properties under construction. Cash-generating units ("CGUs") were defined on a scheme level where available (generally those properties acquired since 1 April 2006) or otherwise on a block level.

Recoverable amount was determined to be the higher of EUV-SH ("Existing Use Value – Social Housing", representing fair value less costs to sell) and depreciated replacement cost ("DRC", representing the social value of these housing properties, as they are not primarily held in order to generate a return and so a conventional value in use calculation, for example discounted cash flow, would not be appropriate). In turn, DRC was determined to be lower of i) the actual land cost plus an estimated construction cost, reduced for depreciation based on the age of the properties ("LDCC"), and ii) the cost of acquiring an equivalent CGU on the open market ("MV-VP"). The EUV-SH and MV-VP values used were as provided by an external professional valuer for the Group's 2015 charging exercise; due to the significant increases in build costs over the last few years, LDCC was taken to be the actual (or forecast) depreciated cost of the CGU, adjusted as necessary to remove additional development costs which were known to have been incurred as a result of issues or problems.

As a result of this exercise, five schemes – three of which are still under construction – were found to be impaired by £5,114,000 in total.

11. Non-housing fixed assets

Group

	Freehold Offices £'000	Leasehold Offices £'000	Fixtures, Fittings, Equipment & Vehicles £'000	Total £'000
Cost				
At 1 April 2015	23,673	698	29,941	**54,312**
Reclassification to intangible assets	–	–	(14,789)	**(14,789)**
Reclassification to investment properties	(6,063)	–	(755)	**(6,818)**
At 1 April 2015 (restated)	17,610	698	14,397	**32,705**
Additions	480	37	1,002	**1,519**
Transfers to housing properties	(127)	–	–	**(127)**
Disposals	(94)	–	(50)	**(144)**
At 31 March 2016	**17,869**	**735**	**15,349**	**33,953**
Depreciation				
At 1 April 2015	(6,448)	(167)	(14,751)	**(21,366)**
Reclassification to intangible assets	–	–	6,944	**6,944**
Reclassification to investment properties	1,204	–	193	**1,397**
At 1 April 2015 (restated)	(5,244)	(167)	(7,614)	**(13,025)**
Charge for the year	(456)	(72)	(1,654)	**(2,182)**
Transfers to housing properties	42	–	–	**42**
Eliminated on disposals	49	–	50	**99**
At 31 March 2016	**(5,609)**	**(239)**	**(9,218)**	**(15,066)**
Net book value				
At 31 March 2016	**12,260**	**496**	**6,131**	**18,887**
Net book value				
At 31 March 2015 (restated)	12,366	531	6,783	19,680

11. Non-housing fixed assets (continued)

Association	**Fixtures, Fittings & Equipment £'000**
Cost	
At 1 April 2015	16,340
Reclassification to intangible assets	(10,072)
At 1 April 2015 (restated)	6,268
Additions	421
At 31 March 2016	**6,689**
Depreciation	
At 1 April 2015	(6,244)
Reclassification to intangible assets	3,289
At 1 April 2015 (restated)	(2,955)
Charge for the year	(985)
At 31 March 2016	**(3,940)**
Net book value	
At 31 March 2016	**2,749**
Net book value	
At 31 March 2015 (restated)	3,313

12. Investment properties – Group

	Commercial Properties £'000	Residential Properties £'000	Freeholds £'000	Total £'000
Valuation				
At 1 April 2015	–	4,140	3,860	**8,000**
Reclassification from housing properties	6,027	6,495	–	**12,522**
Reclassification from non-housing fixed assets	5,421	–	–	**5,421**
Reclassification from stock	–	128	–	**128**
Revaluation to 31 March 2015	24,692	11,233	–	**35,925**
At 1 April 2015 (restated)	36,140	21,996	3,860	**61,996**
Transfers from housing properties	–	40	–	**40**
Disposals	–	(305)	(62)	**(367)**
Revaluation	2,605	2,527	130	**5,262**
At 31 March 2016	**38,745**	**24,258**	**3,928**	**66,931**

All residential properties and the majority of the commercial properties were valued as at 31 March 2016 by Jones Lang LaSalle, Chartered Surveyors, on the basis of Market Value, as defined in "RICS Valuation – Professional Standards" (January 2014).

The significant assumptions applied in the valuation of commercial properties are the estimated rental value and yield, both of which are based on recent local transactions. For residential properties, the significant assumptions are the movement in market rents, changes in house prices (as it is assumed that some properties will be disposed over time, for example as they become void) and the discount rate. For the freeholds, the significant assumptions is the 6% investment yield which has been applied to the annual ground rent income, based on the valuers knowledge of the investment market for ground rents.

Of the properties not valued by Jones Lang LaSalle, three commercial units were valued at £830,000 by Savills, and the remaining £1,568,000 of commercial properties were valued internally, using the Jones Lang LaSalle's valuation results as a guide.

13. Interest 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	Class and % of shares held
72 Farm Lane Developments LLP ("Farm Lane")	United Kingdom	Ordinary, 50%
261 City Road Developments LLP ("City Road")	United Kingdom	Ordinary, 50%
Linden/Downland Graylingwell LLP ("Graylingwell")	United Kingdom	Ordinary, 50%
Ramsden Regeneration LLP ("Ramsden")	United Kingdom	Ordinary, 50%
Wilmington Regeneration LLP ("Wilmington")	United Kingdom	Ordinary, 50%

Additionally, on 1 April 2016, the Group entered into the Linden (York Road) LLP joint venture. Ahead of this, £52,000 of investment costs were capitalised and are included in the Other column below.

The amounts included in respect of the Group's share of joint ventures comprise the following:

			2016		
	Farm Lane £'000	City Road £'000	Graylingwell £'000	Other £'000	Total £'000
Turnover	*54,493*	*53,497*	*9,498*	*–*	***117,488***
Cost of sales	*(35,451)*	*(37,065)*	*(12,031)*	*(1)*	***(84,548)***
Operating surplus/(deficit)	19,042	16,432	(2,533)	(1)	**32,940**
Interest payable	–	–	(380)	–	**(380)**
Surplus/(deficit) for the year	**19,042**	**16,432**	**(2,913)**	**(1)**	**32,560**
Current assets	6,529	8,522	52,946	172	**68,169**
Liabilities due within one year	(615)	(2,536)	(24,127)	(78)	**(27,356)**
Liabilities due after one year	–	–	(38,422)	–	**(38,422)**
Net assets/(liabilities)	**5,914**	**5,986**	**(9,603)**	**94**	**2,391**
Investment in joint ventures	–	–	24,906	52	**24,958**
Interest in joint ventures	**5,914**	**5,986**	**15,303**	**146**	**27,349**

13. Interest in Joint Ventures – Group (continued)

	2015				
	Farm Lane £'000	City Road £'000	Graylingwell £'000	Other £'000	Total £'000
Turnover	*4,495*	*15,666*	*4,053*	*–*	*24,214*
Cost of sales	*(3,422)*	*(10,953)*	*(5,130)*	*(9)*	*(19,514)*
Operating surplus/(deficit)	1,073	4,713	(1,077)	(9)	4,700
Interest payable	–	–	(255)	–	(255)
Surplus/(deficit) before tax	1,073	4,713	(1,332)	(9)	4,445
Tax charge	–	(136)	–	–	(136)
Surplus/(deficit) for the year	1,073	4,577	(1,332)	(9)	4,309
Current assets	38,278	30,137	57,695	277	126,387
Liabilities due within one year	(23,871)	(13,433)	(20,160)	(182)	(57,646)
Liabilities due after one year	–	–	(44,145)	–	(44,145)
Net assets/(liabilities)	14,407	16,704	(6,610)	95	24,596
Investment in joint ventures	48	7,934	23,531	–	31,513
Interest in joint ventures	14,455	24,638	16,921	95	56,109

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

	2016 £'000	Restated 2015 £'000
City Road		
At the beginning of the year	**7,934**	11,475
Net repayments by the LLP	**(8,883)**	(4,610)
Interest receivable	**949**	1,069
At the end of the year	**–**	7,934

Funds had been advanced by the Group to City Road, a joint venture between William Sutton Developments Limited and City Road Developments Holdco Limited (a subsidiary of Mount Anvil Group Limited). City Road undertakes the development of a site in Islington; as this is nearing completion the loan was fully repaid during the year.

Interest was charged at LIBOR plus 5.5% and rolled-up monthly. The loan balance as at 31 March 2014 and 31 March 2015 has been restated to include the interest rolled-up to date; this was previously erroneously included in other debtors and prepayments due within one year.

In addition to the loan, the Group charged commitment fees to City Road: the charge for the year was £246,000 (2015: £254,000) and £17,000 is included in debtors at the year-end (2015: £68,000).

13. Interest in Joint Ventures – Group (continued)

	2016	2015
	£'000	£'000
Graylingwell		
At the beginning of the year	**23,531**	24,277
Net drawdowns/(repayments) by the LLP	**1,375**	(746)
At the end of the year	**24,906**	23,531

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

The investment is 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.

Since 1 April 2012, no interest has been recognised based on the Group's assessment of the recoverability of the capital and interest. Furthermore, no change in the £10,583,000 impairment provision has been deemed necessary during this time. (Amounts above are shown net of impairment.)

Development agreements for the construction of residential property are in place between the Group and these LLPs (with the exception of Farm Lane) and related party transactions were as follows:

	2016	2015
	£'000	£'000
Construction works provided by the LLP in the year		
City Road	**2,711**	5,446
Graylingwell	**422**	6,251
	3,133	11,697

	2016	2015
	£'000	£'000
Amount included in creditors at the year-end		
City Road	**–**	560
Graylingwell	**72**	207
Ramsden	**8**	8
Wilmington	**191**	191
	271	966

	2016	2015
	£'000	£'000
Profit distributions received in the year		
Farm Lane	**14,075**	–
City Road	**14,700**	–
	28,775	–

14. Other fixed asset investments

Group	2016 £'000	2015 £'000
Equity Loans	**2,364**	2,508

The Group has issued loans to a number of homeowners as part of its development activity. These are secured against their properties and the eventual amount repayable indexes in line with the value of the property. Interest and repayment terms vary.

Association	2016 £'000	2015 £'000
Igloo Insurance PCC Limited (Cell ASG2)	**350**	350

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

15. Stock – Group

	Properties in the course of construction		Completed properties		
	Social £'000	Non-social £'000	Social £'000	Non-social £'000	Total £'000
At 1 April 2015	17,789	23,909	2,850	5,971	**50,519**
Marketing costs no longer capitalised	(97)	(111)	–	–	**(208)**
Reclassification to investment properties	–	–	–	(128)	**(128)**
At 1 April 2015 (restated)	17,692	23,798	2,850	5,843	**50,183**
Additions	21,181	8,351	–	–	**29,532**
Impairment	(304)	–	–	–	**(304)**
Properties completed	(18,402)	(12,884)	18,402	12,884	**–**
Transfer from housing properties	–	–	261	–	**261**
Properties sold	–	–	(20,303)	(17,676)	**(37,979)**
At 31 March 2016	**20,167**	**19,265**	**1,210**	**1,051**	**41,693**

16. Debtors

	Group		Association	
		Restated		Restated
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Amounts falling due within one year				
Rents and service charges	**18,635**	19,263	**–**	–
Provision for bad debts	**(8,050)**	(9,504)	**–**	–
	10,585	9,759	**–**	–
Social Housing Grant receivable	**184**	6,102	**–**	–
Amounts due from Group undertakings	**–**	–	**3,154**	2,421
Deferred tax assets	**19**	19	**–**	–
Other debtors and prepayments	**9,405**	8,155	**2,313**	2,091
	20,193	24,035	**5,467**	4,512
Amounts falling due after one year				
Other debtors and prepayments	**100**	100	**100**	100

Other debtors and prepayments due within one year are shown net of a £218,000 provision for impairment (2015: £203,000).

17. Current Investments – Group

	2016	2015
	£'000	£'000
Cash held on deposit	**2,663**	2,263

Funds held by Igloo, the Group's insurance vehicle, have been invested on a short-term basis.

As at the year-end, £513,000 is held in an unbreakable fixed deposit account which matures in December 2016. £2,150,000 is invested in Certificates of Deposit which mature between April and December 2016 (but it is expected that these can be liquidated at short notice, if necessary).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016 (continued)

18. Creditors: amounts falling due within one year

18. Creditors: amounts falling due within one year

	Group		Association	
		Restated		Restated
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Obligations under finance leases	**82**	76	**–**	–
Trade creditors	**4,878**	7,476	**572**	561
Recycled Capital Grant Fund	**1,052**	557	**–**	–
Disposal Proceeds Fund	**836**	211	**–**	–
Amounts due to Group undertakings	**–**	–	**764**	303
Other taxation and social security	**418**	66	**–**	–
Accruals and deferred income	**45,266**	44,972	**4,055**	4,350
Other creditors	**15,533**	14,391	**1,408**	1,238
Corporation tax	**71**	27	**–**	–
Housing loans (see note 19)	**29,072**	26,620	**–**	–
	97,208	94,396	**6,799**	6,452

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

	Group		Association	
		Restated		Restated
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Housing loans and bonds				
Housing loans	**693,841**	775,985	**–**	–
Bond	**497,446**	497,395	**–**	–
	1,191,287	1,273,380	**–**	–
Loan set-up costs	**(3,897)**	(3,192)	**–**	–
Bond set-up costs	**(2,831)**	(2,887)	**–**	–
	1,184,559	1,267,301	**–**	–
Derivative financial instruments (see note 23)	**139,013**	132,894	**–**	–
Housing property grants				
Social Housing Grant	**834,922**	840,442	**–**	–
Other grants	**62,737**	60,718	**–**	–
	897,659	901,160	**–**	–
Other creditors				
Amounts due to Group undertakings	**–**	–	**17,500**	9,400
Obligations under finance leases	**5,396**	5,477	**–**	–
Recycled Capital Grant Fund	**4,940**	5,123	**–**	–
Disposal Proceeds Fund	**893**	1,192	**–**	–
Other creditors	**–**	–	**–**	–
	11,229	11,792	**17,500**	9,400
	2,232,460	2,313,147	**17,500**	9,400

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016 (continued)

19. Creditors: amounts falling due after more than one year (continued)

Loans bear fixed rates of interest ranging from 5.14% to 11.64% (2015: 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:

	2016	2015
	£'000	£'000
Fixed-rate	**433,297**	446,962
Index-linked	**1,948**	2,095
Floating-rate	**287,668**	353,548
	722,913	802,605

	2016	2015
	£'000	£'000
Housing loans are repayable, otherwise than by instalments as follows:		
Between one and two years	**28,909**	31,326
Between two and five years	**92,846**	95,296
In five years or more	**572,086**	649,363
	693,841	775,985

The final instalments by tranche of borrowing fall to be repaid between 2020 and 2042 (2015: between 2017 and 2042).

The Group also has two bonds of £250 million and £247.4 million (nominal value £250 million, issued below par). As interest is payable at a fixed rate only, the Group has no exposure to floating interest rates and therefore undertakes no hedging activity in relation to these bonds.

The fair value of the Group's long term borrowing is £1.42 billion (2015: £1.55 billion).

At 31 March 2016, the Affinity Sutton Group has £1.74 billion of debt facilities available (2015: £1.65 billion), of which £517 million is undrawn (2015: £344 million).

The Association has a £50 million facility with Affinity Sutton Homes Limited, its immediate subsidiary. Loans are repayable in 2025. Interest is charged at LIBOR plus 1%.

Loans are secured by a floating charge over all of the Association's assets.

20. Creditors: analysis of movement on funds – Group

	2016 £'000	Restated 2015 £'000
Obligations under finance leases		
Due less than one year	**82**	76
Due between one and two years	**89**	82
Due between two and five years	**313**	289
Due in five years or more	**4,994**	5,106
	5,478	5,553

The Group's grants are recycled in association with the Homes and Communities Agency ("HCA") or the Greater London Authority ("GLA") depending on the location of the disposed property.

	HCA £'000	GLA £'000
Recycled Capital Grant Fund		
At 1 April 2015	4,291	1,389
Additions to fund due to disposals	2,421	1,078
Interest accrued	24	10
Utilised against new properties	(2,939)	(282)
At 31 March 2016	**3,797**	**2,195**
Amounts three years old or older which may need to be repaid	–	–

	HCA £'000	GLA £'000
Disposal Proceeds Fund		
At 1 April 2015	853	550
Additions to fund due to disposals	582	–
Interest accrued	6	3
Utilised against new properties	(265)	–
At 31 March 2016	**1,176**	**553**
Amounts three years old or older which may need to be repaid	–	–

21. Provisions for liabilities and charges – Group

	2016 £'000	2015 £'000
Pension (assets)/liabilities		
Downland Housing Group Pension & Assurance Scheme	**2,394**	2,746
Hertfordshire County Council Pension Fund	**(1,056)**	(354)
London Borough of Bromley Pension Fund	**2,700**	2,595
London Pensions Fund Authority Pension Fund	**6,952**	7,529
William Sutton Housing Association Final Salary Scheme	**13,000**	20,000
	23,990	32,516

For further details of the Group's pension arrangements see note 27.

	Deferred Tax Liability £'000	Deficit Funding Payments £'000	Other £'000	Total £'000
Deferred tax liability and other provisions				
At 1 April 2015	–	–	70	**70**
Provisions required by FRS 102	1,184	13,640	–	**14,824**
At 1 April 2015 (restated)	1,184	13,640	70	**14,894**
Provision made in year	145	4,721	4,312	**9,178**
Utilised during the year	(5)	(2,059)	(10)	**(2,074)**
Unwinding of discounted amount	–	406	–	**406**
At 31 March 2016	**1,324**	**16,708**	**4,372**	**22,404**

Deferred tax has been provided for on the difference between the fair value and the historic cost of those investment properties owned by Grange Management (Southern) Limited, calculated using the 20% rate substantively enacted at the balance sheet date. The amount of deferred tax which will reverse in the following year depends on the future movement in the valuation and the investment properties disposed, neither for which a reliable estimate can be made.

The Group is a member of the defined benefit section of the Social Housing Pension Scheme and has made a provision for the deficit funding payments it has agreed to make in the future (see note 27). The additional £4,721,000 provision is a result of the Tier 4 contributions having been agreed in the year, following the certification of the September 2014 valuation. The payments have been discounted at 3.7% (2015: 3.2%) and the interest cost on unwinding was £406,000 (2015: £590,000).

The Group has an agreement with Thames Water to pay the water and sewerage charges for some 10,500 of its housing properties, as part of which the Group then bills those properties' tenants. As part of this agreement, the Group receives a credit from Thames Water as an admin fee as well as to account for credit risk and some properties being void. A High Court judgement in March 2016 against Southwark Council – who have a similar arrangement with Thames Water – decided that the council should have passed on this credit to its residents. As a result, the Group has made a provision for the £3,500,000 it expects to credit its tenants, going back to 2010. This refund is expected to be credited to tenants' rent accounts by 31 March 2017.

The Group has negotiated a £800,000 settlement for a contractual dispute arising from the construction of commercial premises at one of its development schemes.

22. Share capital

	2016	2015
	£	£
Shares of £1 allotted, issued and fully paid		
At the beginning and the end of the year	**17**	17

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

23. Hedging – Group

The Group hedges floating-rate debt through stand-alone interest rate swaps.

The fair value measurement of these swaps has been categorised as Level 2 and the valuation techniques include discounted cash flow pricing models with observable inputs. The most significant inputs into those models are interest rate yield curves, developed from publicly quoted rates and market available information.

	2016	2015
	£'000	£'000
Fair value of derivatives		
At the beginning of the year	**132,894**	75,055
Change in fair value of cash flow hedges – ineffective	**44**	402
Change in fair value of cash flow hedges – effective	**6,075**	57,437
At the end of the year	**139,013**	132,894
Cash flow hedge reserve	**129,521**	123,446

The reset dates of the swaps are all fully matched against the reset dates of the floating-rate debt. Therefore the cash flows associated with cash flow hedging instruments are the fixed amounts payable on the swaps over the course of their lives, and these are expected to occur as follows:

	2016	2015
	£'000	£'000
Within one year	**14,191**	14,238
Between one and two years	**14,143**	14,191
Between two and five years	**38,371**	39,772
In five years or more	**165,617**	178,359
	232,322	246,560

All amounts relate to interest rate swap liabilities.

24. Capital commitments

Group	2016 £'000	2015 £'000
Capital expenditure contracted for but not provided for in the financial statements	**136,861**	157,159
Capital expenditure authorised by the Board not contracted for	**300,201**	147,277

Capital commitments contracted for but not provided for in the financial statements include the Group's share of the capital commitments of 261 City Road Developments LLP (£2,728,000; 2015: £15,000,000) and 72 Farm Lane Developments LLP (£605,000; 2015: £3,000,000).

Capital commitments authorised by the Board but not contracted for includes £41,414,000 (2015: £24,500,000) for the Group's share of the future gross capital expenditure committed through the development agreement relating to Linden/Downland Graylingwell LLP. This development agreement allows construction programme timings to be varied, with sales receipts from earlier phases used to fund the construction of further units. Additionally, this figure includes £46,511,000 for the Group's share of the future gross capital expenditure of Linden (York Road) LLP, which the Group entered into in April 2016.

At the year-end the Group had £85 million of cash and £517 million of undrawn funding.

Association	2016 £'000	2015 £'000
Capital expenditure contracted for but not provided for in the financial statements	**10,830**	–

25. Commitments under operating leases

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

Group	Land and buildings		Motor vehicles	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Within the next year	**1,575**	1,549	**1,456**	888
Between one and five years' time	**1,878**	2,312	**2,483**	1,303
Later than five years' time	**136**	5,156	**–**	
	3,589	9,017	**3,939**	2,191

The Group previously entered into a 30-year lease for a number of housing properties owned by Brighton Housing Trust. The lease was to run to 2036 but it was mutually agreed to end the lease early, on 4 April 2016.

Association	Land and buildings		Motor vehicles	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Within the next year	**1,531**	1,153	**279**	216
Between one and five years' time	**1,763**	978	**254**	192
Later than five years' time	**40**	–	**–**	–
	3,334	2,131	**533**	408

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (continued)

26. Accommodation in management – Group

	Social Rent	Affordable	Supported	Housing for Older People	Shared Ownership	Leasehold	Keyworker	Market Rent	Total
Number of units									
At 1 April 2015	37,452	4,437	430	3,591	2,600	8,629	525	130	**57,794**
Completed construction	127	461	–	–	282	–	–	–	**870**
Net conversion to Affordable	(13)	13	–	–	–	–	–	–	**–**
Other movements	(38)	(7)	(25)	(1)	(105)	321	–	(1)	**144**
At 31 March 2016	**37,528**	**4,904**	**405**	**3,590**	**2,777**	**8,950**	**525**	**129**	**58,808**

	2016 Units	2015 Units
Owned and managed	**56,509**	55,666
Managed on behalf of others	**2,299**	2,128
	58,808	57,794
Managed by others	**660**	654

27. Pensions – Group

From 1 January 2014, the Group offers new joiners participation in the defined contribution section of the Social Housing Pension Scheme, having previously offered entry into the defined benefit section, which was fully closed to new entrants on the same date. The exception is Affinity Sutton Repairs Limited, which instead still offers entry into 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 (Defined Contribution)

This scheme is administered by The Pensions Trust and is a defined contribution scheme. The employer contribution rate payable by the company per annum is dependent on the contribution by the employee as follows:

Employee Contributes	Affinity Sutton Group Limited and Grange Management (Southern) Limited contribute	Community Building Services (CBS) Limited contributes
Up to 7.5%	Up to 7.5%	
Greater than 7.5%	7.5%	
Up to 6%		Up to 6%
Greater than 6%		6%

Social Housing Pension Scheme (Defined Benefit)

The Group participates in the scheme, a multi-employer scheme which provides benefits to some 500 non-associated employers. The scheme is a defined benefit scheme in the UK. It is not possible for the Group to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore it accounts for the scheme as a defined contribution scheme.

The scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and Technical Actuarial Standards issued by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.

The scheme is classified as a 'last-man standing arrangement'. Therefore the Group is potentially liable for other participating employers' obligations if those employers are unable to meet their share of the scheme deficit following withdrawal from the scheme. Participating employers are legally required to meet their share of the scheme deficit on an annuity purchase basis on withdrawal from the scheme.

27. Pensions – Group (continued)

Social Housing Pension Scheme (Defined Benefit) (continued)

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

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

The share of these deficit funding payments payable by the Group will be £2,255,000 in 2016/17, rising to a maximum of £2,541,000 in 2019/20, before falling to £2,154,000 in 2020/21 and reducing further until completion in 2026/27.

Downland Housing Group Pension & Assurance Scheme ("Downland")

The scheme is administered on behalf of the trustees by Scottish Life and is funded to cover future pension liabilities. The most recent comprehensive actuarial valuation was carried out as at 31 March 2015.

Hertfordshire County Council Pension 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 most recent comprehensive actuarial valuation was carried out as at 31 March 2013.

London Borough of Bromley Pension 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. The most recent comprehensive actuarial valuation was carried out as at 31 March 2013.

London Pensions Fund Authority Pension 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 most recent comprehensive actuarial valuation was carried out as at 31 March 2013.

The William Sutton Housing Association Final Salary Scheme ("William Sutton")

The scheme is a defined benefit funded pension scheme. The most recent comprehensive actuarial valuation was carried out as at 30 September 2012. The Group closed the scheme to future accrual as at 30 June 2013, but continues to make ongoing deficit payments as agreed with the scheme trustee.

The Scheme assets do not include investments issued by the Group or any property occupied by the Group.

27. Pensions – Group (continued)

Friends Provident

This scheme is administered by Friends Provident and is a defined contribution scheme, currently open only to employees of Affinity Sutton Repairs Limited. The employer contribution rate per annum payable by members of the Group is dependent on the contribution by the employee as follows:

Employee contributes	Affinity Sutton Group Limited contributes	Affinity Sutton Repairs Limited contributes	Community Building Services (CBS) Limited contributes	Grange Management (Southern) Limited contributes
5%	10%			
Up to 5%		Up to 5%		Up to 10%
More than 5%		5%		10%
Up to 3%			Up to 6%	
More than 3%			6%	

Reconciliation of opening and closing pension assets and liabilities:

	Downland £'000	Herts Council £'000	LB Bromley £'000	London Pensions £'000	William Sutton £'000	Total £'000
Defined benefit obligation						
At 1 April 2015	12,351	18,208	21,244	24,136	98,000	173,939
Past service cost	–	–	–	–	200	200
Interest expense	398	551	690	783	3,000	5,422
Actuarial gains	(137)	(978)	(874)	(1,455)	(6,600)	(10,044)
Benefits paid	(1,037)	(843)	(675)	(869)	(3,600)	(7,024)
At 31 March 2016	**11,575**	**16,938**	**20,385**	**22,595**	**91,000**	**162,493**
Fair value of scheme assets						
At 1 April 2015	9,605	18,562	18,649	16,607	78,000	141,423
Interest income	318	562	606	535	2,400	4,421
Actual return on scheme assets less interest income	(428)	(287)	(1,000)	(660)	(1,500)	(3,875)
Contributions by employer	723	–	105	30	2,700	3,558
Benefits paid	(1,037)	(843)	(675)	(869)	(3,600)	(7,024)
At 31 March 2016	**9,181**	**17,994**	**17,685**	**15,643**	**78,000**	**138,503**
Net pension asset/(liability)	**(2,394)**	**1,056**	**(2,700)**	**(6,952)**	**(13,000)**	**(23,990)**

27. Pensions – Group (continued)

Expenses recognised in the Statement of Comprehensive Income:

	Downland £'000	Herts Council £'000	LB Bromley £'000	London Pensions £'000	William Sutton £'000	Total £'000
Past service cost	–	–	–	–	200	200
Net interest on net defined benefit asset/liability	80	(11)	84	248	600	1,001
Recognised in surplus	**80**	**(11)**	**84**	**248**	**800**	**1,201**
Actuarial gains/(losses)	**(291)**	**691**	**(126)**	**795**	**5,100**	**6,169**

The "net interest on net defined benefit asset/liability" is shown as "Other finance cost" in the Statement of Comprehensive Income, which also includes the £406,000 interest cost on unwinding of the SHPS provision (see note 21).

The fair value of scheme assets, and the actual return on those assets, was as follows:

	Downland £'000	Herts Council £'000	LB Bromley £'000	London Pensions £'000	William Sutton £'000	Total £'000
At 31 March 2016						
Equities	6,060	11,336	12,804	7,267	43,700	81,167
Gilts	826	–	–	–	–	826
Other bonds	826	4,678	2,883	–	27,000	35,387
Property	1,469	1,440	–	558	6,400	9,867
Cash	–	540	212	1,978	–	2,730
LDI/Cashflow matching	–	–	–	1,586	–	1,586
Target return portfolio	–	–	–	3,327	–	3,327
Other	–	–	1,786	927	900	3,613
	9,181	**17,994**	**17,685**	**15,643**	**78,000**	**138,503**
Actual return	**(110)**	**275**	**(394)**	**(125)**	**900**	**546**

	Downland £'000	Herts Council £'000	LB Bromley £'000	London Pensions £'000	William Sutton £'000	Total £'000
At 31 March 2015						
Equities	6,234	12,044	13,595	7,203	42,100	81,176
Gilts	799	–	–	–	–	799
Other bonds	931	4,601	3,133	–	29,300	37,965
Property	1,571	1,342	–	471	5,800	9,184
Cash	70	575	–	1,907	–	2,552
LDI/Cashflow matching	–	–	–	1,247	–	1,247
Target return portfolio	–	–	–	4,801	–	4,801
Other	–	–	1,921	978	800	3,699
	9,605	18,562	18,649	16,607	78,000	141,423
Actual return	1,135	1,787	2,561	1,048	12,400	18,931

27. Pensions – Group (continued)

Principal actuarial assumptions, and the expected number of years in retirement, were as follows:

	Downland £'000	Herts Council £'000	LB Bromley £'000	London Pensions £'000	William Sutton £'000
At 31 March 2016					
Inflation	2.9%	n/a	2.0%	2.3%	3.0%
Future salary increases	n/a	3.6%	n/a	4.1%	4.0%
Future pension increases	2.9%	2.1%	2.0%	2.3%	2.1%
Discount rate	3.7%	3.4%	3.6%	3.6%	3.5%
Retiring today – male	21.9	22.3	23.2	22.5	23.1
Retiring today – female	23.9	24.5	25.6	25.5	24.8
Retiring in twenty years – male	23.2	24.3	25.5	24.9	24.8
Retiring in twenty years – female	25.4	26.7	28.5	27.8	26.3

	Downland £'000	Herts Council £'000	LB Bromley £'000	London Pensions £'000	William Sutton £'000
At 31 March 2015					
Inflation	2.8%	n/a	2.0%	2.4%	3.0%
Future salary increases	n/a	3.5%	n/a	4.2%	4.0%
Future pension increases	2.8%	2.1%	2.0%	2.4%	2.1%
Discount rate	3.3%	3.1%	3.3%	3.3%	3.1%

28. Legislative provisions

Affinity Sutton Group Limited is a registered society under the Co-operative and Community Benefit Societies Act 2014 and is regulated by the Homes and Communities Agency.

29. Related Party Disclosures and Intra-Group Transparency

Debtor and creditor balances between members of the Affinity Sutton group are either trading balances which are non-interest bearing and are due to be settled within one year of their recognition, or are loans subject to a market rate of interest.

As the Group parent, the Association incurs certain staff costs and overheads centrally on behalf of the whole Group. These are then recharged to other members of the Group, allocated on the basis of use.

The main element of the recharge is staff costs, which are allocated by department based on their activity in the year. Other material allocations are: IT costs, which are allocated by the number of PCs; mobile phone costs, by number of devices; staff training and recruitment, by FTEs; and offices, by usage of specific premises.

The recharges were as follows:

	2016 **£'000**	Restated 2015 £'000
Aashyana Housing Association Limited[a]	**–**	92
Affinity Sutton Community Foundation	**2,408**	2,533
Affinity Sutton Homes Limited	**58,342**	57,056
Affinity Sutton Investments Limited	**38**	14
Affinity Sutton Repairs Limited	**634**	103
Affinity Sutton Professional Services Limited	**2,204**	2,396
Broomleigh Regeneration Limited	**10**	92
Community Building Services (CBS) Limited	**1,400**	1,078
Grange Management (Southern) Limited	**410**	398
William Sutton Developments Limited	**113**	224
	65,559	63,986

[a] Transferred its engagements to Affinity Sutton Homes Limited on 30 September 2014.

Keith Exford is also a Non-Executive Director of The Housing Finance Corporation Limited, with whom the Group has a facility. At the reporting date, the amount borrowed is £1,948,000 (2015: £2,095,000) and the interest charge for the year was £113,000 (2015: £117,000).

Transactions between Affinity Sutton Homes Limited and non-regulated entities are disclosed in its own financial statements.

No other related party transactions require disclosure.

30. 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
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	Co-operative and Community Benefit Societies Act 2014	Charitable Housing Association
Affinity Sutton Investments Limited	Companies Act 2006	Investment vehicle
Affinity Sutton Repairs 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	Property maintenance
Downland Regeneration Limited	Companies Act 2006	Property development
Grange Management (Southern) Limited	Companies Act 2006	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 2016 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 14). 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.

31. Adoption of FRS 102

As stated in note 1, these are the Group's first financial statements prepared in accordance with FRS 102. The Group previously applied UK GAAP and amounts reported in previous financial statements have been adjusted as follows:

Group

		Equity as at 31 March 2014 £'000	Surplus for the year ended 31 March 2015 £'000	Equity as at 31 March 2015 £'000
As previously reported under UK GAAP		533,726	124,212	649,146
1	Intangible assets	–	–	–
2	Investment properties	32,983	2,255	34,740
3	Housing grants	33,228	3,362	36,590
4	Holiday pay accrual	(531)	–	(531)
5	Operating lease incentive	(36)	(63)	(99)
6	Finance lease contingent rent	(1,745)	(278)	(2,023)
7	Fair value of derivatives	(75,055)	(402)	(132,894)
8	SHPS deficit-funding liability	(14,001)	361	(13,640)
9	Pension scheme finance cost	–	(2,756)	–
10	Marketing costs no longer capitalised	(2,311)	(459)	(2,770)
Restated for FRS 102		**506,258**	**126,232**	**568,519**

1 The Group's computer software is now classed as intangible assets and is amortised, not depreciated, over the same period. There is no impact on the Group's equity or surplus.

2 All properties held by the Group for commercial returns are now treated as Investment Properties and held at fair value, with valuation changes included in the surplus for the year.

3 Housing properties are now depreciated gross of related grants, and all housing grants are now amortised over 100 years, not just those allocated against the Structure component of rented properties.

4 Previously no accrual was made for employees' annual leave which was earnt but not taken by the year-end.

5 An office leased in by the Group is subject to rent-free periods and an up-front cash receipt. These are now spread over the full ten-year lease term, having previously been spread over the five years to the first rent review date.

6 One of the Group's estates is held under a finance lease, and the outstanding liability has been recalculated under FRS 102 to expense the contingent rent element.

7 The Group's interest rate swaps are now held on the balance sheet at fair value. These are used by the Group to hedge against its floating-rate loans with only a small amount deemed to be ineffective.

8 The Group has now provided for the net present value of SHPS deficit funding contributions it is required to make in future years.

9 Under FRS 102, the finance cost/income recognised in respect of defined benefit pension schemes is calculated using only the net asset/liability and the discount rate, and expected returns on scheme assets are disregarded. There is an equal and opposite adjustment to actuarial gains/losses for the year and so there is no net effect on the scheme liability and therefore the Group's equity.

10 Costs incurred in marketing properties for sale, for example brochures, are no longer included in the cost of properties under construction but are expensed as incurred.

31. Adoption of FRS 102 (continued)

Association

	Equity as at 31 March 2014 £'000	Surplus for the year ended 31 March 2015 £'000	Equity as at 31 March 2015 £'000
As previously reported under UK GAAP	(614)	–	(614)
1 Intangible assets	–	–	–
2 Holiday pay accrual	(400)	–	(400)
3 Operating lease incentive	(36)	(63)	(99)
4 SHPS deficit-funding liability	–	926	926
5 Retrospective recharge adjustment	436	(863)	(427)
Restated for FRS 102	**(614)**	**–**	**(614)**

1 The Association's computer software is now classed as intangible assets and is amortised, not depreciated, over the same period. There is no impact on the Association's equity or surplus.

2 Previously no accrual was made for employees' annual leave which was earnt but not taken by the year-end.

3 An office leased in by the Association is subject to rent-free periods and an up-front cash receipt. These are now spread over the full ten-year lease term, having previously been spread over the five years to the first rent review date.

4 Affinity Sutton Homes Limited has now provided for the net present value of SHPS deficit funding contributions it is required to make in future years. As Affinity Sutton Homes Limited makes use of the Association's staff, the income and expenditure impact of this is shown in the Association's accounts.

5 The Association incurs costs on behalf of other members of the Affinity Sutton group, and the recharge has been retrospectively adjusted.

Affinity Sutton Group Limited
www.affinitysutton.com

REGISTERED OFFICE:
LEVEL 6, 6 MORE LONDON PLACE
TOOLEY STREET, LONDON SE1 2DA

CO-OPERATIVE AND COMMUNITY BENEFIT
SOCIETIES ACT 2014 NO. 28038R
WITH CHARITABLE STATUS
HOMES & COMMUNITIES AGENCY NO. LH4087