The Government has asked a lot of questions about the market...

Our approach provides the answers.

Circle Housing™

Enhancing Life Chances

Annual Report
and Accounts 2016

Our sector has already seen huge changes in policy and funding and more are likely to come in the years ahead. This creates opportunities for us to provide new homes and services that will benefit our customers.

2015/16 achievements

645
new affordable homes completed this year

648
new affordable homes started this year

£10
of social value returned for every £1 invested

Key milestones in our history

1968
Circle 33 Housing Group is formed

2005
Circle 33 Housing Group and Anglia Housing Group merge to form Circle Anglia

Regeneration of Tredegar, Lefevre and Monteith Estates in Bow is complete

2006
Commercial Services Circle Anglia (now Centra Living) is formed

2007
Mole Valley Housing Association and Roddons Housing Association are formed

Russet Homes joins Circle Anglia, Invicta Telecare (now Centra Pulse) joins Circle Anglia

2008
First bond issue is made via our treasury vehicle, Circle Anglia Social Housing Plc

Contents

Read this report online at www.circlegroup.org.uk

99.8%
rent and service charges collected from residents

96%
urgent and emergency repairs completed within the target time

97.7%
telecare alarm calls answered within 60 seconds

2009
Mercian Housing Association joins Circle Anglia

2010
Merton Priory Homes is formed

2012
Second bond is issued via our treasury vehicle, Circle Anglia Social Housing Plc

2013
Circle Anglia rebrands to become Circle Housing. All diversified services rebrand under Centra

2015
Circle Housing and Affinity Sutton announce proposals to merge, to deliver ambitious plans to help combat the country's housing crisis and increase investment in communities

Our strong financial performance was underpinned by a more efficient operating model

The Group

Group turnover

£439.2m

(2015: £424.6m)

Group operating surplus

£125.7m

(2015: £113.3m)

Homes (social and non-social)

Turnover	£413.6m
Operating surplus	£125.7m
Surplus from sales	£22.9m
Management costs	£106.4m
Maintenance spend	£62.5m

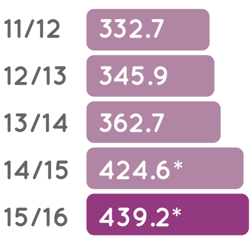
We own over 71,000 units, generating an income during the year of £413.6 million. During the year we delivered an operating surplus of £125.7 million which enabled us to reinvest in completing 645 new affordable homes and starting a further 648, as well as deliver important services to our customers.

Telecare, care and support

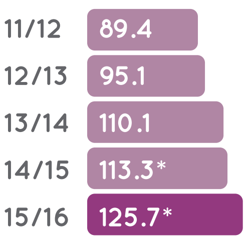
Turnover	£25.6m
Operating surplus	£nil

We provide care, support and assistive technology to enhance the life chances of over 100,000 customers across the UK, generating an income during the year of £25.6 million. We have successfully forged new relationships as well as strengthened existing partnerships over the last year, such as with Kent County Council, winning the £1.2 million contract to install and monitor alarms for vulnerable people.

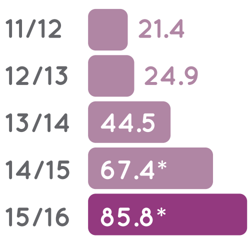
Group turnover (£m)



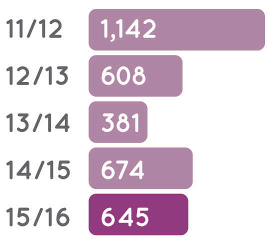
Group operating surplus (£m)



Group surplus (£m)



Number of affordable home completions



* 2014/15 and 2015/16 results are presented under our new accounting framework, Financial Reporting Standard (FRS 102). Further detail on the impact of FRS 102 can be found in the financial statements and accompanying notes.

We also delivered significant social value

What is social investment?
The investment made by Circle Housing into activities that are of value to individuals, communities and society as a whole.

Value for money
We forgo £3.3m of surplus to generate a social value of £33.9m.

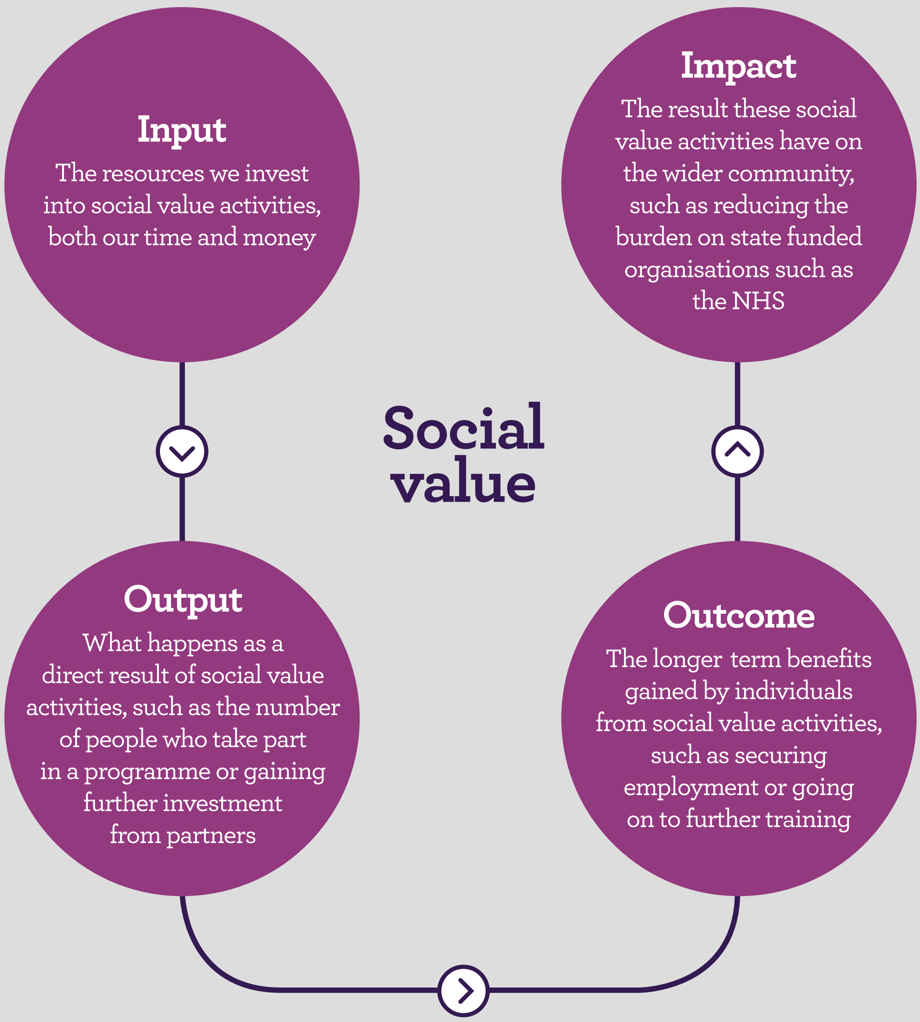
Total social return on investment was

£33.9m

(£33.6m in 2014/15)

Delivering £10 of social value for every £1 invested

(£10 social value returned for every £1 invested in 2014/15)



Circle Housing Group is split into two main brands, Circle Housing and Centra

Enhancing Life Chances

Circle Housing owns 71,789 units and provides services to around 200,000 people across England through nine Group partners, also known as Registered Providers.

Our Registered Providers	No. of units
Circle Housing Circle 33	17,526
Circle Housing Mercian	3,325
Circle Housing Merton Priory	9,864
Circle Housing Mole Valley	4,671
Circle Housing Old Ford	6,331
Circle Housing Roddons	4,611
Circle Housing Russet	8,709
Circle Housing South Anglia	8,443
Circle Housing Wherry	7,286

Learn more about Circle Housing's highlights on page 33

Enhancing Life Chances

All our non-social housing business sits under the Centra brand. This includes our care, support and telecare business, as well as our commercial property partner and management business. Centra provides services to around 100,000 customers.

Our brands

Centra Care and Support
Care and Support
Pulse and Connect

Centra Living
Market sale homes
Private rental sector

Learn more about Centra's highlights on page 37

PROPERTY PROFILE

Circle Housing owns and manages a range of different tenures of units across England

Social and affordable housing rented

11/12	51,073
12/13	51,367
13/14	51,016
14/15	51,307
15/16	51,294

Low-cost ownership

11/12	4,171
12/13	5,024
13/14	4,967
14/15	4,192
15/16	4,286

Leasehold

11/12	6,138
12/13	5,396
13/14	5,528
14/15	6,562
15/16	6,636

Intermediate rent

11/12	488
12/13	784
13/14	786
14/15	764
15/16	764

Market rent and similar

11/12	1,912
12/13	1,903
13/14	1,902
14/15	1,831
15/16	1,823

Other non-social

11/12	44
12/13	105
13/14	85
14/15	81
15/16	89

Garages and parking spaces

11/12	7,479
12/13	7,496
13/14	7,449
14/15	7,065
15/16	6,849

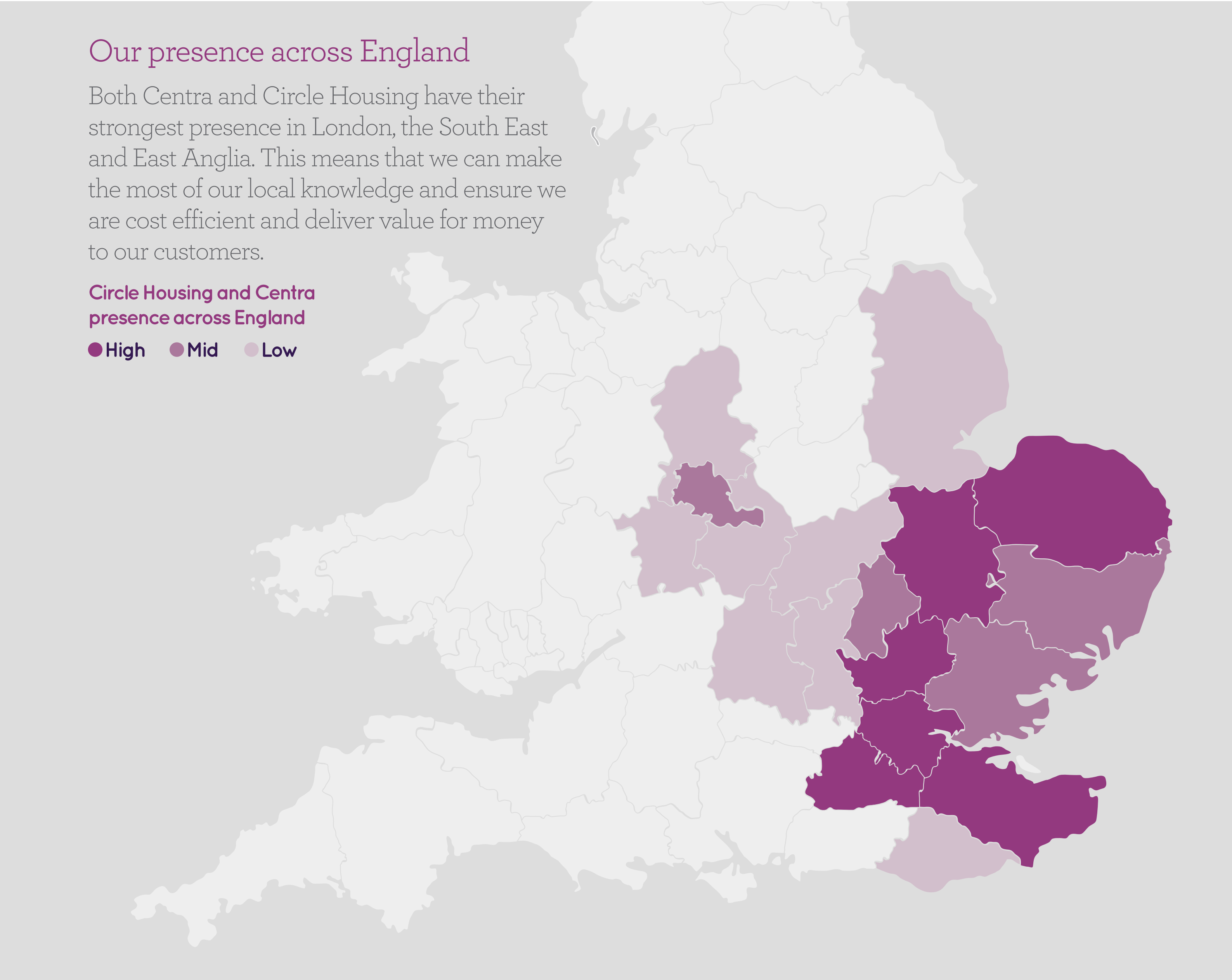
Staff accommodation

11/12	63
12/13	55
13/14	54
14/15	71
15/16	48

We house one in every 300 people in England and one in every 100 Londoners

Our presence across England

Both Centra and Circle Housing have their strongest presence in London, the South East and East Anglia. This means that we can make the most of our local knowledge and ensure we are cost efficient and deliver value for money to our customers.



Our presence is most concentrated in the areas where we first put down roots, London and East Anglia, and we have grown into the West Midlands and the South East.

We own and manage over

28,000

homes across

23

London Boroughs

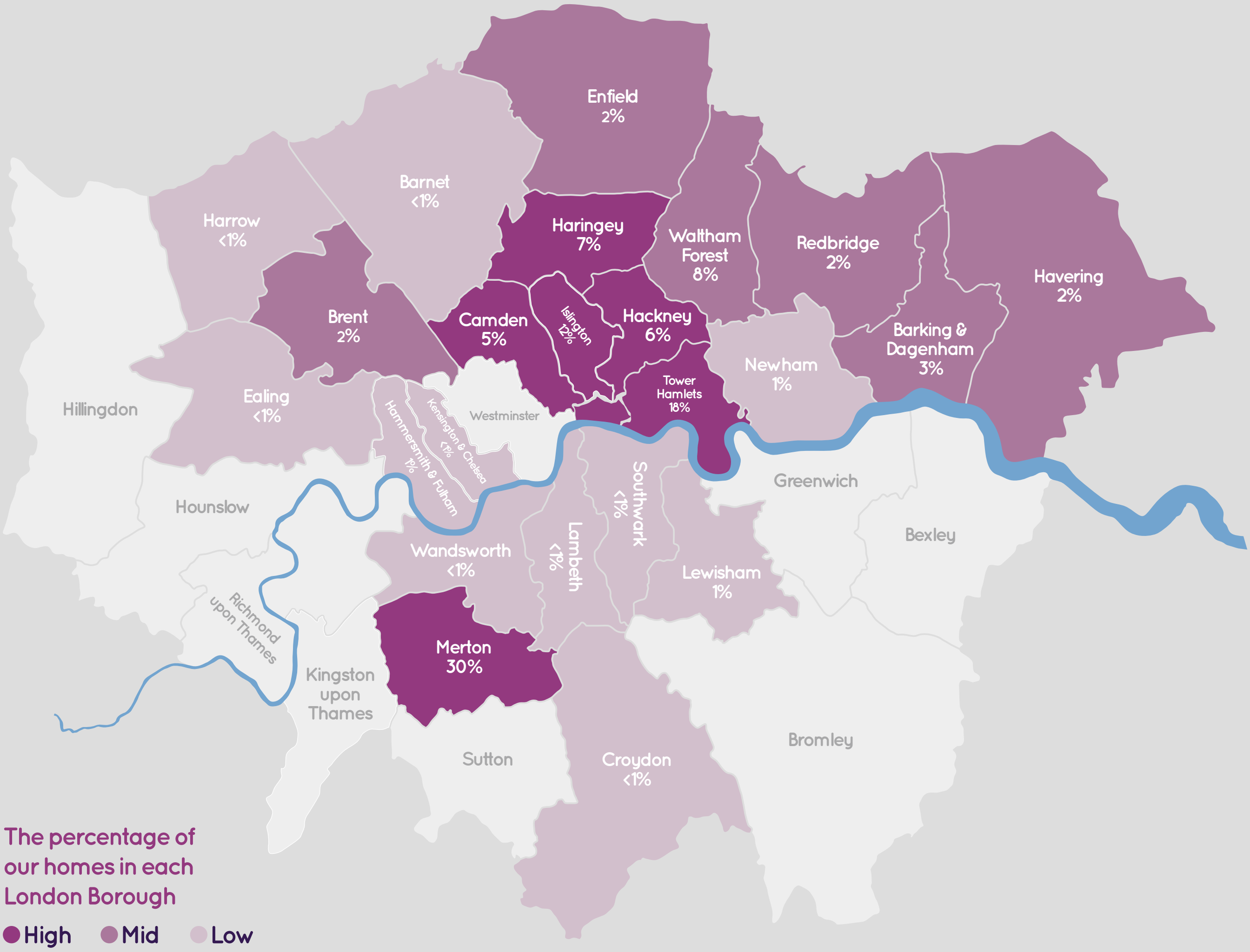
Over

27,621

of these (98.6%) are social or affordable rented homes

Our presence in London

We own and manage over 28,000 homes across 23 London Boroughs. These are most concentrated in the London Boroughs of Merton, Tower Hamlets, Haringey, Hackney, Camden and Islington.



The transformation programme we had already begun has been accelerated

The proposed merger... will enable the new organisation to deliver even more ambitious plans to address the country's housing crisis.

I am pleased to report that the Group remains financially robust and secure. Despite challenging conditions, we continue to improve the quality of our services while bringing even greater efficiencies into the business. The changes being introduced by the Government, including the annual 1% cut in social rents, have persuaded us to accelerate the transformation programme we had already begun. We are doing this so that we can continue to offer greater opportunities for independent, affordable and secure living to people in housing need.

The proposed introduction of the Right to Buy scheme, which would allow our tenants to buy their homes at discounted prices, makes providing new homes even more important. We are now looking to replace homes as well as increase the overall supply of affordable homes. We currently have 2,856 homes in our development pipeline of which 1,356 are under grant funded programmes.

I am pleased to report significant improvements in our responsive repairs service in London, which is now consistently performing above the sector benchmark. The measures that we put in place have significantly improved the service and are beginning to restore the high customer satisfaction levels for which Circle Housing has been known for years. This remains a priority, and has persuaded our regulator to resore our compliant governance rating.

We commissioned Campbell Tickell to review our governance structure. They found that while our federated Group structure, with nine single asset-owning entities working under the parent organisation, had delivered growth historically, it was no longer adequate for the current environment. Accordingly we are proposing to simplify the structure and move to a single housing association model. Together, we will have more flexibility to invest in areas where it is most needed, have faster decision making and a stronger local focus which will allow us to provide better services.

We are now consulting with our residents and Partner Boards about these proposals. We remain committed to local delivery and our proposals are designed to retain and enhance local engagement by giving residents and communities real ownership of their local plans. Our proposals will enhance local scrutiny and accountability through the creation of local panels, which will include residents, community figures and stakeholders with the remit to review delivery and performance, including repairs and maintenance.

I am proud that this year we have won accrediation as a Living Wage employer. This means that we not only pay the full Living Wage to our own employees but also insist that all our contractors do the same.

The proposed merger of Circle Housing and Affinity Sutton will enable the new organisation to deliver even more ambitious plans to address the country's housing crisis and increase investment in local communities. Together we will be stronger, provide better value for money and have greater financial capacity. This means that we will become one of the largest house builders in the country and double the amount of homes built annually. We will build 50.000 new homes over the next ten years from 2019. We will also invest more in transforming lives by becoming one of the largest providers of employment services in the country.

Having approved the business case for the merger, we have consulted Partner Boards and residents to gather feedback for our Board to consider before making a final decision. Should the merger progress, and the Homes and Communities Agency (HCA) give approval, the proposed new Group will become the largest housing association in Europe, with 120,000 properties. More importantly than this, our size would mean greater capacity to deliver new homes, invest more in communities and provide more customer-focused services. As shadow Chairman of the new merged organisation I look forward to helping make a reality of these high aspirations.

I would like to thank all our Circle Housing colleagues, partners and Board members for their tireless work and commitment in the last year.

Our business has gone through a period of enormous change and this will continue as we rise to the challenges set to all housing associations by the Government to make the best use of our resources and deliver more for less.

Sir Robin Young
Chairman

A year of monumental change has required we adapt and that's exactly what we did

I would like to thank all my colleagues and partners for their continued dedication to enhancing the life chances of our customers.

We have made great strides in making our organisation more efficient so that we can deliver greater value for money and ensure that we continue to provide our customers with more opportunities for independent, affordable and secure living.

Our core business is being a trusted landlord to our residents and providing homes for those in housing need, which is strengthened by supporting our customers towards financial resilience and independence.

One of our top priorities for the year was to improve the performance of our repairs and maintenance (R&M) service, particularly in London – which we have achieved. Our investment and focus on this during the year has resulted in improved performance across the board, including delivering 96% of urgent and emergency repairs on time. We are now consistently achieving higher levels of jobs completed on time than ever before. Many lessons have been learnt in the past 18 months and we have strengthened our internal processes, systems, contract management and lines of communication. This has resulted in the HCA awarding us a compliant G2 governance rating.

We take our responsibility as a landlord extremely seriously. We are now procuring long-term R&M contracts for parts of London and the West Midlands to replace the current temporary arrangements. Despite the improvements we have made, continuing to manage our contractors to deliver a consistently good service in every home remains our top priority.

At the start of the year we committed to delivering a number of organisational changes to transform our operating model to provide better services to our customers by investing in new technology that includes a new customer relationship management system, new contact centre and a 24/7 digital service, all of which freed up more resources on the ground to support those customers who need help directly in their home. These transformational changes are also designed to reduce costs. After the Government's announcement of a 1% reduction in social rents we had to make up a £46 million annual shortfall to our income over the next four years. We therefore accelerated our three-year transformation programme, making efficiencies more quickly with a greater level of change.

These were difficult decisions and ones we did not make lightly but restructuring our organisation and successfully implementing a single set of staff terms and conditions has put us in an excellent position to deliver these savings. We also identified other areas where further efficiencies could be made, such as completing our implementation of an 'agile' working environment across the organisation and reducing our office footprint.

This year we ensured that we maintained our commitment to invest into social value activities spanning employment and skills, financial inclusion, community development projects, and energy and green programmes. A total investment of £3.3 million provided a social return of £33.9 million, which translates into almost 15,000 interventions that led to positive outcomes for our customers.

Welfare reform and the introduction of Universal Credit continue to make it challenging for many of our customers to live independently. Supporting our customers will be even more important

Welfare reform and the introduction of Universal Credit continue to make it challenging for many of our customers to live independently.

2.7%
Rent arrears levels maintained in 2015/16

1,000
Working towards building an average of 1,000 homes each year

as Universal Credit is introduced to people already receiving benefits as opposed to just new claimants. This was evidenced by our pilot scheme Housing Benefit to You (HB2U), which found that customers that received early support are more likely to pay their rent and be able to manage their money.

Each intervention requires considerable time and resources and we found the best results were achieved through face-to-face meetings. By providing this level of support we were able to minimise rent arrears in the pilot to 4.1%, lower than the predicted level.

This tailored approach to supporting customers through welfare reforms has led to us maintaining our leading position on low rent arrears amongst peers of just 2.7%, compared with a sector average of 3.9%. As a prudent measure in light of the future challenges we are expecting, we have increased this year's rent arrears provision although we continue to do all we can to support customers through this transition and keep arrears as low as possible.

To increase the supply of homes we are growing our house building activities and using the proceeds of sales from development homes to help build new affordable homes. Last year we completed 703 new homes of which 645 were affordable. The plan includes a further 2,445 affordable homes in the next three years as we work towards building an average 1,000 homes each year.

The telecare, care and support business posted a solid performance. This was made possible mostly to the benefits of a restructuring the previous year, greater demand for our technology enabled care and support, and growth in our private paying customer base.

Having approved the business case for the proposed merger between Circle Housing and Affinity Sutton, we consulted with our residents and stakeholders ahead of making a final decision. If approved, together we would create a stronger, more efficient organisation with increased financial capacity. This will ensure that we are well placed to adapt to the changes in our sector and respond positively to the demand for investment in new homes. The merger would increase our ability to improve lives and communities and support the long-term viability of our business and social purpose.

I would like to thank all my colleagues and partners for their continued dedication to enhancing the life chances of our customers. Our workforce has embraced a flexible and agile way of working and as a result we can spend more time directly with out customers than ever before.

We remain financially robust and have a clear strategy in place that is flexible to the challenges we and our industry face. I look forward to reporting on our progress in the coming year.

Mark Rogers
Group Chief Executive Officer

OUR BUSINESS MODEL

A strong stakeholder-focused business model is the foundation that helps us manage change

Our business model works for our customers, investors and stakeholders because we are both commercial and caring in our outlook.

We have two main areas of income:

Affordable housing

We provide a range of affordable housing to people in housing need. This includes social housing, affordable rent, sheltered housing and shared ownership.

Diversified activities

We provide commercial services that help our customers live independently and stay in their homes for longer.

Our surplus is used in two ways:

Investing in properties

We continually invest in our existing homes. The more surplus we make, the more new affordable homes we are able to build, helping more people in housing need.

Social value

We forgo a portion of our surplus towards social activities. This is our social investment.

Our changing markets

We are working in markets that are seeing enormous change as a result of government policy, reform, growing demand and increased costs. The vote to leave the European Union (EU) has only increased this level of change, as well as added further uncertainty to our sector.

This creates both challenges and opportunities as we look to make our resources go further without compromising the quality of services we deliver.

We have already seen a huge transformation at Circle Housing and we will need to continue to adapt so that we can keep working towards our mission of enhancing life chances.

+10%
House prices have risen by over 10% annually[1]

33
The average age of a first time buyer[2]

40%
The percentage of properties bought through Right to Buy that are now in the private rented sector[3]

18%
The proportion of private renters in work and claiming housing benefit, up from 14% in 2015[2]

£330m
The extra amount needed to cover increased costs to home care providers in 2016/17[4]

+40%
The number of people aged 65+ is projected to rise by over 40% in the next 17 years to over 16 million[5]

1 Hometrack UK Cities House Price Index
2 English Housing Survey
3 Commons Communities and Local Government Select Committee Report, February 2016
4 Analysis carried out by the Local Government Association, February 2016
5 Later Life in the United Kingdom Factsheet, Age UK, January 2016

Homes

What is changing?

From April 2016 housing associations are having to cut social housing rents by 1% each year for the next four years.

Reduced government grants continue to impact the development of new affordable homes. While the Housing and Planning Act 2016 will boost house building it favours starter homes over traditional affordable housing.

Extending Right to Buy to housing associations could further reduce the number of social homes in higher-value areas, such as London.

Demand for all types of homes and tenures – social, affordable and private homes – continues to grow.

The cost of homes and living, particularly in the areas we operate in, is rising; many of our customers tell us they are struggling to stay in the communities they were born into.

With the Government looking to save £12 billion over the next five years through welfare reforms, this could have a significant impact on our customers' budgets.

London's new Mayor Sadiq Khan's key housing policy is to make 50% of all new homes affordable.

The HCA is making £4.7 billion of capital grant available between 2016 and 2021 for shared ownership and affordable homes.

The Government has introduced a 40% Help to Buy Equity Loan Scheme in London and a Starter Home Initiative to help first time buyers get on the property ladder.

The decision to leave the EU is likely to impact house prices across the country.

Care and Support

What is changing?

National standards for assessing individual care and who should pay for it have been introduced with the Better Care Fund and the Care Act 2014.

Changes to housing benefit, such as the Local Housing Allowance Cap, are adding uncertainty to the way we will provide supported housing in the future. Cuts to supported housing rents have been postponed for a year to review the impact of these policies.

Our ageing population is putting more pressure on the health services and more people into full-time care.

The cost of providing care and support is increasing. The introduction of a cap on people paying for their own care was introduced from April 2016, which will provide some relief.

With less public money available for care we are seeing more demand for private services.

How we are responding

We are making significant cost reductions through our operational transformation programme to offset the rent reductions and grow our financial capacity in order to build more new homes.

We liaise with industry bodies, government ministers, civil servants and other policy makers so that we can prepare for any change.

We are acquiring larger sites in conjunction with house builders and developers in order to access land for affordable housing as well as generate cross-subsidy from open market sales.

By becoming larger through a proposed merger with Affinity Sutton, we would potentially have access to more funding and be financially stronger.

In growing our commercial activities we are able to invest into building more homes and give support to customers in need.

Without losing sight of local needs, we are looking to streamline our governance structure and bring in major efficiencies so we can offer our services at lower cost. This is also making the delivery of our services more consistent.

From 2018 we are aiming to build an average of 1,000 new homes each year and we are buying land so that we can achieve this.

All our housing developments and regeneration programmes offer a mix of accommodation to fit our customers' budgets and needs.

We provide a range of services and advice to our customers that helps them to gain independence, learn new skills and secure qualifications that makes work pay.

We are looking to offer services through a range of channels. By embracing new technologies we can provide this at lower cost and more efficiently.

In light of the Government's Budget announcements we have reviewed our strategic priorities

Our mission

Our mission is to enhance the life chances of our customers.

Our vision

Our vision is to offer greater opportunities for independent, affordable and secure living to people in housing need.

Our long-term goals remain the same:

- **to provide high-quality, safe and secure homes that are affordable to people on different budgets**
- **to increase the supply of homes, ensuring we maintain or increase our portfolio of affordable homes**
- **to support customers to become financially resilient and independent and fulfil their aspirations around social mobility through a variety of services**
- **to ensure we offer Value for Money through every area of our operations by being more efficient**
- **to maintain our financial strength.**

In light of the Government's Budget announcements in June 2015 and the associated reduction of our rental income, we have reviewed our strategic priorities so that we can continue to support our vision.

BEING A TRUSTED LANDLORD

Delivering a high-quality and consistent service directly impacts our customers, our ability to win new business and our reputation with our stakeholders and governing bodies.

What have we done?

- Made significant improvements across all areas of our R&M service, and succeeded in increasing urgent and emergency repairs completed on time from 57% to 96%, resulting in successfully restoring our compliant governance rating.
- Restoring customer satisfaction will take time, but we have moved in the right direction this year with our Net Promoter Score increasing from +4 to +9.
- Established a stronger governance structure to closely monitor our performance as a Trusted Provider; specifically putting in place an Operations Committee to focus on our core landlord services.

Next year we will:

- Implement a new property service model to ensure we provide a consistent and reliable R&M service that delivers good Value for Money.
- Launch a new landlord service model to enhance our local presence and improve customer service and access. This will include quality, consistent services for customers via a new contact centre and 24/7 digital channels as well as visiting customers in their own homes.
- Review our rent policy and develop an affordability strategy in order to continue to provide homes to a broad range of customers with differing budgets, in response to changes in government policy.

BEING EFFICIENT

Our work to become more efficient and streamline our operating model which started over two years ago is nearly complete.

What have we done?

- Streamlined our central office functions and dramatically reduced our office footprint.
- Created an agile workforce and increased the number of frontline staff.
- Strengthened our leadership team. Fewer layers of management have improved communication between teams and departments.
- Prepared for a new Customer Relationship Management (CRM) system and Enterprise Resource Planning (ERP) system to improve our customers' experience and streamline the way our people work.

Next year we will:

- Ensure that we attract and retain the very best talent within the business by providing clear career paths, training and secondment opportunities.
- Complete the implementation of the CRM and ERP systems.
- Having commissioned a review of our governance structure we are in consultation with our nine Group partners to become a single housing provider, which will make us more efficient and more responsive to local needs.
- In addition to this we have approved the business case to merge with Affinity Sutton which, if it goes ahead, will enable the new Group to deliver ambitious plans to help combat the country's housing crisis and increase investment in local communities.

INVESTING IN OUR HOMES

We need to ensure we are making the best use of our assets, developing new homes and growing in areas that support our business.

What have we done?

- Built 703 new homes, including 645 affordable homes.
- Our current financial plan includes approximately 2,500 affordable homes between 2015 and 2018.
- We continually review our assets to ensure they are performing to their best potential and look to transfer or sell properties that are underperforming or sit outside our core operating areas.

Next year we will:

- Deliver our development strategy which includes forming more partnerships to acquire land in order to work towards building an average of 1,000 new homes each year from 2018.
- To fund the development of new affordable homes, increase the proportion of private market and shared ownership homes we build for sale.
- Implement our Asset Management Strategy, optimising the value of our assets and ensuring we provide quality, safe and secure homes to our customers.
- Should the merger with Affinity Sutton go ahead, together we could build 50,000 homes, get 4,000 people into work, and invest £100 million in our communities – double what each organisation can achieve on their own.

PROVIDING SUPPORT TO OUR CUSTOMERS

The support we provide to enable our customers to become more financially resilient and independent is an important part of our business model and helps us secure our future.

What have we done?

- Carried out a pilot scheme called Housing Benefit to You (HB2U) to understand how customers will cope with receiving benefits directly under Universal Credit.
- Provided a range of services to over 14,000 customers, either directly or with our partners, to help them manage their money and increase their opportunities for employment through apprenticeship schemes and training and learning opportunities.
- We started to implement a digital inclusion strategy which will empower our customers to embrace technology and access products and services, such as Circle Housing Money, that will help them make savings and develop essential work skills.

Next year we will:

- Put in place the additional support our customers will need in the transition to Universal Credit.
- Ensure that we spend more time with our customers and supporting those who are vulnerable by investing in digital services.
- Introduce a new commissioning model for social value activities to ensure that we achieve the best outcomes and services are based on local needs.

We assess and review risk regularly and mitigating action plans are prepared

The nature of what we do means we face a wide array of risks. Our risk management approach is reviewed and agreed annually by our Group Board to ensure it is appropriate and aligns with our strategic goals. We take into account the risks inherent in our areas of operation and our appetite for risk, both in financial and non-financial terms. Our customers and our assets are vital to the success of Circle Housing, and we operate within a risk range which we consider to be appropriate for our business. Our lowest risk appetite relates to compliance issues which include health and safety. We wish to grow our business and are willing to accept some risk within acceptable financial parameters. All areas of the business assess and review risk on a regular basis. Residual risks are assessed for the effectiveness of existing controls and mitigating action plans are prepared where appropriate. Consolidated risk assessments are scrutinised by the Executive Team in the first instance, and the Group Audit and Risk Committee where relevant, and form the basis of detailed Board reporting.

Risk	Mitigating action	Risk level as at June 2016
Future government policy, impacted by potential recession, increases the risk of rent reductions being extended resulting in reduced income Responsibility: Executive Director of Resources	We regularly review and stress test our long-term financial plan and model the impact of government announcements. Our finance strategy has been revised to deliver higher income, cost reductions and margin improvements. For Right to Buy, we have set up a working group with g15 members to develop counter proposals. We closely monitor all government policy in order to prepare for potential change. The proposed merger with Affinity Sutton will improve our financial resilience.	Risk and impact will remain high due to the decision to leave the EU, while the proposed reclassification of housing associations to public bodies is unresolved and the Government has not secured its agenda around the Right to Buy and welfare benefit reductions.
The housing market experiences price falls and/or lower sales volumes, which could happen as a result of the UK leading the EU Responsibility: Executive Director of Resources	We have robust development scheme appraisal criteria and governance arrangements. We keep our total exposure to the housing market within levels that would not cause a covenant breach or pose a threat to our social housing assets. Any open market sale activity is undertaken off the Group balance sheet. We have a dedicated property sales team with a good track record of delivering shared ownership first tranche sales and open market sales. This is supported by continuous monitoring of the housing market, sales forecasting, reporting and periodic revaluation of housing assets being developed or held for market sales.	As the UK has decided to leave the EU, there is a greater risk of negative movements in house prices, so we continue to closely monitor the market and make changes accordingly. The likelihood of this risk arising is higher in London where our key exposure is the former London Chest Hospital scheme. The development plan is not yet agreed for the site and securing this will be key to managing the risk position.
We fail to deliver a health and safety compliant service Responsibility: Executive Director of Property	We have a dedicated Compliance Team in place with experts recruited for each compliance area. A Compliance Reporting Framework has been developed with reports being produced on an ongoing basis. We track corrective actions and we have a single point of management for all regional contract managers. A compliance group has been established to drive continuous improvement which reports to Group Audit and Risk Committee and the Operations Committee on an ongoing basis.	As the UK has decided to leave the EU, changes to house prices are more likely, so we continue to closely monitor the market and make changes accordingly. The potential risk will fall as we continue to update our technology to improve reporting and all relevant staff are trained in our new suite of health and safety policies and procedures.

Risk	Mitigating action	Risk level as at June 2016
Failure to deliver our target operating model will potentially reduce the Group's future investment power to deliver more homes and services and make it more vulnerable to unforeseen financial risks Responsibility: Chief Operating Officer	Our transformation programme is now it its third year and is well resourced and supported by experts. Our business plan sets out the efficiency targets we are aiming for. These are supported by a detailed and strategic change management process that we monitor closely. Our priority of nurturing and developing the talent and leadership we have in the Group is making an important contribution to streamlining the organisation.	Our proposed merger with Affinity Sutton would reduce risk by creating an organisation with increased financial capacity so that we are well placed to adapt to the changing political and operational environment.
Failure to deliver effective governance arrangements resulting in legal challenge, the non-delivery of corporate objectives and increased regulatory oversight Responsibility: Chief Operating Officer	Our governance structure has undergone an internal and external audit providing assurance over our control environment. Following an independent review of our governance structure we are proposing to move from a federal structure towards a single housing association.	A timetable has been approved by the Group Board and eight of our nine Partner Boards have approved or agreed in principle to these proposals. Our risk exposure will reduce as we move Registered Providers into a single housing association.
We fail to discharge the Voluntary Undertaking with the HCA, resulting in further regulatory intervention Responsibility: Group Chief Executive	We have carried out an internal audit review of issues identified as part of the Voluntary Undertaking and have responded to feedback from the HCA.	Our risk exposure has reduced as the HCA restored our compliant governance rating.
Shortfall in leadership capacity and capability to effectively lead operational services and major change initiatives concurrently Responsibility: Executive Director of Resources	We have a planned approached across all project work areas to assess resourcing requirements and identify gaps. We have brought in additional interim support to ensure that we have the right resources to deliver our transformation programme and have introduced personal development plans for newly appointed leaders.	The likelihood of there being a leadership capacity and capability shortfall has reduced following the appointment of some additional members to the Executive Team.
Failure to realise full economies of scale, additional housing and enhanced services to residents Responsibility: Group Chief Executive	We have consulted with our residents and feedback from this will be reviewed by both Boards before considering a final decision to merge later this year. If agreed, formal consent will be sought from our lenders and the HCA. We have established a Shadow Board and Designate Executive to oversee the work of the merger in order to manage the risks and deliver economies of scale.	A joint Project Board and Project Team are overseeing the work of the proposed mergers and we have established a Shadow Board and Designate Executive.
Poor services in our telecare, care and support businesses lead to service user harm, regulatory intervention, negative financial impact and reputational damage Responsibility: Executive Officer of Diversified Operations	We have a framework in place to monitor our service performance and customer complaints on an ongoing basis and ensure we deliver a consistent and quality service in these businesses. All our services are inspected by and adhere to policies set out by their relevant governing body, where we aim to meet or exceed expectations.	There will always be risk in this area and there are no significant further actions which we can take to reduce the risk further.

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Repairs and maintenance (R&M) is the single most important service that we offer our residents. In 2014/15 we experienced a number of challenges after introducing six new regional R&M contracts which led to our performance in parts of London areas falling well short of our own and our customers' expectations. We took extensive and immediate action to remedy the situation, and now ask Jon Dowell, who is responsible for responsive repairs at Circle Housing Circle 33, what has changed in the last year.

OUR REPAIRS NCE SERVICE

96%

On average Circle Housing completed 96% of all urgent and emergency repairs on time during the year

For a more in depth look at our R&M statistics see page 33

The most important thing to say is that we have successfully restored our responsive repairs service and our performance across Circle Housing is now consistently well above the sector benchmark. On average, we completed 96% of urgent and emergency repairs on time during the year. The HCA has recognised this and restored our compliant Governance rating in June 2016.

So how did we achieve this? Our immediate priority was to put in place a new responsive repairs contractor with whom we could work very closely and who could mobilise in record time. We appointed Wates Living Space and invited its team to co locate to our offices so that they could work alongside our customer and property services teams. This created a real spirit of partnership and trust from the outset and has been pivotal in restoring our service.

So that Wates Living Space could focus on new customer demand we procured additional resources so that any outstanding repairs could be cleared as quickly as possible.

One of the biggest areas of work has been on improving our reporting during the lifecycle of repair jobs. This meant ensuring that our process and systems interfaced seamlessly with Wates'. We now carry out more post inspections and spot checks to ensure that all works have been done to our customers' satisfaction. Our partnership and focus on delivery and customer service has meant that customer satisfaction levels have significantly increased and complaints have fallen to an all-time low.

We are now in the process of putting in place new, long-term R&M contracts for London and the West Midlands, as agreed with the HCA. A lot of lessons have been learnt in the last two years and we are confident we will have the right structure and flexibility in the new contracts so that we can continue to maintain a consistent and reliable R&M service fit for the future.

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In the last two years we have been making changes to Circle Housing so that we are more accountable and efficient and can offer customers a better quality service. As part of this, over the last year we carried out a review of our governance structure. We spoke with Austen Reid, Chief Operating Officer, to find out why these changes are being proposed and asked him what plans there are for the future.

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We are proposing to move from nine Registered Providers to one single asset-owning housing association, which would be called Circle Housing.

I am often asked whether all the changes we are making are necessary. Absolutely. As an organisation that puts its customers at its heart, we need to be able to deliver local services that improve life chances and reach more people in housing need by building more homes. However, the only way we can deliver on our promises at a time when we have to find £46 million worth of savings following the Government's announcement to decrease social rents by 1%, is by being more efficient. This needs to come from streamlining and reducing duplication across the organisation. We also need to do more to ensure faster local decision making, scrutiny and oversight.

Last year we commissioned an independent review of our governance structure. It found that our current federated model, with nine Registered Providers, stands in the way of more efficient decision making, and that the communication between the Group centre and local delivery needs to be improved. Alongside this, we feel our governance structure needs to be more efficient and offer flexibility so that we can focus resources where they are most needed. This includes finding opportunities to share services which fit well with new neighbourhood plans and locally focused delivery arrangements.

So how are we putting these recommendations into action? We feel it is time to change and simplify our governance structure to deliver consistent services to customers, have a stronger local focus, faster decision making and to ensure that we are accountable to our residents locally. We are working with our Partner Boards on what exactly this new structure will look like and are proposing to move from nine Registered Proviers to one single asset-owning housing association, which would be called Circle Housing.

Complying with our covenants

We monitor all our financial covenants on a monthly basis based on the financial results of the Funding Group. Almost all of these are standardised across our debt portfolio (loans and bonds) to facilitate the greatest possible efficiency in our approach to risk management. Interest cover, which shows how much of our net interest charge is covered by our pre-interest surplus, is one of our core key performance indicators. As is typical in the social housing sector, we test and report this on a one-year and three-year basis. The historical debt held within the Funding Group predominantly contains net rental or income tests, which are also monitored on a monthly basis.

In addition, we continue to scenario test and stress test our financial position and forecasts, including multiple-event 'perfect storm' conditions to ensure that even in the most unlikely combination of adverse market conditions or shocks our business, factoring in our development plans, is not put at risk and adequate covenant headroom is maintained.

We have agreed uniform terms with our lenders across the vast majority of our loan facilities, which provides significant risk management benefits. On 31 March 2016, our one and three-year interest cover stood at 204% and 196% respectively (2015: 218% and 198%), against lender covenants of 95% and 105%.

Our gearing covenant restricts the amount of debt we can hold as a percentage of our housing assets as measured on a historical cost basis. Gearing was 53% (2015: 51%) at year end, compared with a covenant ceiling of 70%. This gives us substantial headroom, but the position is actually even more positive.

Around two thirds of our portfolio has come through the transfer of properties from local authorities, the historical cost of which often understates their current value. This means that the net value of our assets will increase and gearing will improve as transfer promises are fulfilled and our works are capitalised.

This gives us substantial financial capacity to focus on attractive opportunities we identify. Most importantly, it enables us to consider each opportunity on its own merits rather than concentrate on how we are going to fund it. It also gives us a very strong platform, stabilising our income in a fast-changing world while optimising financial returns right across our organisation.

Our credit ratings

The impact of the UK Budget and regulatory changes, along with the continuing delivery of welfare reform changes and the introduction of Universal Credit, made last year a difficult one in terms of credit rating for the housing association sector. As a result of the Budget measures in 2015 and after the UK's decision to leave the EU in June 2016, Moody's changed the outlook of the sector to negative.

We have significantly improved our R&M service that experienced severe service delivery issues last year and are pleased to see that 96% of repairs are now resolved on time. This led to the HCA upgrading our governance rating to a compliant G2. Beyond these two areas the Group did not experience any material events during the course of the financial year and Circle Housing's management continued to engage regularly with Moody's credit rating team, updating them on changes within the sector and how we are poised to take advantage of opportunities and respond to challenges.

After the decision to leave the EU on 23 June 2016, Circle Housing, along with the 40 other housing associations which Moody's rates, had its outlook changed from stable to negative. Our Moody's rating is currently A2 with a negative outlook.

Group debt – key indicators

The Group's financial covenants are reported under the UK GAAP framework; the Group is currently in negotiations to update the covenant definitions to be FRS 102 compliant whilst maintaining neutrality for both parties. The figures in Table 6 are adjusted from FRS 102 to the previous standard as this is how the Treasury and the Group's senior management review the positions.

Table 6

	2016	2015	2014	2013	2012
Interest cover	**204%**	207%	195%	181%	181%
Operating cash flow to interest	**1.44:1**	2.31:1	1.87:1	1.27:1	2.09:1
Gearing	**53%**	51%	50%	51%	52%
Available bank funding (£m)	**410**	370	520	544	580
Free security (£m)	**449**	521	414	405	336
Excess security (£m)	**732**	677	585	530	200
Gross debt (£m)	**1,936.7**	1,995.5	1,799.9	1,766.9	1,735.1
Cash and short-term investments (£m)	**184.3**	176.8	28.0	13.6	33.0
Net debt (£m)	**1,752.4**	1,818.7	1,771.9	1,753.3	1,702.1

Despite challenging conditions, we continue to improve the quality and cost of our services

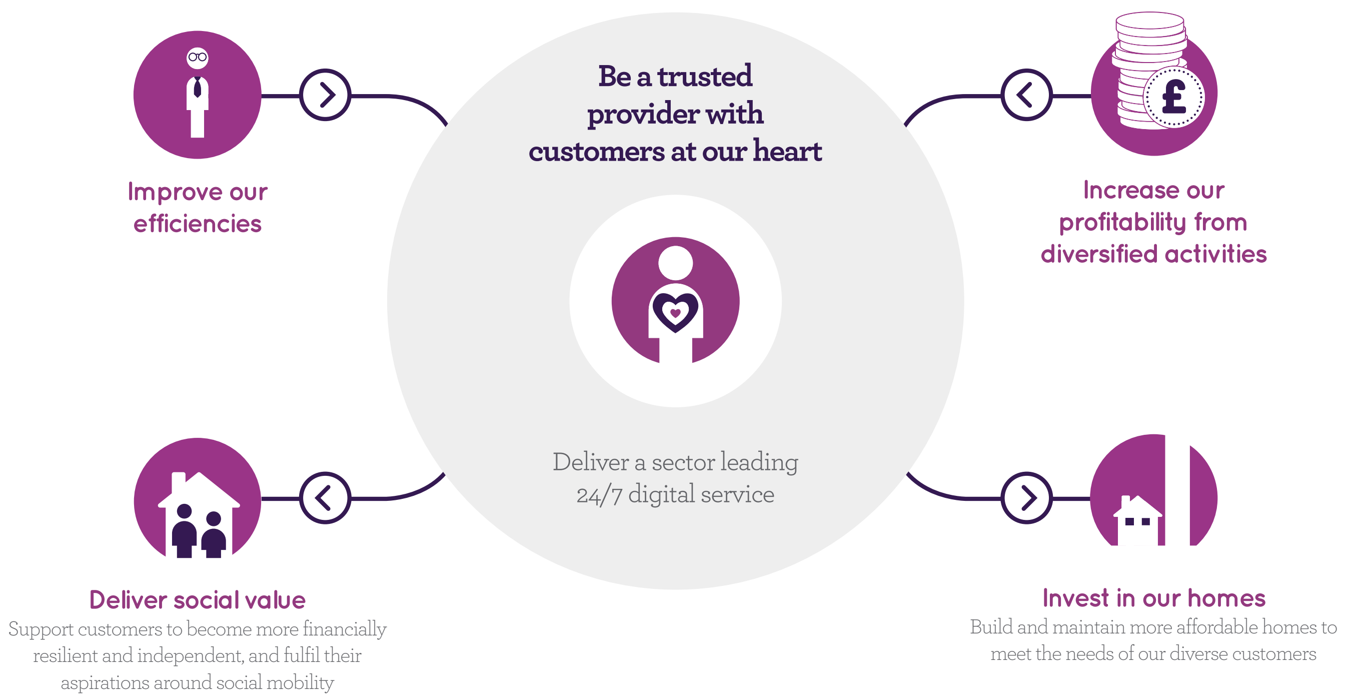
Executive summary

Circle Housing's Value for Money Strategy is to continue improving the quality and cost of its services, increase the affordability of its 62,647 homes and at least maintain its output of new homes during challenging operating conditions. The Board considers that it has achieved better value when measures of input (cost and resource efficiency), output (quality and effectiveness) and charitable outcomes improve simultaneously. Improving Value for Money (VfM) enables Circle Housing to deliver its vision (illustrated below) to offer greater opportunities for independent, affordable and secure living to people in housing need.

The Board, together with Circle Housing's Executive Team and Subsidiary Boards, monitors the delivery of inputs, output and outcome measures every month through a 'Vision Scorecard'. The scorecard was developed by the Board and Executive Team in 2014 as a key tool to measure and drive better VfM, and has been considered at every Board meeting since. This self-assessment is broken down into each area of our vision and supported by the relevant VfM metrics from our Vision Scorecard.

Value for Money performance in 2015/16

- The Board stated within its 2014/15 VfM self-assessment that its number one priority for 2015/16 was improving Circle Housing's R&M service. Our investment and focus on this priority has succeeded in increasing urgent and emergency repairs completed on time from 57% at March 2015 to 96% at March 2016, with resultant improvements in lettings times and satisfaction. Response repair costs per priority have also reduced from £863 to £853.
- Re-let times have improved from 43 days to 35 days but were higher than our target of 24 days.
- Customer satisfaction increased from +4 to +9 but remained slightly lower than our target of +10.
- As rent collection has become more challenging, maintaining social investment helped contain the increase in arrears to 0.1%. This continues to position us within the upper quartile, when benchmarked against our peers.



- We did not deliver our savings target for 2015/16 due to a strategic decision taken by the Board to focus on investing in improving our R&M service and simplifying our management, legal and governance structures where we have also made significant progress. This has the impact of maintaining a higher level of operating costs than planned, relative to our peers, and widening the gap between our gross and operating yields from 7.4% to 7.9%.
- We have taken the actions that ensure we will deliver a £25 million reduction in operating costs by 2016/17 in line with the Board's plan to manage the impact of rent reductions announced by the Chancellor in July 2015. This is a higher level of savings than planned prior to the Chancellor's Budget and will reduce our operating cost per property to £4,081 (from £4,310 in 2015/16) and the gap between our gross and operating yield to 7.2%, significantly improving our return on the letting of assets.
- These factors, combined with a more proactive approach to improving our capital return on assets from the sale of existing and new properties of £37.1 million (2014/15: £21.9 million) and increase in the value of our market rented properties of £21.6 million (2014/15: £10.1 million), meant that our surplus* increased by £18.4 million.
- This increase in surplus allowed us to replace reducing government grant and maintain the number of new homes developed at 1% of current stock which had the impact of increasing affordable homes from 62,197 to 62,647. Our plans are to increase this to 2.4% (above the benchmark of 2.1%) over a three-year period, improving the quality and affordability of our properties in a more difficult operating environment.

Customer engagement in improving VfM

During 2015/2016 Circle Housing has engaged 1,695 customers in Service Improvement activities. Customer views and opinions have helped us to drive a continuous improvement and VfM to business areas such as R&M, customer access and customer service, rents and income, care and support services and neighbourhood management.

In addition to this Circle Housing has supported 35 customers in the independent scrutiny of 31 reviews of service, where 83 of the 103 recommendations made to tenant welcome packs, complaints, anti-social behaviour, aids and adaptations, affordable warmth, employment and skills, rents, allocations and recharges, community grant funding, voids, customer services, single equality scheme and many more were agreed and built into local action and service improvement plans to drive improvement and VfM into service delivery. This has also helped us to understand our customers' ongoing expectations of the services they receive.

It is worth noting that during 2014/2015 1,962 customers were involved in service improvement activities online. This has risen to 10,533 this year, as we continue to develop an involvement strategy that enables our customers to give their views and opinions online or by smartphone at any time.

The Board's Value for Money plans for 2016/17

- Continue building trust and confidence in our landlord services so that improvements in services translate into higher levels of customer satisfaction. The Board has approved satisfaction targets of 84% (that would represent upper quartile performance in Circle Housing's peer group) which will be delivered by maintaining the improvements in our R&M service and reducing letting times from 35 to 24 days, implementing a single contact centre in summer 2016 and developing a combination of digital channels and local presence to improve the consistency and accessibility of our customer services.
- Complete the simplification of our legal, governance and management structures, including the creation of a single asset holding entity.
- Capitalise on improvements in technology and simplification of management and legal/governance structures to meet or exceed our three year operating cost reduction target of £46 million to manage the impact of rent reductions.
- Continue to focus our diversified activities on those that generate the greatest subsidy for the development of new affordable homes, disposing of weaker performing activities.
- Complete the proposed merger with Affinity Sutton to create an organisation than can deliver more and better services for existing customers by becoming one of the country's biggest providers of employment services to help 4,000 people a year into work. We will also help 200 young people into apprenticeships and support 15,000 young people to get a better start in life. The merger will also provide a stronger and more resilient financial position and create the capacity to expand development of new homes to 4% of existing stock.

Vision Theme: Being a trusted landlord

Table 1 shows improved performance compared with 2014/15 with the exception of income collection/arrears. Performance compares favourably to our peer group with the exception of lettings and satisfaction measures.

* Measured on FRS 102 basis.

Table 1

Circle Housing Vision Scorecard 2015/16 – Trusted landlord services

	2014/15 Actual	2015/16 Actual	2015/16 Target	2016/17 Target	2015/16 position compared with 2014/15	Benchmark – median quartile	Position against benchmark
Number of affordable homes	62,197	62,647	62,734	63,506	↑	–	–
Rent and service charge collection	99.9%	99.8%	99.3%	99.8%	↓	99.8%	✓
Current tenant arrears	2.6%	2.7%	3.0%	3.0%	↓	3.9%	✓
Former tenant arrears	1.2%	1.4%	1.1%	1.4%	↓	1.4%	✓
Percentage of homes occupied	99.0%	99.4%	99.0%	99.0%	↑	99.5%	✗
Annualised responsive repair cost per home (inc. servicing)	£863	£853	£785	£850	↑	£905	✓
% of urgent and emergency repairs completed on time	57.0%	96.0%	98.0%	98.0%	↑	**	–
Number of days to re-let a home	43	35	24	24	↑	29 days	✗
Decent Homes Standard % (excl. Circle Housing Merton)	100.0%	100.0%	100.0%	100.0%	←→	99.6%	✓
Net Promoter Score	+4	+9	+10	*	↑	**	–
Customers satisfied with their last repair (all tenures)	86.0%	87.3%	90.0%	87.0%	↑	87.6%	✗

* For 2016/17 onwards, the Net Promoter Score indicator will be replaced by total customer satisfaction. The 2016/17 target is 84%
** Not measured on Housemark/ insufficient benchmark data
↑ 2015/16 position improved on 2014/15 position
←→ 2015/16 position equal to 2014/15 position
↓ 2015/16 position deteriorated on 2014/15 position
✔ Above or equal to benchmark
✗ Below benchmark

Internal and external benchmarking are actively used to improve performance and show transparency to our stakeholders, and the performance figures presented in Table 1 and Table 2 demonstrate that we have delivered on our number one priority identified for 2015/16 of improving the R&M services that we provide to our customers. The improved performance has been achieved by taking the decision to defer cost reductions to ensure focus on this priority, investing more resource and third party support in this area. During 2015/16 we maintained the level of staff resources from 2014/15 to support our customer service, complaints and repairs teams with recovering our R&M service in Circle Housing Circle 33 and Circle Housing Old Ford.

Following consultation with Partner Boards, we agreed to:

- prioritise an additional £9 million to make short and long-term improvements to our repairs and maintenance services. Of the £9 million:
  - £4 million was for the continuation of additional resources including third party support to manage and administer the repairs process across repairs, customer service and complaints teams
  - £2 million was for additional response repair costs in the Central Region
  - £3 million was to improve the quality of our stock condition information.

The return on this investment can be measured by:

- the proportion of urgent and emergency repairs completed within time band improving from 57% to 96%
- working in an efficient way and getting our repairs right first time has led to a significant improvement in our re-let times, from 38 days to 25 days, as shown in Table 2, which excludes sheltered housing. The higher indicator within Table 1 includes sheltered housing, which is an area we will focus our improvement on in 2016/17
- by increasing the turnaround time of properties, we are providing families with much needed housing quicker.

VfM improvements have been achieved within Circle Housing Property Services, our internal direct labour organisation. In 2015/16 average cost per job has reduced from £225 to £213, whilst the number of jobs has increased from 65,828 to 69,011 – this represents an overall reduction in cost, meaning we have delivered more work for less resource.

We acknowledge that satisfaction levels with the R&M service remain low at our partners within London, and the improvements in service delivered in 2015/16 represent the start of regaining the trust and confidence of our customers. A continued focus on our day to day repairs service and the development of our new operating model will help continue to build this confidence.

Whilst addressing our number one priority to make making VfM improvements in our R&M service, we have maintained the very strong arrears position from 2014/15. Our approach to rent collection is a good example of our business model. Based upon the founding principle of maximising the support, assistance and services provided to enable customers to pay rent, our approach builds financial resilience and independence. In partnership with the DWP and Broadland District Council, Circle Housing Wherry has designed and implemented 'HB2U' in order to test the claim, customer advice and triage processes for Universal Credit – and establish the optimum, best practice approach for providing our tenant customer with the best possible advice and support as they transition to having benefit paid directly to them. This also serves to minimise the risk of non-payment of rent to us as landlord.

By maintaining our level of social investment to provide financial awareness to our customers, together with our approach to income collection, we have contained the increase in arrears by 0.1% to 2.7% for 2015/16 which continues to position us as the strongest performer in our peer group.

Since the 2005 merger, Circle Housing has consistently pursued the benefits of alternative delivery models by embracing mergers, acquisitions, regeneration and other forms of investment. This has delivered 62,860 properties held for social purposes:

- The properties provide housing for 1 in every 100 Londoners and 1 in every 300 people in England.
- Our residents pay a combined annual rent of £338 million (£5,387 per home) compared with the full market rate of £618 million. This discount will increase as we reduce rents by 1% for the next four years on the assumption that market rents continue to rise.
- Our 22,000 affordable homes in London – at 46% of market rent – have an average weekly rent of £142.64. This is in line with peer average affordable rent of £152.54 and lower than the 80% of market rent we are able to charge.
- We have invested £1 billion in our stock since 2005, ensuring our 62,860 homes are (except for a small element of our most recent stock transfer at Merton where we are proposing to regenerate estates and replace homes by 2026) maintained at or above the Government's Decent Homes Standard.
- Undertaken 37,640 local authority stock transfers and brought them up to Decent Homes Standard.

Table 2

Trusted landlord VfM metrics 2015/16 – by asset holding Registered Provider

Trusted landlord VFM metrics 2015/16	Circle 33	Mercian	Old Ford	Roddons	South Anglia	Wherry	MPH	Mole Valley	Russet	Group	Group internal target 2015/16	Median Bench-mark 2014/15
Rent and service Charge Collection	99.3%	99.3%	100.1%	99.4%	100.5%	99.6%	100.2%	100.7%	100.0%	99.8%	100.0%	99.8%
Current tenant arrears	2.9%	3.4%	4.2%	1.2%	3.5%	2.6%	2.6%	0.8%	2.7%	2.7%	3.1%	3.4%
Vacant homes available to let or pending completion of works	0.7%	0.8%	0.5%	0.4%	0.4%	0.8%	0.2%	0.1%	0.2%	0.2%	0.7%	0.5%
Relet time (days)	20.2	36.0	33.8	15.7	33.0	21.0	19.0	20.0	28.8	25.0	25.6	29.0
Urgent and emergency repairs completed within time band	83.5%	98.6%	88.1%	97.9%	95.4%	96.3%	96.5%	97.2%	97.6%	95.5%	98.0%	97.4%
Net Promoter Score	−13	+23	−23	+39	+8	+36	−11	+14	+17	+9	+15	Not available*
Customer satisfaction with services provided by their landlord	54.0%	73.0%	56.0%	85.0%	74.0%	83.0%	63.0%	74.0%	78.0%	71.0%	79.0%	77.3%
Customers satisfied with last repair	80.0%	86.0%	82.0%	93.0%	88.0%	90.0%	85.0%	91.0%	88.0%	87.0%	92.0%	84.0%
Units with valid gas safety certificate	99.3%	99.5%	99.6%	99.8%	99.8%	99.8%	99.9%	100.0%	99.9%	99.7%	100.0%	99.8%

* For 2016/17 onwards, the Net Promoter Score indicator will be replaced by total customer satisfaction. The 2016/17 target is 84%.

	Social housing cost per unit		
	2014/15	**2015/16**	Variance
Circle Housing Circle 33	4,450	**4,530**	(80)
Circle Housing Mercian	3,390	**3,448**	(58)
Circle Housing Old Ford	5,090	**4,394**	696
Circle Housing Roddons	3,480	**3,339**	141
Circle Housing South Anglia	4,550	**4,728**	(178)
Circle Housing Wherry	3,660	**3,504**	156
Circle Housing Merton Priory	5,200	**5,183**	17
Circle Housing Mole Valley	4,720	**5,236**	(516)
Circle Housing Russet	3,640	**3,996**	(356)
Group	4,269	**4,341**	(73)
Median benchmark		**3,550**	

	Management cost per unit		
	2014/15	**2015/16**	Variance
Circle Housing Circle 33	2,010	**2,031**	(21)
Circle Housing Mercian	1,480	**1,604**	(124)
Circle Housing Old Ford	1,640	**1,814**	(174)
Circle Housing Roddons	1,390	**1,653**	(263)
Circle Housing South Anglia	1,940	**2,150**	(210)
Circle Housing Wherry	1,500	**1,616**	(116)
Circle Housing Merton Priory	1,420	**1,827**	(407)
Circle Housing Mole Valley	1,970	**2,283**	(313)
Circle Housing Russet	1,640	**1,856**	(216)
Group	1,718	**1,901**	(183)
Median benchmark		**950**	

	Service charge cost per unit		
	2014/15	**2015/16**	Variance
Circle Housing Circle 33	390	**474**	(84)
Circle Housing Mercian	360	**367**	(7)
Circle Housing Old Ford	890	**1,156**	(266)
Circle Housing Roddons	180	**205**	(25)
Circle Housing South Anglia	400	**406**	(6)
Circle Housing Wherry	230	**277**	(47)
Circle Housing Merton Priory	650	**580**	70
Circle Housing Mole Valley	370	**641**	(271)
Circle Housing Russet	200	**260**	(60)
Group	407	**477**	(70)
Median benchmark		**370**	

	Maintenance cost per unit (including cyclical)		
	2014/15	**2015/16**	Variance
Circle Housing Circle 33	1,190	**1,296**	(105)
Circle Housing Mercian	650	**636**	14
Circle Housing Old Ford	1,150	**821**	329
Circle Housing Roddons	910	**835**	75
Circle Housing South Anglia	1,070	**1,120**	(50)
Circle Housing Wherry	970	**957**	13
Circle Housing Merton Priory	850	**754**	96
Circle Housing Mole Valley	1,040	**1,045**	(5)
Circle Housing Russet	1,180	**899**	281
Group	1,042	**994**	47
Median benchmark		**1,040**	

Table 2

Trusted landlord Vfm metrics 2015/16 – by asset holding Registered Provider (continued)

	Major repairs cost per unit		
	2014/15	**2015/16**	Variance
Circle Housing Circle 33	740	**745**	(5)
Circle Housing Mercian	890	**585**	305
Circle Housing Old Ford	1,160	**303**	857
Circle Housing Roddons	960	**1,094**	(134)
Circle Housing South Anglia	970	**966**	4
Circle Housing Wherry	950	**592**	358
Circle Housing Merton Priory	2,220	**2,453**	(233)
Circle Housing Mole Valley	1,310	**1,074**	236
Circle Housing Russet	620	**877**	(257)
Group	1,074	**1,528**	(454)
Median benchmark		**1,310**	

	Other social housing costs		
	2014/15	**2015/16**	Variance
Circle Housing Circle 33	130	**66**	64
Circle Housing Mercian	10	**21**	(11)
Circle Housing Old Ford	250	**17**	233
Circle Housing Roddons	50	**5**	45
Circle Housing South Anglia	170	**1**	169
Circle Housing Wherry	30	**15**	15
Circle Housing Merton Priory	70	**–**	70
Circle Housing Mole Valley	30	**19**	11
Circle Housing Russet	–	**1**	(1)
Group	28	**23**	5
Median benchmark		**30**	

Cost per unit figure in all the tables above based on Registered Provider Group only.

The cost per unit figures in Table 2 are calculated using the same methodology as the HCA's recent benchmarking exercise that we have used to populate the 2014/15 figures. The figures reinforce Circle Housing's relatively high cost base but this does include significant investment in improving our R&M service and our operating model that generates the savings which will reduce our management cost per unit to £1,460 in 2016/17 and £1,299 in 2017/18.

Vision Theme: Increase our profitability from diversified activity

Creating profits from complementary diversified activity is a key part of our VFM Strategy because it provides subsidy for the building of new homes. Table 3 sets out key VfM metrics for Circle Housing's diversified activity across Telecare, Care and Support, renting properties on the open market and the market sale of properties developed for shared ownership or open market sale.

Table 3
Circle Housing Vision Scorecard 2015/16 – diversified activity

	2014/15 Actual	2015/16 Actual	2015/16 Target	2016/17 Target	2015/16 position compared with 2014/15	Benchmark – median quartile	Position against benchmark
Telecare connections	97,064	102,080	100,000	105,000	↑	–	–
Telecare profit/(loss)	£–m	£–m	£–m	£1m	←→	–	–
Care and Support satisfaction	80.0%	81.0%	80.0%	90.0%*	↑	–	–
Care and Support net margin	–3.0%	0.5%	2.0%	2.1%	↑	–	–
Care and Support profit/(loss)	(£2m)	£1m	£0m	£1m	↑	–	–
Domicilliary care profit/(loss)	£0m	£0m	£0m	N/A**	←→	–	–
Centra Pulse and Connect net margin	0.0%	3.1%	4.0%	2.1%	↑	–	–
UK private rental sector margin	4.5%	5.0%	5.0%	4.6%	↑	–	–
UK private rental sector profit/(loss)	£5m	£5m	£5m	£5m	←→	–	–
Landericus Market Rent margin	5.3%	4.3%	5.5%	N/A	↓	–	–
Landericus operating yield	4.0%	3.0%	3.0%	3.0%	↓	–	–
UK market rent operating yield	3.0%	3.0%	3.0%	4.0%	←→	–	–
First tranche sales profit	£3m	£7m	£5m	£9m	↑	–	–
First tranche sales margin	20.0%	36.0%	25.0%	33.0%	↑	–	–
Open market sales volumes	92	63	35	182	↑	–	–
Open market sales margins	19.0%	32.0%	20.0%	22.0%	↓	–	–

* The Care and Support satisfaction score changed its methodology in 2015/16. 2014/15 and prior years based on a few questions; this year it was "Are you satisfied with Centra?"
** Prime Care sold in 2015/16
↑ 2015/16 position improved on 2014/15 position
←→ 2015/16 position equal to 2014/15 position
↓ 2015/16 position deteriorated on 2014/15 position

During 2015/16 we restructured our 100,000 customer telecare business which has improved financial returns (without compromising service levels). We have also divested loss making care contracts including the disposal of Prime Care, allowing us to focus on improving profitability. This strategy has turned trading losses of over £1 million per annum for the last two years into a profit of £1.2 million in 2015/16. This has been achieved whilst simultaneously improving satisfaction levels in the service.

We have increased the financial return on our UK private rented portfolio by increasing rents although financial returns on our European private rented portfolio has fallen.

The number of people we have helped to get on the housing ladder through shared ownership first tranche sales has increased from 160 to 192, generating significantly increased profits from £2.9 million to £6.5 million. The improvements in margin on fewer open market sales resulted in increased profits, from £5.2 million to £7.7 million.

Vision Theme: Improve our efficiencies/return on assets
The VfM metrics shown in Table 4 show both improvement against 2014/15 and a positive position within our peer group with the exception of EBITDA MRI % (the cash that Circle Housing generates from day to day operations including its major repairs as a proportion of its annual interest bill), which has improved towards the benchmark position.

Table 4

Circle Housing Vision Scorecard – return on assets

	2014/15 Actual*	2015/16 Actual*	2015/16 Target	2016/17 Target	2015/16 position compared with 2014/15	Benchmark – median quartile	Position against benchmark
Group surplus (£m)	£67m	£86m	£55m	£81m	↑	£50m	✓
EBITDA MRI interest cover	107.0%	145.3%	105.0%	148.0%	↑	171.9%	✗
Operating margin	26.7%	28.6%	29.2%	29.0%	↑	27.9%	✓
Asset Management Strategy proceeds	£8.5m	£11.0m	£9.0m	£37.6m	↑	–	–
Credit rating	A2	A2	A2	A2	←→	A2	✓
Back office costs	10.9%	10.6%	9.9%	10.1%	↑	11.9%	✓
Social housing lettings (gross to operating yield gap)	7.40%	7.90%	–	7.20%	↑	–	–

* As per FRS 102
↑ 2015/16 position improved on 2014/15 position
←→ 2015/16 position equal to 2014/15 position
↓ 2015/16 position deteriorated on 2014/15 position
✔ Above or equal to benchmark
✗ Below benchmark

The Board understands and has a clear strategy for optimising future return on assets to ensure the delivery of as many new affordable homes as possible and help existing customers to be independent and financially resilient. The strategy is to improve return on housing letting assets by reducing the gap between gross and operating yield, and to improve capital return on assets. The strategy is delivered through:

- risk management and the simplification of management, legal and governance structures
- Fast Forward Circle
- procurement approach
- Asset Management Strategy
- our proposed merger with Affinity Sutton.

Table 5 shows Circle Housing's return on assets broken down by asset class. We have also broken down social housing letting yields by Circle Housing's nine asset holding Registered Providers. The chart shows the following:

- Between 2014/15 and 2015/16 gross and operating yields increased due to the increase in rental income but the gap between them widened due to the strategic decision to focus on and invest in our R&M service and simplification of management, legal and governance structures, a decision which had the known impact of increasing cost and reducing savings within the 2015/16 financial year.
- Between 2015/16 and 2016/17 gross and operating yields will reduce due to the reduction in rental income. However, the actions and measures taken during 2015/16 to ensure our operating cost base reduces by £25 million in 2016/17 has had the impact of reducing the gap to a lower level than in 2014/15.
- A further contributory factor to the reducing gap is Circle Housing's Asset Management Strategy to dispose of properties which are expensive to maintain and occupy to create capacity to invest in developing better quality homes that are less expensive to maintain and occupy.
- This strategy also delivers a capital return on asset at the point the property is sold. This approach, combined with Right to Buy, selling additional equity in shared ownership properties and the sale of office property, increased our surpluses from the sale of assets from £8 million in 2014/15 to £15 million in 2015/16 and a planned £23 million in 2016/17.
- Circle Housing's properties held for market letting increased in value by £22 million during 2015/16.

Table 5

Return on assets: by tenure and Registered Provider

	2014/15				2015/16				2016/17			
	Return on letting assets			Capital return on assets	Return on letting assets			Capital return on assets	Return on letting assets			Capital return on assets
	Gross yield	Operating yield	Gap		Gross yield	Operating yield	Gap		Gross yield	Operating yield	Gap	
Social rent	11.9%	3.2%	8.7%	£5m	12.7%	3.2%	9.4%	£8m	12.0%	4.0%	8.0%	£17m
Supported housing	10.7%	4.2%	6.5%		9.6%	3.4%	6.2%		12.1%	3.2%	8.9%	
Temporary social housing	16.7%	11.1%	5.6%		19.6%	11.7%	7.8%		18.9%	11.3%	7.5%	
Shared ownership	7.4%	3.3%	4.1%	£3m	7.7%	5.9%	1.9%	£7m	7.6%	4.1%	3.5%	£6m
Leaseholder	1.6%	0.3%	1.3%		2.3%	0.7%	1.6%		1.9%	0.2%	1.7%	
Intermediate rents	0.0%	0.0%	0.0%		23.2%	10.5%	12.7%		23.0%	13.5%	9.5%	
Total social housing lettings	**10.3%**	**2.9%**	**7.4%**	**£8m**	**11.1%**	**3.2%**	**7.9%**	**£15m**	**10.8%**	**3.6%**	**7.2%**	**£23m**
Market rent	**4.7%**	**3.4%**	**1.3%**		**4.7%**	**3.5%**	**1.2%**	**£18m**	**3.6%**	**2.6%**	**1.0%**	
Total social housing lettings by RP												
CHC33	7.4%	2.2%	5.1%		8.2%	2.1%	6.1%		8.3%	3.1%	5.2%	
CHOF	6.7%	1.6%	5.2%		8.0%	3.5%	4.5%		8.0%	1.6%	6.4%	
CHM	7.6%	2.1%	5.6%		8.5%	2.0%	6.5%		8.3%	2.9%	5.4%	
CHR	18.4%	4.6%	13.8%		18.1%	5.7%	12.4%		17.0%	7.1%	9.9%	
CHSA	10.2%	2.4%	7.8%		11.3%	2.9%	8.3%		11.3%	3.3%	7.9%	
CHW	8.6%	2.5%	6.2%		9.2%	2.4%	6.9%		9.2%	2.6%	6.6%	
CHMP	42.3%	4.7%	37.6%		37.3%	8.8%	28.5%		33.1%	9.3%	23.9%	
CHMV	21.1%	3.1%	18.0%		21.7%	5.6%	16.1%		18.2%	5.8%	12.4%	
CHRu	14.3%	3.3%	11.0%		14.3%	5.9%	8.5%		12.5%	5.6%	7.0%	
Group	**10.3%**	**2.9%**	**7.4%**		**11.1%**	**3.2%**	**7.9%**		**10.8%**	**3.6%**	**7.2%**	

Return on letting assets explained

The gross yield is the annual rent as a proportion of the value of the property (value being historical cost for all asset classes other than market rent, where market value has been used because this asset class is held for commercial purposes). The operating yield deducts the costs of managing and maintaining the property from the rent. A reduction in the gap between gross and operating yields reflects Circle improving the cost efficiency with which it is managing and maintaining its properties. Because our business is to let social housing properties at rents that are affordable, we do not consider that gross or operating yields in isolation are relevant measures of value.

Capital return on assets explained

Properties for social housing letting are held at historical cost and therefore capital return is realised on the sale of the asset. Sale for social rented property assets relates to the surplus (proceeds from sales less the historical cost) from Right to Buy or a strategic asset management decision to sell a property that is expensive to manage and maintain to create capacity to reinvest in properties that are of better quality and more affordable. Sale of shared ownership properties reflects the surplus on sale of additional equity by the shared owner. Properties held for market letting are held at market value and therefore the capital appreciation (which would be realised at the point of sale) is reflected as a return on the asset.

Risk management and the simplification of management, legal and governance structures

Since its governance downgrade in April 2015, Circle Housing has been working to address the recommendations of a Governance Review undertaken by Campbell Tickell in May 2015. The recommendations were to streamline the governance structure and create a resurgence of the local delivery for which Circle Housing had previously been positively renowned with customers and stakeholders. In June 2016, the HCA published a revised regulatory judgement, confirming that Circle Housing's governance rating has been restored to a compliant G2. This states that we have:

- implemented all recommendations from the review of our R&M service and broader governance
- put in place governance, operational and performance monitoring structures which support risk management, internal control, service delivery and statutory compliance
- set out plans to simplify our federated group structure
- strengthened our Board and Executive team.

Specific benefits that further support improving VfM are:

- a clear corporate structure with a single asset-owning Registered Provider landlord and clear line of sight from the Group Board to the landlord function, supporting robust governance and risk management
- improved planning and performance management, with a single organisation responsible for all social housing
- a single Asset Management Strategy, with the ability to plan and resource investment for the longterm, with resources deployed more flexibly across the Group
- reduced risk of non-compliance with Regulatory Standards, with a shorter escalation route from operational delivery through the single landlord to the Group Board where required
- a structure that supports the efficient operating model and staffing structure, bringing direct cost savings in governance and management
- a more transparent structure, easier to understand and communicate to external stakeholders and to our residents. The new structure will support delivery of our commitments to local areas through the development of regional and community panels that will promote meaningful involvement and engagement by residents and local stakeholders in creating, and monitoring, the long term vision for the delivery of services in each region. Scrutiny will continue to involve residents in the in-depth examination of key services.

The requirement to have an Asset and Liability register was introduced by the HCA on 1 April 2015 as part of an update to its regulatory framework. The primary purpose of the register is to ensure that registered providers understand their housing assets and security position and have swift access to this information in decision making and risk management.

Circle Housing's Property Data Committee has created a full index of all the items that we require on our Asset and Liability register. Accountable owners from each area of the business have been confirmed and the location of all the information is documented in the register. We have undergone a thorough data quality assessment and significant work has been undertaken to ensure the quality of the data is high and there are robust processes in place to maintain the data and documents moving forwards. The Regulatory Officer will carry out regular checks of the state of the register and a quarterly report will be presented to the Company Secretary. A full audit of the Asset and Liability register was carried out by internal auditors, Mazars, in April 2016.

An update report on the Asset and Liability register, at the half year point, will be presented to the Group Audit and Risk Committee in November each year. An annual report (in May each year) will be presented to the Registered Provider Boards and the Management Board on the register as part of the Board's annual regulatory assurance report.

Robust and effective monitoring and maintenance of our long-term financial plan and treasury risk management policy has helped Circle Housing to:

- retain its A2 (stable) credit rating
- retain its V1 HCA rating against the Financial Viability Standard
- provide assurance, through multi-variant stress testing, that it has the capacity to deliver long-term ambitions while maintaining sufficient liquidity and headroom against funding covenants.

Table 6 demonstrates the cost to Circle Housing for the money that it borrows on its loans. This shows that for every £1 we borrow from our loan facilities, we incur an average 4.37p of interest. If average cost of funds increases by 0.1% this represents a £2 million increase in annual funding costs.

Table 6
Average cost of funds

	2013/14	2014/15	**2015/16**	g15 benchmark
Average cost of funds	5.10%	4.10%	**4.37%**	4.80%

For this reason, in excess of 90% of our debt is fixed over the next five years. Mitigating the risk of increases to interest rates provides us with greater certainty over funding costs as we make long-term investments to develop new homes.

Fast Forward Circle
The Fast Forward Circle programme is a major part of our VfM Strategy and enables Circle Housing to build its financial strength during a period where Moody's forecast sector average operating margins tighten. Over the same period Circle Housing is forecasting increases in operating margins from 29% to 31% as we make £46 million savings on its 2015/16 operating cost base over a three-year period to mitigate the financial impact of rent reductions and create VFM gains by being able to sustain letting at a greater discount to market and improving surpluses to fund the development of new homes.

We did not deliver the targeted cost savings of £5.8 million within the 2015/16 financial year due to taking a proactive decision in May 2015 to prioritise improvements in our R&M service and the simplification of our legal and governance structures.
The subsequent actions taken to manage the impact of the rent reductions announced in the Chancellor's July 2015 Budget exceed the level of savings originally planned within the Fast Forward Circle business case.

Table 7 shows the £46 million savings we will make over the next three financial years by cost driver in line with the Board's plan to mitigate the impact of the Budget.

Table 7
Real savings over the next three financial years

	2016/17 £m	2017/18 £m	2018/19 £m
Phase 1 restructure live 1/4/16 (see chart below for breakdown by function)	8	8	8
Phase 2 – currently restructuring (see chart below for breakdown by function)	14	14	14
Provision for transition to new structure in FY17	(10)	–	–
Eliminating non-recurrent costs relating to improvements in R&M and pperating model	12	12	12
Office running cost savings by reducing our office footprint	1	1	3
Consolidating our processes and systems into Customer Relationship Management and Enterprise Resource Planning systems to improve data governance, provide a single view of our customers, enhance financial and performance reporting capabilities and the simplification of legal and governance structures	–	–	9
	25	35	46

Table 8
A full schedule of savings by function

	Reductions on 2015/16 operating cost base (nominal)	2016/17
Phase 1 restructure live 1/4/16	Finance	**1.1**
	People	**1.0**
	Communications	**0.9**
	Transformation and insight	**1.6**
	Business support	**0.9**
	Other back office functions	**2.9**
	Phase 1 restructure total	**8.3**
Phase 2 – currently restructuring	Housing services	**7.1**
	R&M	**2.9**
	Social value	**3.6**
	Phase 2 total	**13.7**

Measuring and monitoring the cost of our back office functions as a percentage of Group turnover is important in identifying how efficiently our resources are being utilised by back office support. The lower the %, the more efficiently the back office functions are being run, whilst simultaneously creating greater resource to use for front-line services and creating capacity to develop new homes.

Through efficient delivery of our back office functions, 2015/16 has seen the percentage of resources spent on providing these services reduce by 0.3% (from 10.9% to 10.6%), positioning Circle within the upper quartile when compared to our g15 peers.

Table 9
Back office VFM metrics

	2014/15 Actual	2015/16 Actual	2016/17 Target	Housemark upper quartile
Back office costs as a % of turnover	10.9%	10.6%	10.1%	10.7%
Back office non-staff costs as a % of turnover	6.1%	6.0%	6.0%	6.1%
Finance staff costs as a % of turnover	1.7%	1.3%	1.2%	1.3%
HR staff costs as a % of turnover	0.7%	0.7%	0.5%	0.7%
IS & T staff costs as a % of turnover	0.9%	0.8%	0.6%	0.6%
Other back office staff costs as a % of turnover	1.8%	1.8%	1.8%	1.0%

Procurement approach

In addition to the £25 million savings from Fast Forward Circle that we will achieve during 2016/17, through procurement engagement on key contracts Table 10 shows how we have driven a further £2 million of cost savings.

Table 10

Procurement engagement on key contracts

Business area	Description	Saving summary	Savings type	Full contract saving FY 15/16 (£000)
South Anglia	Emergency demolition	Cost reduction against proposed budget	Cashable	75
IS&T	Terminating software applications	Costs avoided following termination of contracts	Cashable	98
Savings against approved approved budget base				**173**
CHPS	Lone worker solution	Competitively procured best priced tender	Efficiency	6
	Power tools	Competitively procured best priced tender	Efficiency	3
Travel and staff expenses	Travel management	Reduction in booking fees	Efficiency	35
Planning	Covalent – planning, risk and audit application	Negotiated reduction in subscription fee	Efficiency	3
Property services	Subscription	Cost reduction following benchmarking	Efficiency	5
	Lightning protection consultancy	Competitively procured best priced tender	Efficiency	20
	Consultancy fees	Negotiated reduced fees	Efficiency	245
	Stock condition surveys	Negotiated reduced fees	Efficiency	780
	Sewage repairs and maintenance	Cost reduction following procurement of new contract	Efficiency	93
Technical operations	Consultancy fees	Reduction in fees	Efficiency	4
	Architectural services	Negotiated reduced fees	Efficiency	66
Transformation	Programme support	Negotiated reduced fees	Efficiency	924
Savings achieved through procurement engagement, but not linked directly to approved budgets				**2,184**

Asset Management Strategy

Improving the knowledge of our stock during 2015/16 has been a key aspect of improving our future VfM. We are in the process of completing stock condition surveys for 100% of our properties that we have repairing responsibility for. So far, we have completed c28,000 surveys, which represents 48% of our stock that we have repair responsibility for. The remaining surveys will be completed in 2016/17. This work so far has allowed us to re-model the net present value of every property we own. This has enabled us to release £11 million from the sale of homes with high costs in use and/or where location meant the home could be managed more effectively and efficiently by disposal to another social landlord.

Table 11
Asset management

Optimisation route	Location	Reason for disposal	Total units for 2015/16	Surplus on sale (£000)
Disposal to another RP	Essex	Stock rationalisation	58	4,850
	Kent	Stock rationalisation	2	180
	London	Leasehold stock transfer (options agreement)	2	300
Sub total			62	5,330
Open market sales – private treaty	Nuneaton	CPO	1	39
	Kent	Initial investment costs	1	225
	Leatherhead	Land disposal	1	35
Sub total			3	299
Open market sales – auction	Barking	Best value consideration	1	292
	Birmingham	Stock rationalisation	1	182
	Bishop's Stortford	Best value consideration	1	270
	Broadland	Best value consideration	6	828
	Coventry	Stock rationalisation	4	319
	London	Best value consideration	3	966
	Maldon	Stock rationalisation	2	720
	Kent	Initial investment costs	5	1,261
	Walsall	Stock rationalisation	1	75
	Watford	Best value consideration	1	344
Sub total			25	5,257
Shared ownership	London	Best value consideration	1	48
	Forest Heath	Best value consideration	1	(19)
Sub total			2	29
Disposal other	Kent	Stock rationalisation	6	75
Sub total			6	75
Total			98	10,989

By releasing £11 million of resources from our stock that is the most expensive to occupy and maintain, we continue to reduce the gap between gross and operating yield, increasing the return on our assets and allowing us to provide more resources to develop new affordable homes and invest in existing stock with lower costs in use. Over time, this will allow us to lower the cost of occupying our stock for our customers as they become increasingly energy efficient.

To help make this assessment, Table 12 shows the financial value of our affordable housing stock. This is calculated by looking at future rental income from each property less the costs of managing and maintaining each property. Reduced future management costs that will be delivered through the Fast Forward Circle programme have been built in to the financial model to calculate the net present value (NPV) figures below. Properties with high future maintenance costs will therefore have a lower NPV.

Table 12
Financial value of affordable housing stock

General needs properties only (owner)	Total units	% of stock–based on 30 year NPV Poor – NPV pu below £0	Marginal – NPV pu between £0-£15,000	Good – NPV pu greater than £15,000
Circle Housing Circle 33	14,150	0.61%	13.70%	85.69%
Circle Housing Merican	2,354	0.00%	12.49%	87.51%
Circle Housing Merton Priory	6,200	0.23%	21.39%	78.39%
Circle Housing Mole Valley	3,520	0.00%	3.81%	96.19%
Circle Housing Old Ford	3,376	0.00%	3.41%	96.59%
Circle Housing Roddons	3,839	0.00%	12.45%	87.55%
Circle Housing Russet	6,759	0.00%	0.62%	99.38%
Circle Housing South Anglia	6,258	0.18%	6.76%	93.06%
Circle Housing Wherry	6,137	0.77%	15.94%	83.30%
2015/16 Group average – General needs only	**52,593**	**0.30%**	**10.89%**	**88.81%**
2014/15 group average – All stock		**0.67%**	**5.94%**	**93.40%**

Our Asset Management model has been updated for 2015/16, to reflect future improvements to our operating model and improving knowledge of the condition of our stock. By improving the quality and accuracy of our data, a smaller proportion of our general needs stock is now deemed to have a poor 30 year NPV. There has been a 5% shift from high to marginal due to the impact of the more prudent long-term rental assumptions in the context of current government policy. Properties falling within the poor and marginal category will be monitored during 2016/17 to identify properties with high costs in use and/or where locations mean the home could be managed more effectively and efficiently by disposal to another social landlord. This approach will guide our approach to investment in and divestment of existing assets.

Proposed merger with Affinity Sutton

Togther both Groups will be stronger and have committed to:

- delivering 50,000 new homes over ten years from 2019, making the merged Group one of the largest house builders in Europe
- building homes across all tenures and at a range of price points with a focus on delivering homes for subsidised rent and low-cost home ownership for people in housing need
- leading on major neighbourhood transformation projects, generating support from both local and national government
- becoming one of the country's biggest providers of employment services, supporting 4,000 people into work annually
- helping 200 young people into apprenticeships each year and supporting 15,000 children to make a better start in life, for example through partnerships with local schools.

We are confident that the proposed Group will be able to provide excellent services to both residents and non-residents alike and we will be able to find significant efficiences beyond the integration process by, for example, driving economies that come with scale.

Vision Theme: Invest in our homes

Table 13 shows that we have delivered on our targeted number of affordable homes. The number of people we have helped on to the housing ladder through shared ownership first tranche sales has increased by 22% on the 2014/15 number, but is below the 2015/16 target.

Table 13
Circle Housing Vision Scorecard – Property outcomes

	2014/15 Actual	2015/16 Actual	2016/17 Target	2016/17 Target	2015/16 position compared with 2014/15	Benchmark – median quartile	Position against benchmark
Total homes developed as a % of stock	1.11%	1.18%	1.21%	1.07%*	↓	–	–
Affordable homes developed as a % of stock	0.96%	1.12%	1.14%	0.85%**	↑	–	–
Number of people we have helped to get on the housing ladder through shared ownership first tranche sales	158	192	253	196	↑	–	–

* 1.34% in 2017/18 and 2.4% in 2018/19
** 1.01% in 2017/18 and 2.05% in 2018/19
↑ 2015/16 position improved on 2014/15 position
←→ 2015/16 position equal to 2014/15 position
↓ 2015/16 position deteriorated on 2014/15 position

Beyond providing resources for our absolute priority to maintaining the improvement in our R&M service and customer satisfaction in 2015/16, VfM gains we have made and are planning will allow us to deliver a cost saving over time, allowing us to achieve the delivery of affordable homes and maintain our investment in helping our customers to be independent and financially resilient over the period of the rent reductions.

Table 14 illustrates the increase in development of new affordable homes that will be possible by delivering the step change improvement in return on assets set out within section 4.

Table 14
Increase in development of new affordable homes

Development aspiration	Long-Term Financial Plan 2015/16	2016/17	2017/18	2018/19
Total homes developed	757	734	896	1,598
Total homes developed as a % of stock	1.18%	1.07%	1.34%	2.40%
Affordable homes developed	700	552	657	1,345
Affordable homes developed as a % of stock	1.09%	0.85%	1.01%	2.05%

Vision Theme: Deliver social value (People value outcomes)
Table 15 shows that we have maintained the return on social investment and increased the number of staff and customers using Circle Housing Money, although not to the target level.

Table 15
Circle Housing Vision Scorecard – People value outcomes

	2014/15 Actual	2015/16 Actual	2016/17 Target	2016/17 Target	2015/16 position compared with 2014/15	Benchmark – median quartile	Position against benchmark
Total social return on investment	£33.6m	£33.9m	£34.0m	33.3m	↑	–	–
Customers and staff using Circle Housing Money	736	1,016	2,000	2,000	↑	–	–
House Exchange moves (landlord methodology)	24,150	24,482	24,500	25,000	↑	–	–

↑ 2015/16 position improved on 2014/15 position
←→ 2015/16 position equal to 2014/15 position
↓ 2015/16 position deteriorated on 2014/15 position

Social return on investment
Every year we put aside a portion of our surplus towards social activities. This is our social investment. From this we look to achieve £10 of value for every £1 invested. This is our social return on investment.

Organisations such as Circle Housing have to show the value of their services in terms of the benefits they bring to the organisation, communities they operate in and savings they make for the taxpayer. Our model reflects up to one year of benefit that shows real and measurable impact.

As a result, Circle Housing is able to use the results to focus investment in activities which deliver a real social return based on local needs. We can measure this consistently and learn from positive or negative results. This year our initial investment of £3.3 million in social value activities generated over £33 million in social impact and valuable interventions.

All of our activities are aimed to support our customers towards increased independence and financial resilience. By investing in these areas we are able to protect and grow our business income so that we can reach more people in housing need.

Table 16
Social value delivered each year

	2014/15	**2015/16**
Investment in social value	£3.3m	**£3.3m**

Table 17
Social value delivered in 2015/16

	CHC33	CHM	CHOF	CHR	CHSA	CHW	CHMP	CHMV	CHRu	**2015/16 Total**	2014/15 Total
Customers provided with financial support services	481	175	797	582	542	447	949	1,170	842	**6,150**	5,473
Customers supported into employment	57	12	126	2	69	11	120	13	21	**431**	244
Customers accessing employability services	338	137	936	115	591	155	969	109	99	**3,498**	4,902
Number of customers benefiting from energy savings	509	585	437	353	384	732	392	285	655	**4,800**	3,640
Amount saved on energy bills per property	£178	£225	£198	£168	£264	£152	£93	£128	£117	**£169**	£181

Our employment and skills (E&S) programme is aimed at helping our customers into long-term and sustainable work. Supporting people in this way generates wellbeing, and a sense of belonging, and leads to independence. Our programme provides support every step of the way, including advice and guidance sessions, training, work experience, job and apprenticeship opportunities and ongoing support once in work.

We work closely with many local and national partners to deliver our E&S programme including The Prince's Trust, The Girls' Network, The National Skills Academy and Business in the Community to name just a few. More customers than ever now have the opportunity to access apprenticeships or job opportunities with us, our suppliers or partners. Through our core business we have strong links with the construction industry and extensive knowledge and experience of creating apprenticeships. Working in partnership with other key agencies and registered providers, funding has been secured through the European Social Fund to deliver an E&S programme across London. This project will support vulnerable long-term unemployed customers into secure employment and training..

Our financial inclusion services help residents manage their finances, deal with their debt and put money back in their pockets.

We offer support to our customers through our Money Matters services, which we deliver in a number of ways. Customers can access information online or receive further support by phone or in face-to-face meetings. Here, trained advisors can help customers navigate ongoing welfare reforms and understand what they are entitled to and what additional help is available.

Circle Housing Money, our national partnership with Leeds City Credit Union, provides access to a range of affordable financial services, including savings, loans and alternative banking products to help our customers manage their finances.

During 2015/16 we have:

- delivered over 6,000 support interventions to help our customers improve their financial resilience
- continued to improve the energy efficiency of our homes
- improved our energy advice service to customers. Over the year we delivered 4,900 energy efficiency interventions to our customers, consisting of boiler and insulation upgrades and energy advice. These interventions have provided customers with the opportunity to reduce their energy bills by a combined total of £825,000.

Our Energy Advisor Service was introduced at the beginning of 2015 and consists of three Energy Advisors (one in each region) who provide energy advice directly to residents in their homes. The Energy Advisors help customers to access various funding streams and energy grants, to switch energy suppliers and to implement energy saving tips that all help to reduce energy bills. The service has been extremely successful during 2015/16 with 1,150 residents benefiting from energy advice in their homes that has provided them with the potential to achieve combined financial savings of over £300,000.

Our flexible purchasing strategy for our communal electricity and gas supplies to our housing stock and offices, allows us to purchase energy in advance and minimises our exposure to market price volatility that affects wholesale prices. Overall costs under our Group energy contracts during 2015/16 were £642,852 lower than they would otherwise have been under conventional fixed term pricing, reflecting the lower purchase price secured for electricity and gas. In addition, a further £456,000 savings were achieved through moving meters onto Group contracts and managing our energy accounts more effectively to remove incorrect billing. The benefits of these are passed on to our customers, where they are charged on energy use from the communal meters.

Historically our core social value strategies have been delivered through our nine Registered Providers. To improve the efficiency and effectiveness of community investment we are developing Group-wide action plans. The action plans will detail services that can be accessed by all Circle Housing customers and what will be delivered in each local area. This will ensure that all community investment programmes and activities are consistent in their delivery and we have improved systems for recording and reporting outcomes. We will continue to have local staff who will work with local boards and housing management colleagues to establish what activities are needed to meet specific local needs. Once in place we will continuously monitor all activities to ensure that the desired outcomes are being achieved, as well as determine when a service needs to be improved or is no longer required.

Conclusion

Circle Housing has made significant VfM improvements during 2015/16 and has the plans in place to ensure this continues. This is evidenced by the following:

- Our investment and focus on the priority identified in last year's self-assessment has succeeded in increasing urgent and emergency repairs completed on time from 57% at March 2015 to 96% at March 2016.
- The Board accepts that the impact of its strategic decision to focus on investing in improving our R&M service and simplify our management, legal and governance structure had the impact of reducing our return on the letting of assets, widening the gap between our gross and operating yields from 7.4% to 7.9%.
- However, the Board has sufficient assurance that actions have been taken to enable Circle Housing to deliver a £25 million reduction in operating costs in 2016/17 in line with the Board's plan to manage the impact of rent reductions announced by the Chancellor in July 2015. This is a higher level of savings than planned prior to the Chancellor's Budget and will reduce the gap between our gross and operating yield to 7.2%, significantly improving our return on the letting of assets.
- A more proactive approach to improving our capital return on assets meant that our surpluses increased by £18.4 million (from £67.4 million to £85.8 million) and is forecast as £81 million in 2016/17 as a result of the reduction in operating cost base.
- This increase in surplus allowed us to replace reducing government grant and maintain the number of new homes developed at or slightly above 1.1% of current stock.
- Significant progress has been made in simplifying our management, legal and governance structures and with the proposed merger with Affinity Sutton, which creates a significant opportunity to make a further step change in VfM performance.
- By September 2016, we expect to have concluded our merger with Affinity Sutton. We believe that consolidation of our sector has a crucial role to play in generating the capacity to build the affordable homes that are so desperately needed across the country. The Chancellors' Budget in 2015 has made the task of building these homes a great deal harder, as it has significantly cut the income we rely on.
- The new Group will become one of Europe's largest housing associations with 127,000 properties providing homes for nearly 500,000 people. It will also give us the ability to build 50,000 (4% of stock relative to our current 1.1%) much needed new homes over the next decade, making us one of the country's biggest house builders.
- This will be achieved through significant efficiency savings by reducing the combined expenditure for both organisations upon merge, whilst maintaining income levels.
- To complement our social return on investment, the merger will also be able to help 4,000 residents a year to find work.

The sector and wider environment in which we work are characterised by change and risk

This means we owe it to all our stakeholders, from our customers to our investors, to bring as much security and certainty to our operations and activities as we can. In addition, the nature and importance of our work means it is essential that we set an exemplary standard of behaviour, both individually and collectively, and act as a positive role model in our sector and in the communities where we work. Two major factors are designed to support these aims. First is the way we are structured, both in terms of the overall shape of the organisation and of the various Boards and Committees that are responsible for ensuring sound governance across the organisation. Second, and closely related, is the process we have for identifying, addressing and mitigating the various risks we face.

Our governance structure

Circle Housing has a Group structure. Within this structure, Circle Anglia Limited is the parent of subsidiaries, referred to in this section as 'partners'. All partners work together to improve our customers' life chances. They do this by delivering great homes and reliable services which meet local needs.

Our Management Board, made up of nine Non-Executive Directors and our Chief Executive Officer, is responsible for the Group's governance. The Management Board works alongside the Executive Team, which is responsible for the Group's day to day management. Partner Boards have delegated matters to the Management Board, supported by four internal committees. These are:

- **The Strategy Council** – this reviews and assesses the strategic direction of Circle Housing. Membership comprises all Management Board members, together with the Chairs of each Partner Board and the Resident and Service User Panel.
- **The Remuneration and Succession Committee** – this reviews and recommends remuneration policies for Executives and Board members, oversees Circle Housing's HR policies and is responsible for the selection, renewal, appraisal and training of Board and committee members.
- **The Group Audit and Risk Committee** – this reviews the Group's compliance with its statutory duties. It also monitors our internal and external auditors, risk and internal controls. The Committee also challenges and tests the Group's risk framework, strategy and policies to ensure that our internal controls adequately reflect Circle Housing's values, vision, size and strategy.
- During the year an **Operations Committee** was established by the Management Board to monitor key performance indicators to enable greater scrutiny of housing services and focus specifically on regulatory compliance and performance. Partner Boards are able to refer issues to the Operations Committee for review. The Committee also oversees resident scrutiny structures.

Our governance review and 'resurgence'

Over the last year we commissioned an independent review of our governance structure. It found that our current federated model, with nine Registered Providers, stands in the way of more efficient decision making and that the communication between Group centre and local delivery needs to be improved. Alongside this, we feel that our governance structure needs to deliver greater efficiency and offer flexibility so that we can focus resources where they are most needed. This includes finding opportunities to share services which fit well with new neighbourhood plans and locally focused delivery arrangements. Therefore it is time to change and simplify out governance structure to deliver consistent services to customers, have a stronger local focus, faster decision making and to ensure we are accountable to residents locally – this is known as 'resurgence'. We are working with our Partner Boards on exactly what this new structure will look like and consulting with residents about these proposals to move from nine Registered Providers to one single asset-owning housing association, which would be called Circle Housing.

Group Policy Forum

Circle Housing partners also work together in the Group Policy Forum. The Group Policy Forum's key role is to scrutinise and approve all customer policies on behalf of our partners. It is also responsible for ensuring that customer policy fits with Circle Housing's mission, vision and values, and meets statutory and regulatory requirements.

Complying with the National Housing Federation Code

We also aim to work within the standards and requirements of the National Housing Federation Code of Governance. The Group has adopted the latest version of the Code in the last year. This Code is designed to ensure that housing providers such as Circle Housing aim for the highest possible standards. The principle underpinning the Code is that organisations should either confirm that they comply with the requirements of the Code or should explain areas of non-compliance. Thorough Board scrutiny of our operations has concluded that we are compliant in all areas other than as set out below:

- **Scheme of Delegations.** The new Code includes a requirement to formally review the governing instruments, delegations, regulations, standing orders, structures, systems and other formal documentation every three years. The last wholesale review of the Scheme of Delegations was in 2011/12. Since then elements of the scheme have been reviewed and amended as necessary (such as the terms of reference for the Circle Housing Board). A new Scheme of Delegations is being prepared for the merged organisation and therefore it is proposed not to review the existing Scheme of Delegations. If the merger does not go ahead then there will need to be a review of the delegations for the Group.
- **Council nominees.** The 2015 Code requires all new Board members to undergo a due selection and appointment process. The Rules of some Group partners allow the Council to directly nominate members to the Board. The action plan for implementation of the new Code envisaged a review of the Group's approach in relation to Council nominees. This has been superseded by resurgence. During the year a new Council member was appointed at Merton following a direct nomination from the Council. Should a future Council vacancy arise the proposal is to write to Merton Council to ask that they nominate a member who meets the skills required by the Board and to assess their nominee against this. This approach has been successful in other Group partners and would mean that Merton would be able to demonstrate compliance with the Code of Governance.

Compliance with HCA Governance and Financial Viability Standard

It is a regulatory requirement that Registered Providers shall assess their compliance with the Governance and Financial Viability Standard at least once a year. Registered Provider Boards will certify in their annual accounts their compliance with the Governance and Financial Viability Standard.

In the light of the governance downgrade applying to Circle Housing Group a number of steps have been taken during the year in connection with the Voluntary Undertaking given to the HCA to ensure compliance with the Governance and Financial Viability Standard. An extensive self-assessment of compliance has taken place which concluded that the Group was compliant with the Standard. This work has been reported to the Executive Team and has been independently reviewed and the outcome reported to the Management Board and the HCA.

The Management Board is responsible for Circle Housing Group's governance

Sir Robin Young

Chair

Sir Robin enjoyed a successful career in the highest echelons of the Civil Service, spanning 31 years. Sir Robin was Permanent Secretary at the DTI and DCMS between 1999 and 2005. As Head of Economic and Domestic Affairs at the Cabinet Office in 1998, Sir Robin advised former Prime Minister Tony Blair on a range of domestic and economic issues. As Under-Secretary for Housing, he headed the team responsible for oversight of the Housing Corporation. Since 2005, Sir Robin has pursued a portfolio of Non-Executive and advisory positions. He is Chair-elect of the proposed merged organisation with Affinity Sutton and is Chairman of London 2017 Ltd, the company responsible for the World Athletics and Paraathletic Championships being held in London in July 2017.

Mark Rogers

Group Chief Executive

Mark has led Circle Housing for 11 years since Circle 33 and Anglia Housing Group merged in 2005 and has been appointed Deputy Chief Executive Designate and Executive Chair of the Commercial organsiation in the proposed merged organisation with Affinity Sutton. Mark first joined Anglia Housing Group as Chief Executive in 2003. Prior to this he was Chief Executive of Nene Housing Society after being Director of Customer Services at Circle 33. He is a member of the Chartered Institute of Housing.

Lesley-Anne Alexander CBE

Lesley-Anne is Group Chief Executive of the Royal National Institute of Blind People (RNIB) where she has led significant growth in terms of RNIB's influence and business operations. Prior to joining RNIB Lesley-Anne was Director of Operations at The Peabody Trust and Director of Housing at the London Borough of Enfield. Lesley-Anne's current Non-Executive Director roles include the Royal Brompton & Harefield NHS Foundation Trust and Chair of the UK Vision Strategy Board and Red Door Housing Ltd.

David Avery

David has over ten years' experience serving on housing association boards with more than six years as Chair, initially with Saxon Weald Homes Ltd and more recently with Peabody as Chair of its Gallions and CBHA subsidiaries. Previously, David has held a variety of executive and management roles in the semiconductor capital equipment industry. He was most recently President of European Operations for Novellus Systems Inc, a Fortune 500 company. David has also been a governor of an independent school in West Sussex and a Non-Executive Director of an NHS Trust. He is a founding investor and advisor to SDC Materials Inc, a technology start-up company based in Phoenix, Arizona.

Simon Braid

Simon was Head of Charities and Social Housing at KPMG until his retirement in 2009. He has over 20 years' experience in the social housing sector, which led to him being invited by the Housing Corporation to chair the Ujima inquiry in 2008. He chaired the ICAEW Social Housing sub-committee and was also a member of the Social Housing SORP Working Party. Simon is a part-time Anglican priest in Kent.

Tania Brisby

Tania has worked in investment banking (Samuel Montagu, NatWest Group, Deutsche Bank) and consultancy services. In the public sector, she was seconded to manage a European Commission privatisation programme in Bulgaria in the 1990s and was Chairman of the NHS England Midlands and East Competition Panel until April 2013, and is currently on the Advisory Board of the NHS South East CSU. Tania is a member of the Financial Reporting Council's Tribunal Panels and a Non-Executive Director of the Wesleyan Assurance Society.

Bob Hughes

Bob has a background in housing and governance. He worked as a senior manager in housing and property management, policy and change programmes including IT implementation for two large London-based associations. Prior to this he was at the housing regulator in the West Midlands. He is a qualified welfare and debt advisor with CAB and a pension scheme trustee. He has a master's degree in housing and a project management qualification. He has been Chair of Circle Housing Mole Valley for three years.

Jenny Mills

After 30 years of working for IT services companies, initially in technical roles then sales and marketing and general management, Jenny joined Hanover Housing Association as Group Director of Corporate Services with responsibility for Governance, IT, HR and Marketing. Jenny was appointed Chair of Circle Housing Merton Priory Homes in February 2011, a member of the R&S Committee in 2012, and a member of the Management Board in 2014. Jenny is also a Board member and Chair of the Finance Committee of The Migraine Trust, a UK charity.

Richard Perkins

Richard is a Commercial Property Surveyor and owner of Richard Perkins & Associates which provides property asset management and other professional property services. Richard has extensive experience within the private and public sectors, particularly regeneration and inward investment. He is a Director of two property companies and holds a number of other Non-Executive positions on a variety of private and public bodies. As well as being a member of the Management Board, Richard chairs the Circle Your Lifespace Board and is a member of the Circle Housing Wherry Board.

Brian Stewart OBE

Brian is a portfolio Non-Executive Director and consultant, following a career in local and regional government. He was the Chief Executive of two Scottish local authorities and the East of England Regional Assembly. He has experience as a Non-Executive Director of an NHS Foundation Trust, various charity trustee roles and consultancy. His current portfolio includes chairing the Sizewell C Community Forum, sitting on the HS2 Phase 2 Exceptional Hardship Scheme Panel and acting as a trustee and Vice Chair of Ormiston Families, a major regional children's charity in East Anglia. Brian is Chair of Circle Housing Wherry.

The Executive Team is responsible for Circle Housing Group's day to day management

Mark Rogers

Group Chief Executive

Mark has led Circle Housing for 11 years since Circle 33 and Anglia Housing Group merged in 2005. He is responsible for setting the direction of the organisation and overseeing its operations. Under his leadership the Group has doubled in size, successfully integrating seven new housing partners. Mark has been appointed Deputy Chief Executive Designate in the proposed merged organisation with Affinity Sutton. Mark has over 20 years' experience in the housing sector. He first joined Anglia Housing Group as Chief Executive in 2003. Prior to this he was Chief Executive of Nene Housing Society in Peterborough after being Director of Customer Services at Circle 33. He is a member of the Chartered Institute of Housing and has a BA Honours in Law.

Austen Reid

Chief Operating Officer

Austen is currently the Chief Operating Officer of Circle Housing Group where he is leading a major change programme. He has been appointed Group Director of Transition Designate in the proposed merged organisation with Affinity Sutton. He joined Circle Housing Group in 2015 bringing significant property and social sector experience, having previously been a Director at Catalyst, The Hyde Group and Savills.

Alison Hadden

Interim Executive Director (Customer)

Having spent much of the last decade as a highly motivated and experienced Chief Executive and Non-Executive Director, Alison has a solid understanding of the housing sector. She joined Circle Housing Group in 2015 where she is responsible for the implementation of the customer access and engagement strategy, as well as for neighbourhood and housing management services. Alison is passionate about making a difference to organisations and their core mission. She understands the link between well-run financially sound businesses, customer services and improving people's lives. Her track record of instigating real change through challenging staff to achieve great things is matched by a proven ability to build lasting partnerships, good financial acumen, strong strategic planning and excellent communication skills.

Robert Kerse

Executive Director (Resources)

Robert joined in 2013 and is responsible for leading the Finance, Treasury, IS&T, HR and Facilities teams at Circle Housing. He is also the Executive and strategic lead for Diversity & Inclusion across the Group. This is Robert's fourth Finance Director role in the housing association sector, having joined from Genesis Housing Association where he led Genesis' finance, IT and procurement functions. Robert started out his career with PricewaterhouseCoopers where he trained as a chartered accountant. It was whilst he was at PricewaterhouseCoopers that he developed a strong interest in the sector and took the opportunity to join Bristol Community Housing Foundation, which was a start-up organisation, before moving on to the Arcadia Housing Group as Group Director of Resources. Robert is also currently a trustee of the young persons' charity, Centrepoint.

David Lewis

Interim Executive Director (Property)

David joined Circle Housing Group in 2015 as Interim Executive Director of Property. He has over 20 years' senior management experience across a range of sectors including local government, ALMOs and housing associations as both an interim and permanent senior manager. David has been appointed Director of Asset Management Designate in the proposed merged organisation with Affinity Sutton. David is responsible for Circle Housing Group's strategic asset management, planned maintenance and R&M service and is well placed to do so, having previously directed service improvement on a significant scale across London and the South East.

David has an MA in Social Policy and Administration as well as a Postgraduate Certificate in Management, Housing and Strategic Management. He is also a Member of the Chartered Institute of Housing and Associate of the Royal Institution of Chartered Surveyors.

Mike Ward

Executive Director (New Business)

Now in his 20th year at Circle Housing Group, Mike leads the New Business Directorate. He has led on the proposed merger with Affinity Sutton, and in addition to housing development and growth, his remit covers our strategic asset portfolio work (known as 'Optimising Value Through Assets'), housing transfers and new partnerships, regeneration, place-making and innovation. The latter focuses on empowering people across the business to develop and hot-house great ideas. Mike is Vice-Chair and first UK Board member of the European Federation for Living: an action-focused network of housing, construction and academic organisations across Western Europe. Previous roles with the Group have included property sales, housing stock transfer and delivery of supported housing for vulnerable people.

Steve Woodcock

Executive Director (Diversified Operations)

Steve joined Circle Housing Group in August 2010 as Managing Director at Circle Housing Russet, and then took a number of other roles within the Group before being appointed as Executive Director in February 2015. In his current role he takes responsibility for Centra Care and Support, our home ownership portfolio, our direct labour organisation, our market rent portfolio, property sales and our social value work. He has had a varied career to date in housing, having previously worked for a number of other high-profile Registered Providers in various different roles.

11. Tangible fixed assets – housing properties (continued)

	Completed properties		Under construction		
	Housing properties held for letting £m	Shared ownership housing properties £m	Housing properties held for letting £m	Shared ownership housing properties £m	**Total £m**
Cost					
As at 1 April 2015	3,392.7	298.4	105.4	28.9	**3,825.4**
Additions:					
– New schemes	–	–	18.6	3.1	**21.7**
– Existing properties/schemes	62.6	0.1	18.8	13.4	**94.9**
Components written off	(5.4)	–	–	–	**(5.4)**
Capitalised interest	–	–	2.3	0.5	**2.8**
Schemes completed in the year	72.1	9.2	(72.1)	(9.2)	**–**
Disposals	(12.7)	(15.3)	–	–	**(28.0)**
Reclassification between tenures	–	–	(0.1)	0.1	**–**
Impairment charge	0.5	–	(1.7)	1.7	**0.5**
Transfer to stock and work in progress	–	–	–	(6.5)	**(6.5)**
As at 31 March 2016	3,509.8	292.4	71.2	32.0	**3,905.4**
Depreciation					
As at 1 April 2015	(308.3)	(11.3)	–	–	**(319.6)**
Charge for the year	(44.7)	(1.8)	–	–	**(46.5)**
Components written off	0.8	–	–	–	**0.8**
Disposals	0.7	0.3	–	–	**1.0**
As at 31 March 2016	(351.5)	(12.8)	–	–	**(364.3)**
Net book value					
As at 31 March 2016	3,158.3	279.6	71.2	32.0	**3,541.1**
As at 31 March 2015	3,084.4	287.1	105.4	28.9	**3,505.8**

Included in the total net book value of £3,541.1 million is £0.5 million (2015: £0.5 million) in respect of assets held under finance lease contracts. Where assets are financed by leasing arrangements that give rights approximating to ownership, they are classified as finance leases and are treated as if they have been purchased outright. The amount capitalised is the present value of the minimum lease payment due during the term of the lease. The corresponding leasing commitments are shown as obligations to the lessor.

Depreciation for the year on assets held under finance leases was £nil (2015: £nil).

£1,729 million (52,367 units) of completed properties net book value is held as security against debt and derivatives (notes 23 and 24).

Notes to the financial statements (continued)

11. Tangible fixed assets – housing properties (continued)

Works to existing properties

The amount spent on existing properties during the year is as follows:

	2016 £m	2015 £m*
Capitalised in fixed assets	**94.9**	66.8
Expensed in the income and expenditure account:		
– routine maintenance	**47.9**	44.1
– planned maintenance	**14.6**	18.7
	157.4	129.6

* Maintenance spend for 2015 has been reanalysed between routine and planned to ensure consistent categorisation.

The Group's housing properties were valued as at 31 March 2016 by Savills UK Limited ('Savills'), an independent firm of Chartered Surveyors. A desktop revaluation was undertaken, with Savills reviewing:

- all stock numbers
- average social rents and average affordable rents
- expenditure profiles.

In determining these valuations, Savills made use of discounted cash flow methodology and the following assumptions were made:

Future rent increases	In accordance with July 15 Budget, 4 years of 1% rent reduction commencing April 2016 followed by rent increases: Consumer Price Index plus 1% long term
Real discount rates	5.0% – 6.25%
Valuations EUV-SH	£2,526,847,000

This valuation has been made in accordance with the current edition of the RICS Red Book.

In 2014/15 the valuation totalled £3,290,069,000. The reduced valuation in 2015/16 is attributable to a 1% rent reduction following the Chancellor's Budget (£631 million) and the reclassification of market rent portfolio as investment properties (£132 million).

12. Tangible fixed assets – other

Policy

Other tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is charged on a straight line basis over the expected useful lives of the assets with a full year's depreciation being charged in the year of purchase. The principal annual rates used are:

Freehold offices	1%
Leasehold offices	Over life of lease
Furniture, fixtures and fittings	20%
Computer equipment	Between 20% and 33%
Motor vehicles	20%

Group	Leasehold/ freehold offices £m	Furniture, fixtures and fittings £m	Estate assets £m	Computer equipment £m	Total £m
Cost					
As at 1 April 2015	22.2	17.1	–	47.1	**86.4**
Additions	–	0.9	–	12.4	**13.3**
Disposals	(2.8)	–	–	–	**(2.8)**
As at 31 March 2016	19.4	18.0	–	59.5	**96.9**
Depreciation					
As at 1 April 2015	(5.9)	(13.3)	(0.1)	(32.5)	**(51.8)**
Charge for the year	(0.5)	(0.9)	–	(6.0)	**(7.4)**
Disposals	0.2	–	–	–	**0.2**
As at 31 March 2016	(6.2)	(14.2)	(0.1)	(38.5)	**(59.0)**
Net book value					
As at 31 March 2016	13.2	3.8	(0.1)	21.0	**37.9**
As at 31 March 2015	16.3	3.8	(0.1)	14.6	**34.6**

Association	Leasehold/ freehold offices £m	Furniture, fixtures and fittings £m	Estate assets £m	Computer equipment £m	Total £m
Cost					
As at 1 April 2015	2.7	8.4	–	33.1	**44.2**
Additions	–	0.8		12.5	**13.3**
As at 31 March 2016	2.7	9.2	–	45.6	**57.5**
Depreciation					
As at 1 April 2015	(0.6)	(4.7)	–	(19.3)	**(24.6)**
Charge for the year	(0.3)	(0.9)		(5.8)	**(7.0)**
As at 31 March 2016	(0.9)	(5.6)	–	(25.1)	**(31.6)**
Net book value					
As at 31 March 2016	1.8	3.6	–	20.5	**25.9**
As at 31 March 2015	2.1	3.7	–	13.8	**19.6**

Tangible fixed assets relating to the Group's subsidiary, Landericus, have been reclassified as investment properties in line with FRS 102.

Notes to the financial statements (continued)

13. Investment properties

Policy

Investment properties are properties not held for social benefit or for use in the business. Investment properties are measured at cost on initial recognition and subsequently at fair value at the Statement of Financial Position date, with changes in fair value recognised in the Statement of Comprehensive Income. Fair value is determined annually by appropriately qualified external valuers and is derived from current market rents and investment property yields for comparable properties, adjusted if necessary for any difference in the nature, location or condition of the specific asset. No depreciation is provided on investment properties.

	2016 £m	2015 £m
As at 1 April 2015	185.0	181.5
Revaluation	21.6	10.1
Foreign exchange gain/(loss)	4.6	(6.7)
Transfers from housing property	–	0.1
As at 31 March 2016	**211.2**	**185.0**

The Group engaged Savills to determine fair value at 1 April 2016. For investment property Savills used Market Value Subject to Tenancy to determine fair value. A further valuation took place for commercial properties as at 31 March 2016.

On an historical cost basis, the carrying value of investment properties would have been £118.2 million (2015: £118.2 million).

£75.5 million (418 properties) of investment property fair value is held as security against debt and derivatives (notes 23 and 24).

14. Goodwill

Policy

Goodwill arising on the acquisition of subsidiaries is initially measured at cost over the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less accumulated amortisation and any accumulated impairment losses.

On acquisition, an assessment is made of the useful life of goodwill. Where this is deemed limited, the goodwill is amortised over that life on a systematic basis. Where the useful life cannot be reliably estimated, the life cannot exceed five years.

Goodwill is tested for impairment indicators annually. Where indicators are identified an assessment for impairment is undertaken. Any impairment is recognised immediately in the Statement of Comprehensive Income.

	2016 £m	2015 £m
As at 1 April 2015	10.4	11.5
Amortisation in the year	(0.1)	(0.1)
Amortisation brought forward	(2.8)	(2.7)
Impairment	(0.9)	(1.1)
As at 31 March 2016	**6.6**	**7.6**

In January 2011, Leamington Waterfront LLP became a full subsidiary of the Group (previously a joint venture), generating £9.6 million of goodwill. The goodwill is being amortised over the life of the development scheme as properties are sold.

In July 2013, Prime Care Holdings Limited and its subsidiaries became full subsidiaries of the Group, generating £2.1 million of goodwill. The goodwill is being amortised over a life of 20 years. During 2014/15 the Group impaired the goodwill by £1.1 million. The Care and Support subsidiary Board has further considered the value of the investment and has determined that an additional impairment is necessary on the basis of market evidence. An impairment of £0.9 million has therefore been included in the results for the year.

15. Investments

	Registered with			
	Financial Conduct Authority	Companies House	Charity Commission	Homes and Communities Agency
Circle Anglia Limited is the parent company of:				
Circle Thirty Three Housing Trust Limited	✓	–	–	✓
Mercian Housing Association Limited	✓	–	–	✓
Merton Priory Homes	✓	–	–	✓
Mole Valley Housing Association Limited	✓	–	–	✓
Old Ford Housing Association Limited	–	✓	–	✓
Roddons Housing Association Limited	✓	–	–	✓
Russet Homes Limited	✓	–	–	✓
South Anglia Housing Limited	✓	–	–	✓
Wherry Housing Association Limited	✓	–	–	✓
Circle Anglia Foundation Limited	–	✓	✓	–
Circle Anglia Social Housing Plc	–	✓	–	–
Circle Anglia Social Housing 2 Plc	–	✓	–	–
Circle Anglia Treasury Limited	–	✓	–	–
Circle Care and Support Limited	–	✓	✓	–
Your Lifespace Limited	–	✓	–	–
Waterfront (Warwick) Management Company Limited	–	✓	–	–
Willow View and Bridge House Management Company Limited	–	✓	–	–
Avon View and Swan House Management Company Limited	–	✓	–	–
Circle Thirty Three Housing Trust Limited is the parent company of:*				
Thackeray Mews Limited	–	✓	–	–
Your Lifespace Limited is the parent company of:				
Landericus Limited**	–	✓	–	–
Grimaldi Development Company Limited	–	✓	–	–
Mercian Housing Association Limited is the parent company of:				
Zenith Development Partnership Limited	–	✓	–	–
Old Ford Housing Association is the parent company of:				
Old Ford Homes Limited	–	✓	–	–
Merton Priory Homes is the parent company of:				
Merton Developments Limited	–	✓	–	–
Circle Anglia Foundation Limited is the parent company of:				
Circle Living Limited	–	✓	–	–
Circle Housing Asset Design Limited	–	✓	–	–
Circle Living Limited is the parent company of:				
Anglia Maintenance Services Limited	–	✓	–	–
Circle Care and Support Limited is the parent company of:				
Invicta Telecare Limited	–	✓	–	–
Prime Care Holdings Limited***	–	✓	–	–
Your Lifespace Limited and Circle Anglia Limited are members of:				
Leamington Waterfront LLP	–	✓	–	–
Your Lifespace Limited is a 50% member of:				
Circle Hill LLP	–	✓	–	–
Bonner Road LLP	–	✓	–	–
Your Lifespace Limited and Grimaldi Development Company Limited are members of:				
Circle Grimaldi LLP	–	✓	–	–

* On 20 May 2015 Circle Thirty Three Housing Trust Limited sold its shareholding in Your Lifespace Limited to Circle Anglia Limited for £1.

** Landericus Limited (incorporated in Guernsey) is the parent company of Landericus Holding Limited S.a.r.l (incorporated in Luxembourg), which is the parent company of Landericus Property Alpha S.a.r.l, Landericus Property Beta S.a.r.l, Landericus Property Gamma S.a.r.l, Landericus Property Delta S.a.r.l, Landericus Property Epsilon S.a.r.l and Landericus Property Zeta S.a.r.l, all incorporated in Luxembourg.

*** Prime Care Holdings Limited is the parent company of Prime Care Community Projects Limited which is the parent company of Prime Care Community Services Limited and Purple Care Franchising Limited. The Group sold its shareholding in Prime Care Holdings Limited on 1 April 2016.

Circle Anglia Social Housing 2 Plc, Grimaldi Development Company Limited and Circle Grimaldi LLP were incorporated during the year.

On 1 April 2015 Anglia Maintenance Services Limited transferred its principal activities to Circle Anglia Limited.

All of the companies listed above are 100% owned by the named parent except Thackeray Mews Limited (62% ownership) and Landericus Limited (93.68% ownership). All are incorporated in England and Wales with the exception of the Landericus entities as detailed above. Procedure agreements exist between Circle Anglia Limited and the subsidiaries covering the respective obligations of all parties. Investments are valued at the lower of cost and net realisable value.

Notes to the financial statements (continued)

15. Investments (continued)

	Operating surplus/(deficit)		Total assets less current liabilities	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Anglia Maintenance Services Limited	**–**	(0.1)	**–**	–
Circle Anglia Foundation Limited	**–**	0.7	**2.2**	2.2
Circle Anglia Treasury Limited	**–**	0.1	**2,262.4**	2,143.9
Circle Anglia Social Housing Plc	**–**	–	**0.1**	0.1
Circle Anglia Social Housing 2 Plc	**–**	–	**150.1**	–
Circle Living Limited	**–**	0.6	**2.4**	2.4
Circle Thirty Three Housing Trust Limited	**40.7**	43.3	**1,576.5**	1,567.7
Circle Care and Support Limited	**0.1**	(1.0)	**4.9**	4.7
Your Lifespace Limited	**5.2**	5.1	**108.8**	78.7
Old Ford Homes Limited	**0.1**	–	**0.4**	0.4
Old Ford Housing Association	**10.6**	7.4	**421.3**	375.9
South Anglia Housing Limited	**11.8**	13.2	**421.0**	407.4
Wherry Housing Association Limited	**10.1**	10.9	**407.7**	396.5
Mole Valley Housing Association	**6.6**	6.8	**143.0**	143.9
Roddons Housing Association	**6.3**	6.3	**150.8**	136.2
Russet Homes Limited	**17.6**	16.7	**355.9**	309.2
Invicta Telecare Limited	**0.2**	–	**2.0**	1.9
Thackeray Mews Limited	**–**	–	**–**	–
Landericus Limited Group	**1.6**	2.4	**62.5**	59.4
Mercian Housing Association Limited	**4.0**	3.4	**197.3**	201.6
Zenith Developments Limited	**–**	–	**0.1**	0.1
Merton Priory Homes	**9.0**	11.7	**197.6**	211.0
Leamington Waterfront LLP	**3.4**	1.3	**18.8**	15.3
Prime Care Holdings Limited	**0.2**	–	**0.1**	5.0
Prime Community Services Limited	**(0.6)**	(0.2)	**0.5**	0.4
Purple Care Franchising Limited	**–**	–	**–**	(0.6)
Prime Community Projects Limited	**–**	–	**–**	–
Circle Housing Asset Design Limited	**0.2**	–	**0.2**	–
Waterfront (Warwick) Management Company Limited	**–**	–	**–**	–
Willow View and Bridge House Management Company Limited	**–**	–	**–**	–
Avon View and Swan House Management Company Limited	**–**	–	**–**	–
Grimaldi Development Company Limited	**–**	–	**–**	–
Merton Developments Limited	**–**	–	**–**	–
Circle Grimaldi Limited	**–**	–	**–**	–
	127.1	128.6	**6,486.6**	6,063.3

Purple Care Franchising Limited, Prime Community Projects Limited, Merton Development Limited, Grimaldi Development Company Limited and Circle Grimaldi LLP were all dormant as at 31 March 2016.

15. Investments (continued)

Investments – listed and unlisted

Included in investments are:

	Group		Association	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Cost of shares in Circle Anglia Social Housing Plc	**–**	–	**0.1**	0.1
Cost of acquiring Mercian Housing Association	**–**	–	**0.8**	0.8
Collateral deposits	**0.7**	0.7	**–**	–
Other investments	**0.1**	0.1	**–**	–
	0.8	0.8	**0.9**	0.9

Collateral deposits relate to security under the UK Rents (No.1) Plc scheme. Through this scheme, the Housing Finance Corporation (THFC) has issued a bond to the external financial markets, the funds from which have been on-lent to six Registered Providers, including Mercian Housing Association. This loan is secured against prepaid rent from each Association and a cash reserve of 2% of the loan value. Mercian receives interest from THFC on these collateral deposits at a variable rate each quarter.

Other investments include a long term loan of £10,000 and a fixed bond valued at £47,000.

Joint ventures

Policy

Joint ventures are classified as contractual arrangement undertakings in which the Group exercises joint control over the operating and financial policies of the entity. Where the joint venture is carried out through an entity, it is treated as a jointly controlled entity. Joint venture investments are held as fixed asset investments, shown at cost, less any amounts written off in the financial statements of subsidiary undertakings.

The Group has entered into two contractual arrangements that are classed as jointly controlled entities. Jointly controlled entities are accounted for using the equity method, which reflects the Group's share of the profit or loss, Other Comprehensive Income and equity of the jointly controlled entity.

Circle Hill LLP was incorporated on 18 December 2014 under the Limited Liability Partnerships Act 2000. Your Lifespace Limited is a 50% member of this partnership which confers joint control of the LLP. In accordance with FRS 102, section 15, this entity has been accounted for as a joint venture.

The principal activity of Circle Hill LLP is property development. The LLP's accounting reference date is 31 December and its first financial statements were for the period ending 31 December 2015.

Your Lifespace Limited has provided additional funding to Circle Hill LLP in the form of a loan; as at the year end the balance outstanding was £11.7 million.

Bonner Road LLP was incorporated on 31 July 2015 under the Limited Liability Partnerships Act 2000. Your Lifespace Limited is again a 50% member of this partnership which confers joint control of the LLP. In accordance with FRS 102, section 15, this entity has also been accounted for as a joint venture.

The principal activity of Bonner Road LLP is the development of freehold land at the London Chest Hospital, Bonner Road, London. The accounting reference date is 31 March. The LLP's first financial statements will be for the period ending 31 March 2016.

Your Lifespace Limited provides 50% of the funding and as at year end the balance outstanding was £26.4 million which is shown in Debtors: Amounts falling due after more than one year.

16. Stock and work in progress

Policy

Stock represents work in progress and completed properties, including housing properties developed for transfer to other registered providers; properties developed for outright sale; and shared ownership properties. For shared ownership properties the value held as stock is the estimated cost to be sold as a first tranche.

Stock is stated at the lower of cost and net realisable value. Only costs directly attributable to the development of the properties are included in stock. Net realisable value is based on estimated sales proceeds after allowing for all further costs to completion and selling costs.

	2016 £m	2015 £m
Parts and warehouse stores	**0.3**	–
Completed properties	**62.7**	40.7
Properties under construction	**33.7**	15.2
	96.7	55.9

Stock of housing properties comprises acquisition and development expenditure on first tranche shared ownership properties. Capitalised development interest charged to stock during the year is £1.6 million (2015: £1.4 million).

17. Debtors

Policy

Debtors with no stated interest rate and which are receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the Statement of Comprehensive Income in Other operating expenses.

Bad and doubtful debts are provided on rent debtors at 100% for former tenant arrears and 25% for current tenant arrears. This policy applies to all Registered Providers in the Group and applies equally to both rental income and service charge income. The Group's provision policy is based on review of the age profile of its debt, historical collection rates and the class of debt.

The Association has made arrangements with individuals and households for payment of arrears of rent and service charges. These arrangements are effectively loans granted at a zero interest rate and as such are deemed concessionary loans. Concessionary loans are initially measured at the amount received or paid and subsequently adjusted to reflect any accrued interest payable or receivable or any provisions for impairment.

	Group		Association	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Due after more than one year:				
Loans to joint venture	**38.2**	10.2	**–**	–
Stock transfer – future works (note 22)	**94.2**	143.1	**–**	–
Deferred tax asset (note 25)	**5.1**	6.9	**3.1**	3.7
Amounts due from subsidiaries	**–**	–	**72.8**	–
	137.5	160.2	**75.9**	3.7
Due within one year:				
Rent and service charges receivable	**31.6**	26.5	**–**	–
Less: Provision for bad and doubtful debts	**(10.2)**	(9.8)	**–**	–
	21.4	16.7	**–**	–
Amounts due from subsidiaries	**–**	–	**42.4**	2.3
Stock transfer – future works (note 22)	**61.8**	35.3	**–**	–
Other debtors	**11.7**	10.5	**2.1**	1.8
Prepayments and accrued income	**7.2**	8.3	**3.6**	3.6
Corporation tax debtor	**0.5**	–	**–**	–
	81.2	54.1	**48.1**	7.7
Total debtors due within one year	**102.6**	70.8	**48.1**	7.7

During the year, the Group restructured its internal on-lending arrangements with the Registered Providers providing funding to Circle Anglia Limited. The purpose of this was so that Circle Anglia Limited could in turn fund the development for market sale undertaken in Your Lifespace Limited which generates profit to subsidise the development of affordable housing in the Group's Registered Providers.

18. Current asset investments

	Group		Association	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Deposits – Collateral	**99.4**	18.2	**–**	–

The collateral deposits represent a cash deposit that the Group has to place with a derivative counterparty when the fair value of a derivative or portfolio of derivatives exceeds an agreed amount.

19. Creditors: Amounts falling due within one year

Policy

Creditors with no stated interest rate and which are receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the Statement of Comprehensive Income in Other operating expenses.

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

The Association recognises a provision for annual leave accrued by employees as a result of services rendered in the current period, and which employees are entitled to carry forward and use within the next 12 months. The provision is measured at the salary cost payable for the period of absence.

Deferred income comprises grant income, premiums on leases which are released over the life of the lease and other income received which is carried forward over the lives of the assets concerned.

	Group		Association	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Bank overdraft (note 23)	**3.1**	10.3	**–**	–
Bank loans and borrowings (note 23)	**6.4**	7.3	**–**	–
	9.5	17.6	**–**	–
Trade creditors	**2.5**	15.7	**1.2**	1.7
Capital creditors	**5.3**	7.0	**–**	–
Rent and service charge received in advance	**9.5**	10.1	**–**	–
Amount owed to Group undertakings	**–**	–	**33.0**	15.7
Amount owed to Group undertakings ZBA	**–**	–	**78.9**	–
Recycled Capital Grant Fund (note 21)	**2.7**	3.0	**–**	–
Disposal Proceeds Fund (note 21)	**1.5**	0.5	**–**	–
Other taxation and social security	**2.4**	2.1	**1.7**	2.7
Other creditors	**6.1**	10.9	**1.8**	0.8
Stock transfer – future works (note 22)	**61.8**	35.4	**–**	–
Deferred government grant (note 35)	**13.2**	13.2	**–**	–
Accruals and deferred income	**79.4**	83.2	**16.6**	4.6
	184.4	181.1	**133.2**	25.5
	193.9	**198.7**	**133.2**	**25.5**

The Group introduced a zero balance account (ZBA) cash pooling arrangement during the financial year 2015/16 whereby cash held by each entity is pooled into Group accounts held by the Parent, Circle Anglia Limited. As a result the Group subsidiaries hold very little cash and instead have an intercompany balance with the Parent which attracts interest.

Notes to the financial statements (continued)

20. Creditors: Amounts falling due after more than one year

	Group		Association	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Bank loans and borrowings (note 23)	**2,079.5**	1,969.4	**–**	–
Obligations under finance leases (note 23)	**1.1**	1.2	**–**	–
	2,080.6	1,970.6	**–**	–
Recycled Capital Grant Fund (note 21)	**7.0**	5.3	**–**	–
Disposal Proceeds Fund (note 21)	**3.1**	2.4	**–**	–
Amount owed to Group undertakings	**–**	–	**104.3**	12.2
Other creditors	**2.6**	8.7	**0.1**	–
Financial deferred income	**1.1**	0.7	**–**	–
Social Housing Grant – HomeBuy	**12.7**	13.0	**–**	
Deferred government grant	**1,399.1**	1,396.2	**–**	–
Accumulated amortisation of government grant	**(162.9)**	(149.6)	**–**	–
Designated and other reserves	**(0.2)**	(0.2)	**–**	–
Stock transfer – future works (note 22)	**94.2**	143.1	**–**	–
	1,356.7	1,419.6	**104.4**	12.2
	3,437.3	3,390.2	**104.4**	12.2

The obligations under finance leases and hire purchase contracts represent outstanding capital on leasing commitments linked to deferred mortgages.

Where assets are financed by leasing arrangements that give rights approximating to ownership, they are classified as finance leases and are treated as if they have been purchased outright. The amount capitalised is the present value of the minimum lease payment due during the term of the lease. The corresponding leasing commitments are shown as obligations to the lessor.

21. Reconciliation of RCGF and DPF balances

Policy

The Group is permitted to set aside repayable capital development grants from staircased shared ownership sales into a Recycled Capital Grant Fund (RCGF). This Fund is to be utilised in the acquisition of new housing within three years or the grants become repayable to the HCA or GLA. The Group is required to set aside a significant proportion of proceeds from sales under the Voluntary Purchase Grant Scheme according to a predetermined formula, under Section 24 of the Housing Act 1996, into a Disposal Proceeds Fund (DPF). This Fund is to be utilised in the acquisition of new housing and must also be used within three years or the grants become repayable to the HCA or GLA.

Recycled Capital Grant Fund:

Funds pertaining to activities within areas covered by:	HCA £m	GLA £m	Total £m
As at 1 April 2015	3.7	4.6	**8.3**
Inputs to RCGF:			
Grants recycled	2.0	1.7	**3.7**
New build	(0.8)	(0.5)	**1.3**
Repayment of funds to the HCA/GLA	–	(1.0)	**(1.0)**
Closing balance as at 31 March 2016	**4.9**	**4.8**	**9.7**
Amounts three years old or older where repayment may be required	**0.3**	**–**	**0.3**

	HCA £m	GLA £m	Total £m
Amount falling due within one year	1.7	1.0	**2.7**
Amount falling due after more than one year	3.2	3.8	**7.0**
	4.9	**4.8**	**9.7**

Disposal Proceeds Fund:

Funds pertaining to activities within areas covered by:	HCA £m	GLA £m	Total £m
As at 1 April 2015	1.2	1.7	**2.9**
Inputs to DPF (source of funds):			
Funds recycled	0.5	1.2	**1.7**
Closing balance as at 31 March 2016	**1.7**	**2.9**	**4.6**
Amounts three years old or older where repayment may be required	**–**	**–**	**–**

	HCA £m	GLA £m	Total £m
Amount falling due within one year	0.6	0.9	**1.5**
Amount falling due after more than one year	1.1	2.0	**3.1**
	1.7	**2.9**	**4.6**

Notes to the financial statements (continued)

22. Stock transfers

Policy

Where opportunities for the regeneration of local authority housing stock arise after transfer requests from tenants and residents, the Group may seek to maximise the resources available for regeneration schemes by entering into VAT shelter arrangements. In these circumstances, the underlying substance of the transactions is reflected in the accounts on a gross basis and reflects the Group's legally binding obligation. The obligation to the local authorities is shown as long-term debtors and the obligation to contractors under the refurbishment contracts is shown in long-term creditors. Amounts due within one year under the arrangements are classified within current assets and liabilities.

23. Debt analysis

Policy

An election has been made to apply the recognition and measurement provisions of IFRS 9 Financial Instruments as allowed under FRS 102 sections 11.2 and 12.2.

Loans, investments and short-term deposits

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

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

Where contractual cash flows do not meet the recognition requirements of IFRS 9, loans, investments and short-term deposits are subsequently measured at fair value with gains or losses taken to the Statement of Comprehensive Income.

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

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

	Group	
	2016 £m	2015 £m
Due within one year		
Bank overdraft	**3.1**	10.3
Bank loans	**6.4**	7.3
	9.5	17.6
Due after more than one year		
Bank loans	**1,422.2**	1,308.1
Bonds	**657.3**	661.3
Obligations under finance leases	**1.1**	1.2
	2,080.6	1,970.6
	2,090.1	1,988.2

23. Debt analysis (continued)

	Group	
	2016 £m	2015 £m
Debt is repayable as follows:		
Within one year	**9.5**	17.6
Between one and two years	**12.8**	8.2
Between two and five years	**73.6**	59.3
After five years	**1,994.2**	1,903.1
	2,090.1	1,988.2

Included within the debt are fair value amounts of £2.8 million (2015: £9.8 million) relating to the acquisition of Mercian Housing Association and £17.2 million (2015: £17.9 million) relating to the acquisition of Russet Homes Limited, and £8.2 million (2015: nil) relating to the fair value adjustment of the private placement required for the hedging relationship. The fair value adjustments represent the difference between the book value and the fair value at the date of the acquisitions and this is the price the loans are carried at in the financial statements. The fair value is amortised over the life of the loans. £1.2 million of fair value has been released this year.

Also included within debt are net bond premium and amortisation adjustments of £38.1 million (2015: £24.7 million), interest of £0.4 million (2015: £0.5 million) on the finance lease and overdrawn amounts of £3.1 million (2015: £10.3 million).

Of the remaining balance, £1,242.4 million (2015: £1,280.0 million) relates to loans drawn from committed debt facilities of £1,652.7 million (2015: £1,659.3 million). A further £635.0 million (2015: £635.0 million) is represented by the bond issue through Circle Anglia Social Housing Plc and £150.0 million (2015: £nil) is represented by the private placement through Circle Anglia Social Housing 2 Plc.

The Group's treasury vehicle, Circle Anglia Treasury Limited, directly funds the borrowing requirements of the charitable Registered Providers within the Group. However, £10.0 million (2015: £14.7 million) of facilities still reside within the charitable Registered Providers and include a £0.7 million (2015: £0.7 million) finance lease in Wherry Housing Association, £1.3 million (2015: £1.3 million) in historical bonds and loans in Circle 33 Housing Trust and £8.1 million (2015: £12.7 million) in Mercian Housing Association. Furthermore, £33.2 million relates to mortgages within the Landericus Group (2015: £30.9 million) which are secured against its stock.

The Group's facilities are repayable at various dates through to 2046 and are secured by fixed charges over the completed housing properties of the participating Group members and a series of cross-guarantees.

Around 98% (2015: 94%) of the Group's portfolio is fixed either directly or as a result of interest rate swaps which convert the variable rate of interest to a fixed rate. This minimises the Group's exposure to fluctuating variable interest rates.

The following tables show the maturity and margins on the principal borrowings excluding overdraft:

Maturity of debt
Group

	Within one year £m	Between one and two years £m	Between two and five years £m	After five years £m	**Total £m**
Revolver	–	–	3.6	126.4	**130.0**
Term	4.8	11.7	65.8	1,020.0	**1,102.3**
Private placement	–	–	–	150.0	**150.0**
Bond	–	–	–	635.0	**635.0**
Other	0.6	0.6	2.2	6.0	**9.4**
Finance lease	–	–	–	0.7	**0.7**
As at 31 March 2016	**5.4**	**12.3**	**71.6**	**1,938.1**	**2,027.4**
As at 31 March 2015	6.7	5.2	50.4	1,852.7	**1,915.0**

Notes to the financial statements (continued)

23. Debt analysis (continued)

Maturity of debt (continued)

	Funding Group			Non Funding Group			
	Short term borrowings £m	Loans falling due after more than one year £m	**Total £m**	Short term borrowings £m	Loans falling due after more than one year £m	**Total £m**	**Group total £m**
Revolver	–	130.0	**130.0**	–	–	**–**	**130.0**
Term	4.2	1,065.0	**1,069.2**	0.6	32.5	**33.1**	**1,102.3**
Private placement	–	150.0	**150.0**	–	–	**–**	**150.0**
Bond	–	635.0	**635.0**	–	–	**–**	**635.0**
Other	0.6	8.8	**9.4**	–	–	**–**	**9.4**
Finance lease	–	0.7	**0.7**	–	–	**–**	**0.7**
As at 31 March 2016	**4.8**	**1,989.5**	**1,994.3**	**0.6**	**32.5**	**33.1**	**2,027.4**
As at 31 March 2015	6.2	1,877.9	**1,884.1**	0.5	30.4	**30.9**	1,915.0

Maturity of facilities

Group

	Within one year £m	Between one and two years £m	Between two and five years £m	After five years £m	**Total £m**
Revolver	–	–	8.4	416.6	**425.0**
Term	4.9	11.8	128.6	1,076.3	**1,221.6**
Private placement	–	–	–	150.0	**150.0**
Bond	–	–	–	635.0	**635.0**
Other	0.5	0.5	1.8	2.6	**5.4**
Finance lease	–	–	–	0.7	**0.7**
As at 31 March 2016	**5.4**	**12.3**	**138.8**	**2,281.2**	**2,437.7**
As at 31 March 2015	7.2	5.5	99.9	2,181.7	**2,294.3**

Interest rate analysis

Group

	Total £m	Floating rate £m	Fixed rate £m	Fixed interest rate %	Time fixed rate debt in years
Revolver	**100.0**	67.5	32.5	3.5	11
Term	**1,132.4**	–	1,132.4	3.8	11
Private placement	**150.0**	50.0	100.0	3.8	15
Bond	**635.0**	–	635.0	6.4	25
Other	**9.3**	–	9.3	7.9	9
Finance lease	**0.7**	–	0.7	12.2	11
As at 31 March 2016	**2,027.4**	**117.5**	**1,909.9**	**4.2**	**16**
As at 31 March 2015	**1,924.2**	116.4	1,807.8	4.9	17
Cash	**–**	–	–	–	–
Deposits	**(79.9)**	(79.8)	(0.1)	9.5	–
Collateral deposits	**(99.7)**	(99.7)	–	–	–
Cash and deposits	**(179.6)**	(179.5)	(0.1)	11.5	–
Net borrowings as at 31 March 2016	**1,847.8**	**(62.0)**	**1,909.8**	**4.7**	**16**

The above numbers are based on the notional amount and do not include any adjustments for the issue premium to the amount of debt or effective interest rate.

23. Debt analysis (continued)

Currency and interest rate analysis of debt

Group

	Total £m	Floating rate £m	Fixed rate £m	Fixed interest rate %	Time fixed rate debt in years
Sterling	**1,978.4**	103.5	1,874.9	4.3	16
Euro	**49.0**	14.0	35.0	3.6	4
As at 31 March 2016	**2,027.4**	**117.5**	**1,909.9**	**4.2**	**16**
As at 31 March 2015	**1,924.2**	116.4	1,807.8	4.9	17

The above tables take account of interest rate swaps, forward rate agreements and embedded fixes, which hedged the variable debt as at 31 March 2016 for an average of 16 years (2014: 17 years).

24. Financial instruments

Policy

Derivative financial instruments and hedge accounting

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

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

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

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

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

Hedges meeting the criteria for hedge accounting are accounted for as follows:

Fair value hedges

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

Cash flow hedges

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

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

Notes to the financial statements (continued)

24. Financial instruments (continued)

Valuation

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

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

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

Group

As at 31 March 2016 the following financial derivative contracts were in place:

	2016 £m			2015 £m		
Standalone swaps	**Active**	**Forward starting**	**Total**	Active	Forward starting	Total
Notional						
Interest rate caps	**11.1**	**–**	**11.1**	3.6	–	3.6
Interest rate swaps – pay fixed	**1,258.3**	**265.5**	**1,523.8**	980.2	335.5	1,315.7
Interest rate swaps – receive fixed	**100.0**	**–**	**100.0**	–	25.0	25.0
Net	**1,369.4**	**265.5**	**1,634.9**	983.8	360.5	1,344.3
Fair value						
Interest rate caps	**–**	**–**	**–**	(0.1)	–	(0.1)
Interest rate swaps – pay fixed	**(231.4)**	**(19.5)**	**(250.9)**	(224.3)	(17.0)	(241.3)
Interest rate swaps – receive fixed	**6.8**	**–**	**6.8**	–	11.9	11.9
Net	**(224.6)**	**(19.5)**	**(244.1)**	(224.4)	(5.1)	(229.5)
The reserves effect of these movements is as shown below:						
Income and Expenditure	**6.8**	**–**	**6.8**	(2.2)	11.5	9.3
Other Comprehensive Income	**(231.4)**	**(19.5)**	**(250.9)**	(222.2)	(16.6)	(238.8)
	(224.6)	**(19.5)**	**(244.1)**	(224.4)	(5.1)	(229.5)

Security

All derivatives, except for two (2015: one) interest rate caps in the Landericus group of companies, are traded under Swaps and Derivatives Association (ISDA) agreements. Under the Credit Support Annexes (CSAs) of the ISDA, the Group is required to collaterise any negative fair value positions of the standalone derivatives, in excess of the thresholds. Under the CSAs, the counterparties will accept a mix of property security or cash. The aggregate threshold is £34 million (2015: £34 million) and property security of £218 million (2015: £212 million) and cash collateral of £49 million (2015: £16 million) was in place as at 31 March 2016.

Interest rate caps

These are interest rate derivatives where the Group is compensated if the interest rate exceeds a given interest rate. There are two outstanding caps within the Group at the end of the financial year 2015/16. The outstanding cap is amortising in line with the underlying debt.

Interest rate swaps

These are interest rate swaps to pay or receive fixed rate for a fixed period. Of the total, £53.2 million (2015: £53.5 million) is amortising in line with underlying debt.

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

24. Financial instruments (continued)

The following table indicates the periods in which cash flows associated with cash flow hedging instruments are expected to occur:

	2016 £m	2015 £m
Due within one year	**(0.1)**	(0.1)
Between one and two years	**–**	(0.4)
Between two and three years	**–**	–
Between three and five years	**(22.4)**	(6.2)
In five years or more	**(221.6)**	(222.8)
	(244.1)	(229.5)

In order to better understand the assumptions behind the nature of measuring the fair values of our swap portfolio, the values have been placed into a fair value hierarchy similar to that under IFRS 13 as described below:

- Level 1 – unadjusted quoted prices for identical assets and liabilities in active markets.
- Level 2 – other observable inputs for the asset or liability such as quoted prices in active markets for similar assets or liabilities or quoted prices for identical assets or liabilities in markets which are not active.
- Level 3 – unobservable inputs developed by an entity using the best information available where there is little or no market activity for the asset or liability at the measurement date.

Fair value hierarchy

	2016 £m	2015 £m
Level 1 fair valuation	**–**	–
Level 2 fair valuation	**(244.1)**	(229.5)
Level 3 fair valuation	**–**	–
Net fair valuation	**(244.1)**	(229.5)

Fair value measurement

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

A summary of the financial instruments held by category is provided below:

	Financial assets at fair value		Financial assets at amortised cost	
Financial assets	2016 £m	2015 £m	2016 £m	2015 £m
Investments (note 18)	**–**	–	**99.4**	18.2
Cash and cash equivalents	**–**	–	**84.2**	158.6
Debtors (note 17)	**–**	–	**240.1**	231.0
Derivatives (note 24)				
– Designated hedges	**6.8**	–	**–**	–
– Fair value through profit and loss	**–**	11.9	**–**	–
	6.8	11.9	**423.7**	407.8

	Financial liabilities at fair value		Financial liabilities at amortised cost	
Financial liabilities	2016 £m	2015 £m	2016 £m	2015 £m
Trade and other payables (notes 19 and 20)	**–**	–	**1,541.1**	1,600.7
Loans and borrowings (notes 19 and 20)	**–**	–	**2,090.1**	1,988.2
Derivatives (note 24)				
– Designated hedges	**250.9**	241.3	**–**	–
– Fair value through profit and loss	**–**	0.1	**–**	–
	250.9	241.4	**3,631.2**	3,588.9

25. Deferred tax

Policy

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation.

A net deferred tax asset is recognised only if there is sufficient evidence that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is expected to be realised or the liability settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets and liabilities are not discounted.

	Group		Association	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Deferred tax asset	**5.1**	6.9	**3.1**	3.7

26. Financial commitments

Policy

Financial commitments are predominantly commitments towards developments which have been contracted and which have started on site, or approved by Board.

Capital expenditure – Group

	2016 £m	2015 £m
Expenditure contracted but not provided in the accounts	**80.0**	165.6
Social Housing Grant approved but not received	**(5.3)**	(10.5)
	74.7	155.1
Expenditure approved by the Board, but not contracted	**207.6**	–
As at 31 March 2016	**282.3**	155.1

Costs will be funded by a combination of grant, loans and cash flows from operating activities.

As a proportion of the historical cost of fixed assets, the capital committed above represents 6.17% (2015: 6.84%).

27.. Operating leases

Policy

Rentals paid under operating leases (including those paid under 'Temporary Market Rent Housing' leases) are charged to the Statement of Comprehensive Income on an accruals basis. The aggregate benefit of lease incentives is recognised as a reduction to the expense recognised over the lease term on a straight line basis. As per FRS 102 35.10 (p), an exemption has been applied such that leases commenced prior to transition to this FRS continue to be measured with lease incentives recognised over the review period as opposed to the full lease period.

As at 31 March 2016 operating lease commitments were as follows:

	Group		Association	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Within one year:				
Land and buildings	**2.6**	3.0	**0.9**	–
Other	**0.6**	1.4	**0.6**	0.2
Between two and five years:				
Land and buildings	**9.5**	9.7	**3.6**	–
Other	**0.6**	1.4	**0.6**	1.2
After five years:				
Land and buildings	**7.3**	9.6	**2.8**	0.7
Other	**–**	–	**–**	–
	20.6	25.1	**8.5**	2.1

28. Reconciliation of operating surplus to net cash inflow from operating activities

	Group	
	2016 £m	2015 £m
Surplus for the year	**85.8**	67.4
Adjustment for non cash items:		
Depreciation of housing properties and components written off	**47.0**	45.2
Depreciation of other tangible fixed assets	**6.9**	5.7
Depreciation associated with fair value adjustments to tangible fixed assets	**2.8**	2.8
Amortisation of government grant	**(13.1)**	(12.8)
Amortisation of goodwill	**0.1**	0.1
Financing credits associated with amortisation of fair value adjustments to financial instruments	**(1.3)**	(1.3)
Impairment	**0.4**	1.1
(Increase)/decrease in trade and other debtors	**(5.7)**	15.8
Decrease in trade and other creditors	**(40.4)**	(13.4)
Increase in provisions	**9.0**	1.6
Movement in pension liability	**(0.7)**	(2.4)
Carrying amount of first tranche shared ownership sales	**12.5**	11.7
Carrying amount of open market sales	**15.6**	22.4
Carrying amount of other tangible fixed asset disposals	**31.1**	20.2
Gain on revaluation of investment properties	**(21.6)**	(10.1)
Movement in fair value of financial instruments	**(4.0)**	(5.2)
Effective interest rate adjustment	**0.4**	0.4
Share of deficit in joint venture	**0.6**	–
Amortisation of net bond premium	**(1.0)**	(1.0)
Amortisation of loan arrangement costs	**0.5**	1.0
Deferred tax	**(0.1)**	(2.9)
	124.8	146.3
Adjustments for investing or financing activities:		
Proceeds from the sale of other tangible fixed assets	**(54.0)**	(34.0)
Interest received	**(4.0)**	(3.5)
Interest paid	**95.7**	88.1
	37.7	50.6
Purchase and construction of housing properties for shared ownership and open market sales	**(67.0)**	(20.8)
Net cash generated from operating activities	**95.5**	176.1

Net cash generated from financing activities includes corporation tax of £1.7 million (2015: £0.7 million).

29. Contingent liabilities/assets

Policy

A contingent liability is either a possible but uncertain obligation as a result of a past event, or a present obligation that arises from past events but is not recognised because:

- it is not probable that an outflow of economic resources will be required; or
- the amount of the obligation cannot be measured with sufficient reliability.

Circle Housing Circle 33 is contracted to two performance bonds, one for £250,000 with Lewisham Borough Council and one for £78,840 with the London Borough of Islington. These have been set up to compensate the relevant council for the cost of finding a new contractor in the event of the Group's non-performance. No events have occurred that would result in the crystallisation of either of these bonds.

Circle Housing Circle 33 is contracted to two performance bonds, one for £250,000 with Lewisham Borough Council and one for £78,840 with the London Borough of Islington. These have been set up to compensate the relevant council for the cost of finding a new contractor in the event of the Group's non-performance. No events have occurred that would result in the crystallisation of either of these bonds.

In 2014/15, Circle Housing Mercian had a separate contingent asset relating to a claim for recovery of a £696,000 deposit and expenses. The claim was made against the insurers and solicitors acting for Zenith Development Partnership Ltd which provides housing and building services to the Association. The matter was closed on 17th September 2015 with a payment of £740,000 (inclusive of costs) made to the Association.

In Circle Housing Mercian there is a claim underway to recover £120,000 of unpaid rent from Birmingham YMCA which is at the pre-claim stage.

Circle Housing Russet has entered into a contract with Land Securities Eastern Quarry Ltd to purchase land at Castle Hill, Eastern Quarry, Ebbsfleet in three phases. There is an Option Agreement in place over phases two and three. Under the terms of the Option Agreement, the Seller (Land Securities Eastern Quarry Ltd) shall be entitled to serve on the Buyer (the Association) up to two Option Notices. The Option Agreement persists for a period of seven years from the date of the agreement after which it will expire without penalty on either party. An Option Fee of £1 will be payable by the Buyer to the Seller on exchange of legally binding contracts. Phase two is to be purchased at a cost of £6.5 million and phase three at a cost of £3.5 million.

The Group receives grant from the HCA and GLA which is used to fund the acquisition and development of housing properties and their components. In line with FRS 102, Section 24, £163 million (2015: £150 million) of such grant has been credited to reserves. The Group has a future obligation to recycle or repay such grant once these properties are discharged of. As at 31 March 2016 the timing of any future disposal is uncertain.

30. Pension obligations

Policy

Defined benefit pension schemes

The Group participates in several defined benefit pension schemes which provide benefits based on final pensionable pay. The assets of the schemes are held separately from those of the Group. being invested in independently managed superannuation funds.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a highquality corporate bond of equivalent term and currency to the liability. In accordance with FRS 102 section 28, the pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the Statement of Comprehensive Income, actuarial gains and losses. Pension costs are assessed in accordance with the advice of independent qualified actuaries. Costs include the regular cost of providing benefits which, it is intended, should remain a substantially level percentage of the current and expected future earnings of the employees covered. Variations from the regular pension costs are spread evenly through the Statement of Comprehensive Income over the average remaining service lives of the current employees.

There are a number of critical underlying assumptions when measuring our defined benefit schemes, including standard rates of inflation, mortality, discount rates and anticipation of future salaries. Variation in these assumptions may significantly impact the defined benefit obligation and annual expense. These assumptions and calculations are prepared by an independent actuary.

Defined contribution pension schemes

Certain employees have opted to take out separate arrangements under various defined contribution schemes which they have chosen. The assets of such schemes are also separate from those of the Group being invested by independent fund managers. Contributions by the Group are charged to the Statement of Comprehensive Income for the year in which they are payable to the schemes.

The Group also participates in several stakeholder pension schemes to provide retirement benefits for eligible employees of the Group. Contributions to the stakeholder pension schemes are calculated as a percentage of pensionable salary and are charged to the Statement of Comprehensive Income. The schemes are not contracted out of the State Earnings Related Pension Scheme. Monthly contributions from each member are invested in the Standard Life Corporate Plan in accordance with the wishes of each member.

Social Housing Pension Scheme (SHPS)

The Group participates in the Social Housing Pension Scheme (the Scheme). The Scheme is funded and is contracted out of the State Pension scheme. As the Scheme is a multi-employer scheme where the Scheme assets are co-mingled for investment purposes, and benefits are paid for total Scheme assets, it is not possible in the normal course of events to identify on a consistent and reasonable basis the share of underlying assets and liabilities belonging to individual participating employers. Accordingly, due to the nature of the Scheme, the accounting charge for the period under FRS 102 section 28.11 represents the employer contribution payable. Contributions payable from the Association to the Scheme under the terms of its funding agreement for past deficits are recognised as a liability in the Association's financial statements.

Notes to the financial statements (continued)

30. Pension obligations (continued)

Group Summary

Scheme	Norfolk County Council Super-annuation Fund		Surrey County Council Pension Fund	Cambridge-shire County Council Pension Fund	Kent County Council Pension Fund		London Borough of Merton Pension Fund	Other	**Total**
Group member	Circle Anglia Limited	Anglia Main-tenance Services Limited	Mole Valley Housing Association Limited	Roddons Housing Association Limited	Invicta Telecare Limited	Russet Homes Limited	Merton Priory Homes	See note below	
Current number of employees in the scheme	**32**	**9**	**17**	**29**	**21**	**26**	**75**	**22**	**231**
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Scheme (deficit)/ surplus at 31 March 2016	**(9.6)**	**0.6**	**(0.7)**	**(2.2)**	**(1.7)**	**(7.9)**	**(4.1)**	**(1.6)**	**(27.2)**
Deferred tax asset	**2.1**	**(0.1)**	**–**	**–**	**0.3**	**–**	**–**	**–**	**2.3**
Net scheme (deficit)/ surplus at 31 March 2016	**(7.5)**	**0.5**	**(0.7)**	**(2.2)**	**(1.4)**	**(7.9)**	**(4.1)**	**(1.6)**	**(24.9)**

Note: Details of all of the funds can be found in the individual entities' financial statements.

'Other' represents four defined benefit pension funds for Circle Care and Support Limited and Old Ford Housing Association each with fewer than 11 members and therefore considered to be below the materiality level for reporting in the consolidated financial statements. It also includes contributions payable to SHPS under the terms of its funding agreement.

The four defined benefit pension funds are Islington Council (Circle Care and Support Limited), Cambridgeshire County Council (Circle Care and Support Limited), Kent County Council (Circle Care and Support Limited) and the London Borough of Tower Hamlets (Old Ford Housing Association).

Circle Care and Support Limited and Circle Anglia Limited both have active members in SHPS but as there are fewer than ten, consolidated amounts have not been disclosed on the grounds of materiality.

Principal actuarial assumptions were as follows:

	2016	2015
Pension increase rate	**2.0%–2.5%**	2.0%–2.6%
Salary increase rate	**3.2%–4.3%**	3.3%–4.4%
Discount rate	**3.5%–3.8%**	3.2%–3.5%

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65 year old to live for a number of years as follows:

	Male (years)	Female (years)
Current pensioner aged 65	**21.1–22.9**	**24.2–25.8**
Future retiree upon reaching 65	**24.3–25.2**	**26.4–28.1**

30. Pension obligations (continued)

Group Summary (continued)

The net pension deficit at the year end comprised the following	2016 £m	2015 £m
Total market value of assets	**98.7**	97.6
Present value of scheme liabilities	**(125.7)**	(134.5)
	(27.0)	(36.9)

Movement in deficit during the year	2016 £m	2015 £m
As at 1 April 2015	**(36.9)**	(28.1)
Current service costs	**(2.1)**	(1.8)
Contributions by employer	**2.9**	4.2
Administration expenses	**–**	–
Expected return on assets	**3.3**	3.8
Interest cost	**(4.4)**	(4.9)
Actuarial gains/(losses)	**10.2**	(10.1)
	(27.0)	(36.9)

Movement in present value of defined benefit obligation	2016 £m	2015 £m
As at 1 April 2015	**(134.5)**	(113.9)
Current service costs	**(2.1)**	(1.9)
Interest cost	**(4.4)**	(4.9)
Contributions by members	**(0.5)**	(0.5)
Actuarial gains/(losses)	**12.5**	(16.8)
Estimated benefits paid	**3.3**	3.5
As at 31 March 2016	**(125.7)**	(134.5)

Movement in fair value of plan assets	2016 £m	2015 £m
As at 1 April 2015	**97.6**	85.8
Expected return on assets	**3.3**	3.8
Contributions by employer	**2.8**	4.2
Contributions by members	**0.5**	0.5
Administration expenses	**–**	–
Actuarial gains/(losses)	**(2.3)**	6.7
Estimated benefit paid	**(3.2)**	(3.4)
As at 31 March 2016	**98.7**	97.6

Notes to the financial statements (continued)

30. Pension obligations (continued)
Group Summary (continued)

The Group expects the employer's contribution for the year ended 31 March 2017 to be approximately £2.9 million.

The fair value of assets held by the pension schemes is as follows:

Categories of plan assets as a percentage of total plan assets	2016	2015
Equities	**64.9%**	68.9%
Bonds	**13.2%**	10.2%
Gilts	**4.0%**	4.1%
Other bonds	**3.2%**	3.4%
Property	**11.0%**	9.7%
Cash	**2.5%**	2.6%
Target return portfolio	**1.1%**	1.1%
Alternative assets	**0.1%**	–

Fair value	2016 £m	2015 £m
Equities	**64.0**	67.2
Bonds	**13.0**	10.0
Gilts	**3.9**	4.0
Other bonds	**3.2**	3.3
Property	**10.9**	9.5
Cash	**2.5**	2.5
Target return portfolio	**1.1**	1.1
Alternative assets	**0.1**	–
	98.7	97.6

Analysis of amounts recognised in operating surplus	2016 £m	2015 £m
Current service costs	**(2.1)**	(1.9)

Amounts credited/(charged) to interest costs and financing	2016 £m	2015 £m
Expected return on assets	**3.3**	3.8
Interest on liabilities	**(4.4)**	(4.9)
	(1.1)	(1.1)

Analysis of amounts recognised in Other Comprehensive Income	2016 £m	2015 £m
Changes in financial assumptions	**12.5**	(16.8)
Return on assets excluding amounts included in net interest	**(2.3)**	6.7
	10.2	(10.1)
Movement on deferred tax	**(1.0)**	0.6
	9.2	9.5

30. Pension obligations (continued)

Circle Anglia Limited

The Norfolk County Council Superannuation Fund

The Association operates a defined benefit scheme for employees, the assets of which are held in a separate trustee administered fund, the Norfolk County Council Superannuation Fund. The actuarial liabilities in relation to the scheme are subject to triennial valuation by independent actuaries. The last triennial valuation was carried out in 2013 and an actuarial valuation was carried out for 31 March 2016 using the projected unit method.

The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the plan's investment portfolio:

Principal actuarial assumptions at the year end were as follows:

	2016	2015
Pension increase rate	**2.2%**	2.4%
Salary increase rate	**3.2%**	3.3%
Discount rate	**3.5%**	3.2%

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65 year old to live for a number of years as follows:

	Male (years)	Female (years)
Current pensioner aged 65	**22.1**	**24.3**
Future retiree upon reaching 65	**24.5**	**26.9**

The net pension deficit at the year end comprised the following	2016 £m	2015 £m
Total market value of assets	**28.8**	28.0
Present value of scheme liabilities	**(38.4)**	(42.0)
Scheme deficit	**(9.6)**	(14.0)

Movement in deficit in year	2016 £m	2015 £m
As at 1 April 2015	**(14.0)**	(13.1)
Current service costs	**(0.4)**	(0.3)
Contributions paid	**1.1**	2.3
Administration expenses	**–**	–
Expected return on employer assets	**0.9**	1.0
Interest cost	**(1.3)**	(1.6)
Actuarial gains/(losses)	**4.1**	(2.3)
	(9.6)	(14.0)

Movement in present value of defined benefit obligation	2016 £m	2015 £m
As at 1 April 2015	**(42.0)**	(36.8)
Current service costs	**(0.4)**	(0.3)
Interest cost	**(1.3)**	(1.6)
Contributions by members	**(0.1)**	(0.1)
Actuarial gains/(losses)	**4.3**	(4.6)
Estimated benefits paid	**1.1**	1.4
As at 31 March 2016	**(38.4)**	(42.0)

Notes to the financial statements (continued)

30. Pension obligations (continued)

Circle Anglia Limited (continued)

The Norfolk County Council Superannuation Fund (continued)

Movement in fair value of plan assets	2016 £m	2015 £m
As at 1 April 2015	**28.0**	23.7
Expected return on assets	**0.9**	1.0
Contributions by employer	**1.1**	2.3
Contributions by members	**0.1**	0.1
Administration expenses	**–**	–
Actuarial (losses)/gains	**(0.2)**	2.3
Estimated benefit paid	**(1.1)**	(1.4)
As at 31 March 2016	**28.8**	28.0

The Association expects the employer's contribution for the year ended 31 March 2017 to be approximately £1.1 million.

The fair value of the assets held by the pension scheme is as follows:

Categories of plan assets as a percentage of total plan assets	2016	2015
Equities	**58%**	65%
Bonds	**27%**	20%
Property	**13%**	12%
Cash	**2%**	3%

Fair value	2016 £m	2015 £m
Equities	**16.6**	18.2
Bonds	**7.8**	5.6
Property	**3.8**	3.4
Cash	**0.6**	0.8
	28.8	28.0

Analysis of amounts recognised in operating surplus	2016 £m	2015 £m
Current service costs	**(0.4)**	(0.3)

Analysis of amount credited/(charged) to interest and financing costs	2016 £m	2015 £m
Expected return on assets	**0.9**	1.0
Interest on liabilities	**(1.3)**	(1.6)
	(0.4)	(0.6)

Analysis of amounts recognised in Other Comprehensive Income	2016 £m	2015 £m
Changes in financial assumptions	**3.6**	(5.0)
Other experience	**0.7**	*0.4*
Return on assets excluding amounts included in net interest	**(0.2)**	2.3
	4.1	(2.3)
Movement in deferred tax	**(0.8)**	0.5
	3.3	(1.8)

Social Housing Pension Scheme (SHPS)

The Association participates in the SHPS, 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 Association 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.

30. Pension obligations (continued)

Circle Anglia Limited (continued)

Social Housing Pension Scheme (continued)

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 Association 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.

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:

Deficit contributions:

Tier 1 From 1 April 2016 to 30 September 2020:	£40.6 million per annum (payable monthly and increasing by 4.7% each year on 1 April)
Tier 2 From 1 April 2016 to 30 September 2023:	£28.6 million per annum (payable monthly and increasing by 4.7% each year on 1 April)
Tier 3 From 1 April 2016 to 30 September 2026:	£32.7 million per annum (payable monthly and increasing by 3.0% each year on 1 April)
Tier 4 From 1 April 2016 to 30 September 2026:	£31.7 million per annum (payable monthly and increasing by 3.0% each year on 1 April)

Note that the Scheme's previous valuation was carried out with an effective date of 30 September 2011; this valuation was certified on 17 December 2012 and showed assets of £2,062 million, liabilities of £3,097 million and a deficit of £1,035 million. To eliminate this funding shortfall, payments consisted of the Tier 1, 2 and 3 deficit contributions.

Where the Scheme is in deficit and where the Association has agreed to a deficit funding arrangement, the Association recognises a liability for this obligation. The amount recognised is the net present value of the deficit reduction contributions payable under the agreement that relates to the deficit. The present value is calculated using the discount rate detailed in these disclosures.
Then unwinding of the discount rate is recognised as a finance cost.

Present value of provision	2016 £000	2015 £000	2014 £000
Present value of provision	**144**	103	106

Reconciliation of opening and closing provisions	2016 £000	2015 £000
As at 1 April 2015	**103**	106
Unwinding of the discount factor (interest expense)	**2**	3
Deficit contribution paid	**(12)**	(11)
Remeasurements – impact of any change in assumptions	**(1)**	5
Remeasurements – amendments to the contribution schedule	**52**	–
As at 31 March 2016	**144**	103

Income and expenditure impact	2016 £000	2015 £000
Interest expense	**2**	3
Remeasurements – impact of any change in assumptions	**(1)**	5
Remeasurements – amendments to the contribution schedule	**51**	–

Notes to the financial statements (continued)

30. Pension obligations (continued)

Circle Anglia Limited (continued)

Social Housing Pension Scheme (continued)

Assumptions	2016	2015	2014
Rate of discount	**2.1%**	1.9%	3.0%

The discount rates shown above are the equivalent single discount rates which, when used to discount the future recovery plan contributions due, would give the same results as using a full AA corporate bond yield curve to discount the same recovery plan contributions.

Defined contribution pension schemes

The Group participates in several stakeholder pension schemes to provide retirement benefits for eligible employees of the Group. Contributions to the stakeholder pension scheme are calculated as a percentage of pensionable salary and are charged to the Income and Expenditure account. The schemes are not contracted out of the State Earnings Related Pension Scheme. Monthly contributions from each member are invested in the Standard Life Corporate Plan in accordance with the wishes of each member.

Certain employees have opted to take out separate arrangements under various defined contribution schemes which they have chosen. The assets of such schemes are also separate from those of the Group, being invested by independent fund managers. Contributions by the Group are charged to the Income and Expenditure account for the year in which they are payable to the schemes.

31. Related party transactions

As at 31 March 2016, there were no Board or Committee members who were Circle Anglia Limited tenants or shared owners (2015: nil).

32. Non-equity share capital

	Association	
	2016 £	2015 £
Shares of £1 each issued and fully paid		
As at 1 April 2015	**9**	9
Shares issued during the year	**–**	2
Shares surrendered during the year	**–**	(2)
As at 31 March 2016	**9**	9

With the exception of the Chief Executive Officer, each member of the Board of Management holds a non-equity share of £1 in the Association. The shares carry the right to vote at meetings of members on the basis of one share, one vote. They do not carry any right to a dividend, to any redemption value or to any distribution on winding up.

33. Reserves

Policy

Where the Group is required to do so due to external restrictions, a number of restricted reserves have been established for these specific purposes.

Group

	Cash flow hedge reserve	Income and expenditure reserve £m	**Total £m**
As at 1 April 2015	(238.9)	597.4	**358.5**
Surplus for the year	–	85.8	**85.8**
Gain on exchange rates	–	2.9	**2.9**
Pension actuarial loss net of deferred tax	–	9.2	**9.2**
Loss recognised on effective cash flow hedges	(12.0)	–	**(12.0)**
Loss recognised on cancellation of hedged derivative	(12.1)	–	**(12.1)**
As at 31 March 2016	**(263.0)**	**695.3**	**432.3**

The income and expenditure reserve is used towards funding the day to day operations of the Group.

33. Reserves (continued)

The cash flow hedge reserve comprises the portion of the net cumulative gains and losses in the fair value of the cash flow hedging instruments calculated to be effectively hedged (detailed in note 24 Financial instruments) that are being held to maturity in designated cash flow hedging relationships. It also contains (as prescribed in IFRS 9 6.5.12) the amortised value of any cancelled cash flow hedging instruments that had been in hedging relationships where the hedged item continues to be held by the Group.

34. Reconciliation of movement in Group and Association funds

	Group		Association	
	2016 £m	2015 £m	**2016 £m**	2015 £m
As at 1 April 2015	**597.4**	538.5	**(19.6)**	(15.5)
Surplus/(deficit) for the financial year	**85.8**	67.4	**(0.1)**	(2.3)
Surplus on exchange rates	**2.9**	1.0	**–**	–
Net actuarial gains/(losses) net of deferred tax	**9.2**	(9.5)	**3.3**	(1.8)
Closing funds	**695.3**	597.4	**(16.4)**	(19.6)

35. Government grants

Included in the Statement of Comprehensive Income:

	2016 £m	2015 £m
Turnover:		
Amortised deferred government grant	**13.3**	12.8

Included in the Statement of Financial Position:

	2016 £m	2015 £m
Creditors due within one year:		
Recycled Capital Grant Fund	**2.7**	3.0
Disposal Proceeds Fund	**1.5**	0.5
Deferred government grant	**13.2**	13.2
	17.4	16.7
Creditors due after one year:		
Recycled Capital Grant Fund	**7.0**	5.3
Disposal Proceeds Fund	**3.1**	2.4
Deferred government grant	**1,399.1**	1,396.2
Accumulated amortisation of government grant	**(162.9)**	(149.6)
	1,246.3	1,254.3

36. Explanation of transition to FRS 102 from old UK GAAP

As stated in note 2, these are the Company's first financial statements prepared in accordance with FRS 102.

The accounting policies set out in note 2 have been applied in preparing the financial statements for the year ended 31 March 2016 and the comparative information presented in these financial statements for the year ended 31 March 2015.

In preparing its FRS 102 balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to FRS 102 has affected the Company's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

		Group		
Year ended 31 March 2015	Note	**Previous UK GAAP £m**	FRS 102 adjustments £m	FRS 102 £m
Turnover: continuing activities	a)	**411.8**	12.8	424.6
Cost of sales		**(38.3)**	0.1	(38.2)
Operating costs	a), c), d), f), h)	**(267.7)**	(5.4)	(273.1)
Operating surplus: continuing activities		**105.8**	7.5	113.3
Gain on revaluation of investment properties	b)	**–**	10.1	10.1
Surplus on sale of fixed assets	a)	**13.7**	0.1	13.8
Interest receivable	f), n)	**3.7**	(0.2)	3.5
Interest and financing costs	f), g)	**(80.8)**	(0.5)	(81.3)
Other financial income/other financial (cost)	n)	**0.3**	(0.3)	–
Movement in fair value of financial instruments	i), j)	**–**	5.2	5.2
Surplus on ordinary activities before taxation		**42.7**	21.9	64.6
Tax credit/(charge) on surplus on operating activities		**2.8**	–	2.8
Surplus for the financial year after taxation		**45.5**	21.9	67.4
Minority interests		**–**	–	–
Surplus for the financial year after minority interests		**45.5**	21.9	67.4
Actuarial (loss)/gain in respect of pension schemes	f)	**(11.1)**	1.6	(9.5)
Change in fair value of hedged financial instruments	k)		(127.4)	(127.4)
Exchange rate gains/(losses)		**1.0**	–	1.0
Total comprehensive income for the year		**35.4**	(103.9)	(68.5)

36. Explanation of transition to FRS 102 from old UK GAAP (continued)

Statement of Financial Position		Group at 31 March 2015				Group at 31 March 2014		
31 March 2015	Note	Previous UK GAAP £m	**Transition date FRS 102 adjustments £m**	**FRS 102 adjustments £m**	FRS 102 £m	Previous UK GAAP £m	**Transition date FRS 102 adjustments £m**	FRS 102 £m
Tangible fixed assets								
Housing properties – depreciated cost	a), b)	3,678.7	**(168.7)**	**(4.2)**	3,505.8	3,545.5	**(168.7)**	3,376.8
Less: Social Housing Grant	a)	(1,409.5)	**1,393.5**	**16.0**	–	(1,393.5)	**1,393.5**	–
		2,269.2	**1,224.8**	**11.8**	3,505.8	2,152.0	**1,224.8**	3,376.8
Investment properties	b)	–	**181.5**	**3.5**	185.0	–	**181.5**	181.5
Other tangible fixed assets	b)	81.3	**(54.1)**	**7.4**	34.6	82.3	**(54.1)**	28.2
Goodwill	j)	7.9	**(0.3)**	**–**	7.6	9.1	**(0.3)**	8.8
Investments	l)	2.5	**–**	**(1.7)**	0.8	0.8	**–**	0.8
Investments in joint venture:							**–**	
– Share of net assets	l)		**–**	**3.4**	3.4	–	**–**	–
– Share of gross assets	l)	8.5	**–**	**(8.5)**	–	–	**–**	–
– Share of gross liabilities	l)	(1.7)	**–**	**1.7**	–	–	**–**	–
Debtors: Amounts falling due after more than one year	l), p)	151.7	**–**	**8.5**	160.2	163.4	**–**	163.4
Derivative financial instruments	i), j), k)	–	**5.8**	**6.1**	11.9	–	**5.8**	5.8
Investment in property under HomeBuy Scheme:								
– Equity loans granted		13.0	**–**	**–**	13.0	13.1	**–**	13.1
– Social Housing Grant	a)	(13.0)	**13.1**	**(0.1)**	–	(13.1)	**13.1**	–
		2,519.4	**1370.8**	**32.1**	3,922.3	2,407.6	**1,370.8**	3,778.4
Current assets								
Stock and work in progress		55.9	**–**	**–**	55.9	69.2	**–**	69.2
Debtors due within one year		70.8	**–**	**–**	70.8	83.8	**–**	83.8
Investments	o)	153.1	**–**	**(134.9)**	18.2	18.1	**–**	18.1
Cash and cash equivalents	o)	23.7	**–**	**134.9**	158.6	9.9	**–**	9.9
		303.5	**–**	**–**	303.5	181.0	**–**	181.0
Creditors: Amounts falling due within one year	c), d)	(185.9)	**(0.8)**	**(12.0)**	(198.7)	(173.8)	**(0.8)**	(174.6)
Net current assets		117.6	**(0.8)**	**(12.0)**	104.8	7.2	**(0.8)**	6.4
Total assets less current liabilities		2,637.0	**1,370.0**	**20.1**	4,027.1	2,414.8	**1,370.0**	3,784.8
Creditors: Amounts falling due after more than one year	a), e), g)	2,128.0	**1,269.8**	**(7.6)**	3,390.2	1,948.6	**1,269.8**	3,218.4
Derivative financial instruments	i), j), k)	–	**113.2**	**128.1**	241.3	–	**113.2**	113.2
Long-term pension liability	f), p)	33.4	**0.2**	**3.5**	37.1	24.7	**0.2**	24.9
Capital and reserves								
Non-equity share capital								
Designated and other restricted reserves	m)	5.0	**(8.1)**	**3.1**	–	8.1	**(8.1)**	–
Revenue reserve		470.6	**106.4**	**20.4**	597.4	432.1	**106.4**	538.5
Cash flow reserve	k)	–	**(111.5)**	**(127.4)**	(238.9)	–	**(111.5)**	(111.5)
Minority interests		–	**–**	**–**		1.3	**–**	1.3
		2,637.0	**1,370.0**	**20.1**	4,027.1	2,414.8	**1,370.0**	3,784.8

Notes to the financial statements (continued)

36. Explanation of transition to FRS 102 from old UK GAAP (continued)

Transition to FRS 102

Circle Anglia Limited has adopted FRS 102 for the year ended 2016 and has restated the comparative prior year amounts. Due to the updated requirements for presentation under FRS 102, the form of the Balance Sheet and Income and Expenditure Account has changed from the previous UK GAAP interpretations. In order to show the quantitative changes clearly, the transition note is largely aligned to the previous published statutory accounts and the updated form can be seen in the Statement of Financial Position and the Statement of Comprehensive Income.

a. Social Housing Grant

As required by the Housing SORP 2014, Social Housing Grant is carried as deferred income in the Statement of Financial Position and released to the Statement of Comprehensive Income on a systematic basis over the useful economic lives of the component asset class of structure. The amortisation of this grant is reported as turnover of £12.8 million in the 2014/15 financial year.

The change in allocation of grant from land and structure to just structure also results in an increase in depreciation of £5.5 million and a reduction made to the surplus on any properties sold of £0.1 million which results in a net charge to the Income Statement of £7.3 million in the 2014/15 financial year.

The adjustment made to the revenue reserve for previous, cumulative adjustment totals £136.7 million for grant amortisation and the depreciation adjustments total £53.6 million.

There is also a presentational change with Social Housing Grant reclassified from Housing properties to Creditors: Amounts falling due after more than one year. The element to be amortised within the next year is shown as short term.

b. Investment properties

Under FRS 102, market rent properties are classified as Investment properties and are held at fair value. Fair value movements are recognised on the face of the Statement of Comprehensive Income. At the transition date, a total of £181.5 million of Housing properties and Other tangible fixed assets were reclassified as Investment properties. A revaluation gain of £0.2 million has been recognised at this date and a write-back of depreciation totalling £9.7 million. During the financial year 2014/15, a further revaluation gain of £10.1 million and a further transfer of £0.1 million from Housing properties has also been recognised and a further write-back of depreciation totalling £1.3 million. There was also a foreign exchange loss of £6.7 million recognised within the financial year 2014/15 within the Investment properties. As at 31 March 2015, Investment properties were valued at £185.0 million.

c. Holiday pay accrual

An accrual is now made for entitlement to holiday at the year end which has not been taken by employees. This has been calculated based on payroll records and totalled £1.0 million as a liability in opening reserves. This accrual, within Creditors: Amounts falling due within one year, increased to £1.3 million in the 2014/15 financial year resulting in a £0.3 million charge to the Statement of Comprehensive Income within Operating costs.

d. Lease incentives

Under our previous accounting framework, lease incentives were accounted for over the period to a rent review. This incentive is now accrued over the period of the full lease and has resulted in an increased charge in the 2014/15 financial year of £0.7 million within Operating costs.

e. Finance leases

Finance leases are valued using the effective interest rate methodology. The carrying value and interest payable are adjusted to account for this change. In the 2014/15 financial year an extra £24,000 (2014: reduction of £200,000) is added to the interest payable with the total obligation reduced by £200,000 in the Statement of Financial Position within Creditors: Amounts falling due after more than one year.

36. Explanation of transition to FRS 102 from old UK GAAP (continued)

f. Pensions

Under FRS 102 section 28 the Group is now required to recognise the interest on the net scheme liabilities at a single combined rate. This results in a presentational adjustment showing a reduction of interest income of £1.6 million, which is instead reflected as Other Comprehensive Income.

The Group is also required to recognise the net present value of any contractual agreements under the Social Housing Pension Scheme to make additional payments for a past deficit which has resulted in a liability of £0.2 million, reflected in opening reserves. There is a further charge in the 2014/15 financial year of £21,000.

g. Bond and loan balances

There are two bonds in issuance from Circle Housing Group from 2008 and 2012 of which portions have been retained by the Group to issue at later times when appropriate. These later issuances are treated as separate external issuances of that bond under FRS 102. These issuances are now accounted for using the effective interest rate methodology, resulting in an adjustment to their carrying value and therefore a transition date adjustment of £0.4 million to increase the liability in Creditors and a reduction in the interest charge in the 2014/15 financial year of £0.8 million.

h. Goodwill

Under FRS 102, goodwill is considered to have a useful life of ten years which results in an increased amortisation charge of £0.3 million and a resultant reduced goodwill balance of £7.6 million.

Derivatives

Circle Anglia Limited was not previously required to recognise derivative financial instruments on the Balance Sheet. Instead the effects of the derivative financial instruments were recognised in Income or Expenditure on settlement.

Under FRS 102, derivative financial instruments are now required to be recognised on our Statement of Financial Position at fair value when an entity becomes party to the contractual obligation. These are either recognised as a financial asset or a financial liability.

On the adoption of the requirements of FRS 102, financial assets of £5.8 million and financial liabilities of £113.2 million have been recognised on the Statement of Financial Position at the date of transition.

At 31 March 2015, the fair values of the financial assets and financial liabilities were £11.9 million and £241.3 million, respectively. This has resulted in a movement in fair value of these instruments of £2.3 million that has been charged to the Income Statement and a charge to Other Comprehensive Income of £127.4 million.

Hedge accounting

Circle Anglia Limited has elected to apply hedge accounting under IFRS 9 which will affect the nature of the movement in valuations of the derivatives held under cash flow hedges and whether that movement will be charged/credited through the Income Statement or the cash flow hedge reserve.

i. Ineffective portion of hedged derivatives

The ineffective portion of the hedged derivatives is charged through the Income Statement and was £0.1 million in 2014 and £2.3 million in 2015. These are shown as a Movement in fair value of financial instruments on the face of the Statement of Comprehensive Income. The resultant effect on the revenue reserve is, therefore, £2.4 million.

j. Movement in fair value of financial instruments not in hedging relationship

The fair value movements of the derivative associated with the fair value movement of the 2038 bond has resulted in gains of £7.5 million in the year ended 31 March 2015 and £4.4 million at the transition date with a total effect on Revenue reserves of £11.9 million.

k. Effective portion of hedged derivatives

The Hedge accounting was initialised at the transition date and the effective portion of the hedged derivatives is charged to Other Comprehensive Income. This totalled £127.4 million in 2015 and £111.5 million in 2014 to give a total cash flow hedge reserve of £238.9 million.

Notes to the financial statements (continued)

36. Explanation of transition to FRS 102 from old UK GAAP (continued)

Presentation

l. Share of net assets

There is a presentational change in line with FRS 102 section 15 to show the share of gross assets and share of gross liabilities as a single line for a jointly controlled entity. There is also a revaluation of £5.1 million (2014: £nil) of a loan within the Circle Hill joint venture which adjusted in Debtors: Amounts falling due after more than one year.

m. Designated reserves

In line with the Housing SORP 2014, designated reserves are no longer separately identified on the face of the Statement of Financial Position. The majority of the Group's designated reserves relate to unutilised contributions to service charge sinking funds and have therefore been reclassified to Other creditors: Amounts falling due after more than one year.

n. Other financial income

In line with the Housing SORP 2014, 'Other financial income/other finance (cost)' is now shown within Interest receivable as a combined sum due to the different treatment of FRS 102 section 28.

o. Cash and cash equivalents

Money market funds which are deposited for periods of less than three months are reclassified from Investments to Cash and cash equivalents in line with FRS 102 section 7 which has clarified the distinction for highly liquid investments.

p. Deferred tax liability

In line with FRS 102 section 29, the deferred tax element of net pension liability is now shown gross of the pension and so an adjustment is made to Debtors: Amounts falling due after more than one year for £3.5 million.

37 Events at the end of the reporting period

We are working in markets that are experiencing change as a result of government policy and growing demand. The vote on 23 June 2016 to leave the EU has created further uncertainty in our sector. We have created an active register detailing risks relating to leaving the EU and our approach to managing them, which is integrated with existing risks facing the organisation.

Design, consultancy and
production by Luminous
www.luminous.co.uk

Two Pancras Square
King's Cross
London N1C 4AG
Telephone: 0300 456 1100

www.circlegroup.org.uk

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