BUILDING HOMES. DEVELOPING FUTURES.

Clarion Housing Group Annual Report and Accounts 2016/17

CLARION
HOUSING GROUP

Everybody deserves a good home.

Clarion Housing Group formed in 2016, following the merger between two of the country's largest housing associations, Affinity Sutton and Circle Housing groups. With nearly 125,000 homes we will use our strength and scale to create opportunities that change people's lives.

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What makes Clarion different?

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Chairman s foreword
Chief Executive s statement

To find out more and
access all our reports visit:
clarionhg.com

The year at a glance

Our key financial, operational and property development highlights over the past year.

Financial highlights

£796m
Turnover

£173m
Net surplus

£271m
Net long-term investment in affordable housing properties

£4,623
Operating cost per home

£109m
Sales income

210%
Interest cover

A2
Credit rating (Moody's)

Operational highlights

76.7%
Resident satisfaction

79.9%
Resident satisfaction with repairs

3.5%
Arrears

124,572
Homes owned and managed at the end of the year

74.5%
Housing calls answered within 30 seconds

£85m
Social value of community investment activity

Property development highlights

1,340
New homes constructed

1,206
New affordable homes constructed

134
New private sales constructed

1,863
New homes started

Providing good services to our current residents is our top priority – and we know there are areas, especially in parts of London where we can and will do better.

But building 50,000 homes over a decade and delivering the most extensive and influential community investment programme in the sector are bold ambitions. By attracting additional external funding, our investment into our communities will be around £150 million over the next 10 years, making this the largest programme of its kind in the country.

Building futures
Clarion provides more than housing. We support more than 4,000 people into work and training each year as well as supporting 15,000 young people a year to make a better start in life, for example through partnerships with the education sector and the provision of apprenticeships.

BREATHING NEW LIFE INTO OUR COMMUNITIES

Experience
Our experience of delivering large scale regeneration projects is sector-leading. We adopt innovative approaches to secure successful delivery, which means we can deliver new homes and communities without the need to rely on government grant.

Increased capacity
We can increase our home building programme to 50,000 over 10 years, while maintaining a strong credit profile.

In an uncertain economic environment a strong financial performance is more important than ever

Uncertainties relating to Brexit and government stability can create problems. Our financial performance will ensure the Group remains stable through difficult times.

STRONG FINANCIAL PERFORMANCE

Resilience to risk
Our financial strength means we will be able to manage adverse trading conditions, absorb market shocks and ride out economic uncertainty.

Greater efficiency
A change programme on a scale unprecedented in the sector will modernise customer services and create a platform for growth.

Increased influence
As the largest affordable housing provider in the country we have the scope to influence public policy for the benefit of our customers and the sector as a whole.

Partnership
At Clarion we know that unlocking the biggest opportunities is driven by our partnerships. From policy makers and local authorities, to architects, developers and the whole supply chain – we drive partnerships, working together to realise our ambitions.

The formation of Clarion represents the largest merger the sector has ever seen

I am pleased to present this, the first Annual Report and Financial Accounts for what is the now the largest affordable housing provider in the country – Clarion Housing Group, with responsibility for nearly 125,000 homes in 176 local authorities across England.

Clarion, was created by the largest merger the sector has ever seen, between Affinity Sutton and Circle Housing groups. The merger, however, was not an end in itself. The creation of the new organisation puts us in a very strong position in terms of delivering for our customers, across all tenures, and making us a major national force in delivering new homes and helping to tackle the housing crisis.

We are well on track to deliver our ambition to consolidate all of our housing association subsidiaries to create a single housing association. This will enable us to deliver better local services to our residents as well as the biggest social investment programme in the sector, thereby underlining our ongoing commitment to place social purpose at the heart of everything we do.

We launched Clarion at a time when we are confronted by a very particular set of headwinds. Although it is too early to say what the impact of Brexit or the uncertain general election result might be, I am confident that our financial strength and Clarion's clear sense of strategic direction will ensure we are able to drive future success.

"We are well on track to deliver our ambition to consolidate all of our housing association subsidiaries to create a single housing association.

We ended 2016/17 having made a surplus of £173 million on a turnover of £796 million and generating an Operating Margin of 36%. Although marginally below forecast due to a number of exceptional merger related costs, our financial strength is recognised by Moody's rating agency through our A2 rating, a strong investment grade rating. Most importantly these results provide us with a solid foundation to deliver on our key merger drivers: to build more homes, deliver efficiencies, provide consistent customer-focused services through a multi channel approach and increase the numbers of people we can support into work and training.

I am acutely aware that our scale and reach brings substantially increased responsibilities, particularly at a time of housing shortage. We aim to play a major role in developing new homes. By merging we have been able to unlock greater capacity and our target is to more than double the number of new homes we can build to 50,000 over 10 years. Our key priority, and social purpose, is to build affordable homes for rent and low cost home ownership and this will form two thirds of our programme. Our strategy and business plan places minimal reliance on public subsidy but we will continue to lobby government on the value and cost effectiveness of providing subsidy for affordable housing. We could do so much more if we had certainty about future rent levels, the availability of public funding, access to public land and more efficient planning decisions.

Despite the inevitable challenges associated with bringing two large and complex organisations together – albeit organisations with a shared a set of values, ethos and culture – plus the need to bring about significant improvements to service delivery, our board and staff have risen to meet the challenges head on. I am very proud of what we have achieved in such a short space of time and I would like to thank all our people for their commitment and dedication. I would particularly like to record my thanks to two key individuals who left Clarion after the year end. Sir Robin Young, the former chair of Circle Housing and inaugural Clarion Chair and Mark Rogers, the former Circle Chief Executive. Robin and Mark had the foresight and determination to steer through what was a complex transaction in sometimes difficult circumstances. The formation of Clarion Housing Group would not have been possible without them.

Clarion is new and ambitious. I am confident we are in the best possible position to overcome the challenges we will face as we deliver our programme to build homes and develop futures.

Neil Goulden
Chairman

Photo: Our homes at Ebbsfleet Garden City, see page 19.

Ensuring our future success

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Our top priority is to ensure that our residents live in good quality homes and receive consistently good service.

At Clarion we have brought together two organisations with over one hundred years of history of investing in communities and improving the life chances of the people who live in them.

This shared sense of social purpose was a recurring theme in our merger discussions and has shaped our ambitions to support 4,000 people into work and training every year; to provide 250 apprenticeships; to help 5,000 people take full control of their finances; and to assist 15,000 young people make a better start in life every year. This programme, one of the largest social investment programmes in the country, sets us apart and will have a profound impact on the quality of life of our residents and those living in our communities.

We must not, of course, forget that first and foremost we are a social landlord, and a high volume customer service business; and therefore our top priority is to ensure that our residents live in good quality homes and receive consistently good services from us, wherever they live. It was deeply disappointing that very soon after the merger, the Homes and Communities Agency issued a Regulatory Notice as a result of shortcomings in the services Circle provided to residents in parts of London. The service received by some Circle residents has not been good enough and the new Clarion Board and Executive Team take full responsibility for putting things right just as quickly as we can.

The new Group immediately put in place an action plan to transform the way services are provided for Circle's residents. Some of the improvements will take time but progress is already significant and we are confident that we will address and improve the service shortcomings identified. Significant improvements have already been made in completing repairs on time and we ended the year up on our 2016 performance with 95.6% of repairs completed on time. Changes implemented at our Circle customer contact centre increased the percentage of calls answered within target from 77.7% in April 2016 to 86% in March 2017.

While customer satisfaction at Affinity Sutton Homes remained broadly unchanged at 83%, overall customer satisfaction across the Group at year end was slightly below our long term target of 80%. However, at 76.7% it compares reasonably within the sector and we are confident the steps we have put in place will ensure we meet our target in the future.

In 2016/17 we completed 1,340 new homes across a range of tenures with public subsidy of just 4% of costs. Importantly, we started construction on 1,863 new homes as we gear up to deliver our ambitious plans. Increasingly our programme is moving towards partnership working with both the public and private sectors, complemented by our own growing land bank. This shift in approach has seen us end the year with a pipeline of about 8,000 homes, placing us in a strong position to deliver on our housebuilding target. In just four months since merger, we have clearly demonstrated our determination to scale up and move as quickly as we can to deliver more homes.

In addition our asset management programme has delivered £110 million worth of improvements to our residents' homes. This is combined with our estate regeneration proposals through which we will invest £1 billion to redevelop three estates in Merton, south London. Proposals are also at an early stage on the future of our Barne Barton Estate in Plymouth and we will continue to look for ways to regenerate our 105 year old Sutton Estate in Chelsea with The Royal Borough of Kensington and Chelsea.

At the time of writing the country is reeling from the tragedy at Grenfell Tower in North Kensington. We do not yet know the cause of the fire, but it will undoubtedly have an impact on the provision of housing and the wider construction sector. We will always put the safety of our residents, of all tenures, as our top priority and any reasonable improvements needed to enhance the fire safety and resilience of our tall buildings will be tackled urgently and without budgetary constraint. We have an excellent track record of working in partnership with the fire service and other agencies and we will continue to prioritise this in the years ahead.

"We have clearly demonstrated our determination to scale up and move as quickly as we can to deliver more homes.

Photo: Our homes at Ebbsfleet Garden City, see page 19.

To deliver our strategy of simplifying our Group, by creating a single asset owning parent housing association, we have now brought together seven of the nine individual housing associations that historically made up Circle Housing. The initial preparatory work is now underway to consolidate Circle Housing and Affinity Sutton Homes to establish a single housing association landlord under Clarion Housing Group. We anticipate this new landlord will be in place and serving residents by the end of 2017.

In addition we are implementing a major change programme, underpinned by new Enterprise Resource Planning Systems delivered by Hitachi and utilising Microsoft Dynamics. This programme, which is on a scale never before seen in the sector, will be delivered over a number of phases. It will offer the opportunity to modernise our customer services, replace outdated systems and introduce new ways of working, simplifying processes and, ultimately, creating a platform for growth. Our residents will benefit from multi channel service access with a strong self-service offer if that is their preference but we remain committed to delivering the most local service possible – when needed, in the tenant's home.

By simplifying, updating and integrating all aspects of our organisation we can ensure our future success and be more capable of providing our residents with first class services at the best value for money. Of course, with an organisation as large as Clarion, this is easier said than done but in the short time since merger, we are on the right track. There is no absence of determination to deliver.

Keith Exford CBE
Group Chief Executive

Strong leadership

See our Group Executive Team's biographies on **page 58**

Photo: Group Executive Directors.
Left to right: Kerry Kyriacou, Mark Washer, Keith Exford, Michelle Reynolds, Clare Miller, Jonathan Cawthra, Neil McCall, Austen Reid.

Board

Neil Goulden*
(Group Chair) (appointed Chair 1 April 2017)

Sue Killen*
(Vice Chair) (appointed Vice Chair 1 April 2017)

David Avery*

Simon Braid*
(resigned 19 July 2017)

Tania Brisby*

Helen Bailey*

Brian Stewart OBE*

Colin Sturgeon*

Keith Exford CBE*
(Group Chief Executive)

Mark Washer*
(Group Chief Financial Officer)

Rupert Sebag-Montefiore
(appointed 6 July 2017)

John Coghlan
(appointed 6 July 2017)

Greg Reed
(appointed 6 July 2017)

Sir Robin Young*
(Group Chair) (resigned 1 April 2017)

Mark Rogers*
(resigned 1 April 2017)

Executive Directors

Keith Exford CBE

Mark Washer

Jonathan Cawthra

Kerry Kyriacou

Neil McCall

Clare Miller

Austen Reid

Michelle Reynolds

Company Secretary
Clare Miller*

* Appointed 29 November 2016

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

Winkworth Sherwood LLP
Minerva House
5 Montague House
London
SE1 9BB

Devonshires Solicitors
London
30 Finsbury Circus,
London,
EC2M 7DT

Towers & Hamlin LLP
3 Bunhill Row
London
EC1Y 8YZ

Anthony Collins Solicitors LLP
134 Edmund Street
Birmingham
B3 2ES

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

Auditors
KPMG LLP
15 Canada Square
London
E14 5GL

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

Clarion is a social landlord

Our primary role is as a social landlord. We build and manage affordable homes, primarily for people who cannot meet their housing needs in the market.

Clarion is the largest housing group in the country, formed through the merger of Affinity Sutton Group and Circle Anglia Limited on 29 November 2016. Our scale and financial strength means we can more than double our annual supply of new homes that the two former organisations built in 2016/17, without relying on government subsidy. As a national organisation our regional structure will ensure the Group plays an important role in local decision making and we will maintain close working relationships with communities.

Clarion is made up of a number of commercial and charitable subsidiaries. We do not distribute profits to shareholders but invest everything back into our social purpose. Our structure provides separate governance and oversight of all of these into three key areas:

1 Affordable Housing activities

We strive to be a housing provider of choice, offering high standards of customer service and maintaining our 125,000 homes to a good standard. We manage the majority of our repairs inhouse for greater control over customer satisfaction and service quality.

2 Commercial activities

This includes Latimer, our private sale and market rent company which provides well designed homes for a range of customers at varying price points. Latimer also serves to isolate the risks associated with new developments from core housing association activities. Included in our commercial activities is Centra, which provides a range of support and care services, including telecare and homecare, to around 1,000 customers.

3 Charitable foundation activities

Through our charitable foundation we deliver one of the largest social investment programmes in the country. We support people into work, provide high-quality apprenticeships, help residents to become more financially resilient and independent and assist young people to make a better start in life.

Clarion Housing Group structure

CLARION
HOUSING GROUP

Affinity Sutton Homes

Community Building Services (CBS) Limited
Affinity Sutton Repairs Limited
Grange Management (Southern) Limited
Affinity Sutton Professional Services Limited
Broomleigh Regeneration Limited
— Ramsden Regeneration LLP
Downland Regeneration Limited
— Linden/Downland Graylingwell LLP
— Wilmington Regeneration LLP

Circle 33 Housing Trust

Merton Developments Limited
Thackery Mews Limited
Zenith Development Partnership Limited

Old Ford Housing Association

Old Ford Homes Limited

Russet Homes

Affinity Sutton Funding Limited

Affinity Sutton Capital Markets plc

Circle Anglia Treasury Limited

Circle Anglia Social Housing plc

Circle Anglia Social Housing 2 plc

Igloo Insurance PCC Limited

CLARION
FUTURES

Affinity Sutton Investments Limited

LATIMER

Your Lifespace Limited

- Bonner Road LLP
- Leamington Waterfront LLP
- Circle Hill LLP
- Grimaldi Development Limited

261 City Road Developments LLP

- City Road (Lexicon) Limited
- 261 City Road Management Company Limited
- City Basin MidCo Limited

72 Farm Lane LLP

Linden (York Road) LLP

Mayfields Market Town Limited

Latimer Green Lanes Limited

Latimer Hill LLP

Centra

Circle Care and Support Ltd

- Invicta Telecare Limited

Circle Anglia Foundation

- Circle Housing Asset Design Limited
- Circle Living Limited
  - — Anglia Maintenance Services Limited

We are a national organisation

We have homes and offices up and down the country from Newcastle upon Tyne in the north to Plymouth in the south west. Of our nearly 125,000 homes, 48,000 are in London. We are currently working in 176 local authorities including 28 London boroughs.

London boroughs

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

Percentage of homes in each area

Very low Very high

Development highlights 2016/17

Harmony House

London

Clarion launched Harmony House, part of the City Island development in London's Docklands, with more than 100 apartments for social rent.

East City Point

London

East City Point in Canning Town has over 40 contemporary homes available through shared ownership. The properties are a mix of one and two bedroom apartments and two bedroom duplexes.

Merton regeneration

London

In Merton we have plans to invest £1 billion in the borough which will deliver 2,800 new homes and rehouse existing tenants and homeowners who wish to remain there.

The Blossom

Cambridge

The Blossom is a collection of 21 new shared ownership homes built on the site of the former Cambridge City Football ground in the Chesterton area of Cambridge.

Banbury Park

London

A 350 home mixed development in Walthamstow. The scheme, which replaces disused warehouses, industrial works and an electronics factory, includes a public square and retail space.

Ebbsfleet

Kent

Clarion is developing a total of 167 homes within Ebbsfleet Garden City, which are a mix of affordable rented and shared ownership accommodation.

Read more about our development and regeneration plans on **page 30**

We are a business for social purpose

How we create value

We are faithful to our charitable origins that extend back over a 100 years. We are fair, ethical, transparent and try to minimise our impact on the environment. We aim to be a good employer and to be a good business partner.

Our charitable foundation delivers our community investment programme, funded in part from the commercial returns it earns from investing its endowment. Clarion and Latimer provide additional funding for priority projects and programmes which the foundation is unable to support alone.

We provide affordable homes

We create sustainable communities

We reinvest our commercial returns to deliver our purpose

Clarion is a charitable, regulated housing association that deploys responsible, commercial disciplines in the way we conduct our business but all of our profits are re-invested in our social mission.

- We charge fair, affordable rents appropriate to the size and amenities found in the property. Social and affordable rent levels and rent increases are in line with our regulator's guidelines.
- We are a good landlord. Providing good, customer service matters to us. We provide support for vulnerable residents but we provide personal care only in limited circumstances.
- We manage and maintain our homes to a good standard and we invest in improving and renewing them when required. Equally, developing new affordable housing is a high priority.

- We invest in our communities to improve their wellbeing and resilience but also to help to preserve the attractiveness and value of our properties.
- Our key community priorities are helping our residents into work and training; combatting financial exclusion; delivering digital services, helping young people fulfil their potential; and improving neighbourhoods.
- We seek external funding for community investment where this can be primarily for the benefit of our residents and their communities. We aim to mix internal and external funding at a ratio of 80:20.
- We are unable to sustain the same level of community investment in every place we work and so we focus our efforts where we can bring the most benefit to the largest number of our residents.

- We build some homes for outright sale and market rent at a variety of price points.
- We expect a commercial return from commercial activity and we invest the profits into our core affordable housing work.

WE REINVEST OUR COMMERCIAL RETURNS

Tackling the country's housing shortage

As one of the largest housebuilders in the country Clarion will have a leading role to play in tackling the country's housing shortage, across the full range of tenures. Our strength in the market is reflected in our ambition to build 50,000 homes over a decade.

In developing our strategy we recognised there are significant uncertainties facing our sector and the housing market. Among these are the UK's planned departure from the EU and concerns about the resilience of the wider construction sector. Although nobody can say for certain what might happen in the years ahead, we have in place a set of Financial Golden Rules that will isolate Clarion from these uncertainties. For example, we will never invest more than 20% of the housing associations' revenue reserves into our commercial development, meaning our business is protected from any fall in house prices.

There has been concern in the sector about the reductions in grant funding that have resulted from the government's austerity agenda. Our financial strength, access to a wide funding base and unprecedented scale mean that these changes in government policy will have limited impact on our core activities. Given this, we are less reliant on public funding than many others in the sector.

Our focus on partnerships with councils, housebuilders and across the supply chain demonstrates the importance we place on a collaborative approach and our determination to deliver our ambitions. Clarion is in the process of acquiring larger development sites, in conjunction with our partners, in order to access land for affordable housing as well as generate cross-subsidy from open market sales.

Our senior management team has extensive experience operating across our markets. We are experienced in developing homes, delivering major regeneration projects and adopting innovative approaches to secure successful delivery.

We are using our experience, scale and financial strength to enable Clarion to deliver new homes and communities in a highly uncertain environment.

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A clear strategy for growth

In order to achieve our overall vision and aims, everything we do stems from five strategic objectives:

	Being the housing and service provider of choice	Building new homes and successful communities
Strategic priorities	**We will provide effective, efficient, accessible services which are increasingly delivered through digital and self-service options.**	**Our ambition is to build 50,000 new homes over 10 years. In addition, we will deliver one of the country's largest social investment programmes, supporting people into work and training; improving neighbourhoods and helping young people to get a better start in life.**
		
The challenge	Changing demographics and customer expectations are key challenges. It is essential we provide a consistent standard of service for all our customers, across the country, including a responsive repairs service. New ways of getting feedback from residents are important and we must respond effectively to the 2016 Regulatory Notice issued against the former Circle Housing Group.	Accessing land at the right price, which is then subject to regulations and planning consents, as well as maintaining build quality when the construction industry is short of skilled labour and materials. Managing construction costs and other supply chain pressures is also a continuing challenge.
What we did during the year	We achieved good progress in service improvement with a dedicated plan to address the Circle Regulatory Notice. We also started the process of integrating three in-house repairs contractors.	We completed 1,340 new homes, including 812 for rent, 394 for low cost home ownership and 134 for sale on the open market (including our share of homes constructed through joint ventures).

We are focused on ensuring that our strategic improvements continue over the coming year.

Maintaining long-term financial resilience

Our priority is maintaining long-term financial resilience so we can continue to provide homes to those in housing need for another 100 years. This means maintaining and protecting our financial strength and delivering efficiencies while providing customers with the best possible service.

Operating in a challenging economic environment, impacted by Brexit, and without clarity of future rent setting.

Successfully achieving our goal of merging Circle Housing and Affinity Sutton was a huge achievement and a means by which we are maintaining our long-term financial resilience and financial strength in order to isolate us from economic headwinds.

Being a great place to work

Our priority is to be a great place to work – recruiting, retaining and developing the best staff to provide the highest possible service to our customers.

The sector is undergoing a huge amount of change which is only set to continue. This means we need staff to have an increasing range and depth of skills and experience.

The merger has been the key achievement this year. Integrating teams across the business so that we can maintain high standards of operational efficiency from day one of the merger has been a formidable, but successful, undertaking. We delivered events for all staff where the senior team and board members explained the strategic direction of the Group and we gained valuable feedback from staff on the type of culture they would like to see in the new organisation.

Building a successful, respected and influential national business

Our priority is to promote the contribution we make to the communities in which we operate. We will work with government, partners and organisations who share our view, to promote a professional, customer-focused housing sector.

It is important that our independence is not compromised. We need to explore new approaches and models to address the housing crisis and wider trends such as an ageing population. As the largest housing association we must demonstrate our thought leadership.

Clarion continues to influence in terms of research and policy across the sector and we are represented at key sector bodies such as the g15. For example this year Clarion led the g15 on the regeneration research *(Meeting the challenge of urban renewal)* which has influenced government policy.

Being the housing and service provider of choice

Our priority

To be the housing and service provider of choice. This means providing effective, efficient, accessible services which are increasingly delivered through digital and self-service options.

The challenge

A national shortage of good quality housing across all tenure, increased demand and an aging population means that the range, variety and service needs of our customers is constantly growing and evolving.

Key performance indicators

	2016/17 Actual	2016/17 Target	2015/16 Actual	Target met
Overall customer satisfaction	**76.7%**	80.0%	78.3%	No
Current rent arrears as a % of rent debit (social housing)	**3.5%**	4.0%	3.3%	Yes
Rent loss due to voids	**£9.8m**	£12.5m	£9.6m	Yes
Occupancy rate	**98.4%**	98.5%	98.8%	No
Residents' satisfaction with repairs	**79.9%**	85.0%	87.4%	No
Repairs completed on time	**95.6%**	95.0%	93.6%	Yes
Properties meeting Decent Homes Standard	**100.0%**	100.0%	99.9%	Yes
% of contact centre calls answered within 30 seconds	**74.5%**	75.0%	77.4%	No

2016/17 performance

Despite the far reaching change across the Group following the merger, and the widely publicised failings within the Circle Group during 2016, overall operational performance has remained steady and saw a positive increase in some areas. Circle Housing's poor performance, particularly in parts of London, is being tackled with a dedicated improvement plan and although change will not happen overnight, we have already begun to see service improvements.

Rent arrears, occupancy rates and voids

Tenant rent arrears rose only fractionally over the year to 3.5% of rent debit, which reflect the strong performance of our customer facing teams despite the challenge of some tenants having their benefits paid directly as they transition onto Universal Credit.

Occupancy rates also remained high at 98.4% for the year. These were boosted by a sustained marketing campaign to re let properties in Hull and parts of the north east, which have become more challenging to let since welfare reform changes have started to take effect. Our efforts saw the number of void properties in these areas dropping by over 42% since the start of 2017. In addition, a dedicated tenancy sustainment service helped prevent evictions, particularly among residents under 25 or those in their first residency, by resolving barriers such as illiteracy.

Rent loss due to voids has slightly increased on the previous year. A pilot project in the East Region resulted in a noticeable reduction in void turnaround times locally. This was achieved by completing all non essential repairs when there is a tenant in situ as well as offering incentives to tenants to influence their behaviours. This pilot is being extended to other areas over the coming year.

> **Delivering a quality repairs and maintenance service is one of the most important service we provide to our customers.**

Customer satisfaction

Customer satisfaction was 76.7%, a reduction of 1.6% during the year. The Group as a whole did not achieve our target of 80% mainly because of issues in the former Circle Central region which covers homes in north and east London. However satisfaction results in other areas were significantly higher than target. Our key priority since merger has been to ensure that all our residents receive a good basic service irrespective of where they live. We are working hard to maintain a good service to our customers during a time of significant internal change.

A large part of our customer satisfaction rating relates to how quickly and easily customers are able to reach us. This has been a particular focus for us since the merger, as well as resolving customers' issues first time or directly referring them to a person who can help. While the 2016/17 average calls answered on time at 74.5% narrowly missed the Group's target of 75%, we ended the year with a March performance of 86%, an increase of 8.3% on the April 2016 equivalent. This was due in part to a number of changes implemented at Circle Housing's regional customer contact centres. We also launched a new self-service web portal, meaning that customers can get in touch with us via their preferred digital channel at their own convenience.

Satisfaction with repairs

Delivering quality repairs and maintenance is one of the most important services we provide to our customers. During the year the repairs service in the former Circle business was affected by the switch to a single contact centre. Since merger it has been a priority to improve the customer experience and we are confident that satisfaction rates are now improving to the levels we would expect.

Following the merger, these statistics highlight the huge amount of change that is required over the coming year to consolidate the historic Affinity Sutton and Circle Housing repair contracts and service offerings into one for Clarion Housing Group. This work is already underway, and we have developed new staffing structures to realign the two Property Services functions into one Directorate. In order to improve our service for customers, Property Services will now be split into three areas – Strategic Repairs focusing on how we provide services; Mechanical and Electrical Services, focusing on delivery; and Operational Compliance, to ensure we meet our statutory obligations. All these new teams will be in post by summer 2017. We have already produced single key policy and procedures for a number of areas and these will be complete by autumn 2017.

We are focused on ensuring that these improvements continue over the coming year. Our priority is to procure new service contracts across a number of areas that are fit for purpose and meet both the demands of our customers and the regulatory expectations. We will also continue to engage with our staff to embed improved ways of working to maximise customer satisfaction and deliver sustained efficiencies.

Meeting the Decent Homes Standard

All of our social housing complies with the Decent Homes Standard apart from a few homes at Circle Housing Merton Priory, which will be addressed as part of the Merton Regeneration Project.

In 2016/17 we spent over £102 million with our key partner contractors, carrying out major works. With an average resident satisfaction score of 87% we replaced 2,240 kitchens, 1,530 bathrooms, 3,866 heating boilers/systems, 1,505 roofs, 4,022 doors and windows. In 2017/2018 we are spending £110 million on cyclical and major capital works improving the standard of residents' homes, creating warm, affordable and safe environments. We will be updating heating systems and upgrading insulation to increase the energy efficiency of our properties and ensure residents can afford to heat their homes.

Centra

This has been a very successful year for Centra both in face to face care, support activities and in telecare. Our Care and Support Division won new contracts including its largest ever worth £9 million over five years with Kent County Council. A combination of the new contracts and efficiencies has generated an increase in income and surplus significantly above budget.

Centra's Telecare Service increased its income during the year with revenue up 20%. A key focus was to ensure stability and consolidate ongoing improvements. We passed our Telecare Services Association (TSA) audit with no recommended improvements or observations. We also maintained our TSA standard with 97.5% or better response within 60 seconds in every month of the last eight months of the year. Customer satisfaction results were 100% satisfaction with our installation service and 99% satisfaction with our telecare service.

“We are focused on ensuring that these improvements continue over the coming year.

Photo: Windmill Court is an award winning extra care scheme in north east London. The scheme offers 44 apartments that bring together both design and services for older residents.

Building new homes and successful communities

Our priority

To build new homes and successful communities. Our ambition is to build 50,000 new homes over 10 years, two thirds of which will be for affordable rent and home ownership. In addition, we will deliver one of the country's largest social investment programmes, supporting residents into work and training; improving their neighbourhoods and helping young people to get a better start in life.

The challenge

Accessing land at the right price, which is then subject to regulations and planning consents as well as maintaining build quality when the construction industry is short of skilled labour and materials. Managing construction costs and other supply chain pressures is also a continuing challenge.

Key performance indicators

	2016/17 Actual	2016/17 Target	2015/16 Actual	Target met
New home starts	**1,863**	N/A	1,414	N/A
Home completions	**1,340**	1,351	1,744	No
Sales income	**£108.7m**	£135.7m	£223.8m	No
Total sales volumes	**516**	640	747	No

2016/17 Performance

During the year we completed construction on 1,340 new homes, including 812 for rent, 394 for low cost home ownership and 134 for sale on the open market (including 23 for our share of homes constructed through joint ventures). We also had 1,863 starts and in the last quarter of the year we received Investment Committee approval for 1,720 homes, 20% of which are for private sale. This brought our development pipeline at year end to about 8,000 homes with an average size of the scheme up significantly over the year. Our developments are spread across 68 local authorities, with significant development activity in around 30. The majority of our programme continues to be for letting affordable or low cost home ownership.

Development and land

To achieve our target of developing 50,000 new homes over 10 years we have increased the volume and scale of our development programme and are putting in place the supporting resource and governance structures to enable delivery.

Increasingly our programme is moving towards partnership working with both the private and public sectors. This is complemented by our growing land bank, through which we feed our programme and which comprises land both with and without planning permission.

Regeneration

In 2016/17 we secured almost £2 million of external funding from the Department for Communities and Local Government's £32 million Estate Regeneration Fund to progress regeneration proposals for Barne Barton in Plymouth and across three estates in the London Borough of Merton.

Work started on site on two local authority partnership regeneration schemes. Sherwood Close in Ealing will provide 305 homes in total with the affordable homes transferred to Clarion on completion. Tollgate Gardens in Westminster will provide 195 new homes and improvements to a further 53, with the affordable homes being retained by Westminster City Council.

During the year we celebrated the completion of the 500th home through the regeneration of Durand Close in Sutton. The final phase of this project is now on site with completion scheduled for Q3 of 2017/2018.

Sales

We generated year end sales income of £109 million (including returns from joint ventures) which compares to £224 million last year. Sales volumes, particularly shared ownership, remain buoyant and we have ended the year with total sales of 516, of which 419 were shared ownership. Sales margins of 39% (excluding joint ventures) show an increase of 4% on 2015/16 and are an indication of the continued strength of the UK property market.

Investing in our communities

We aspire to have the best and most influential community investment programme in the sector. Our focus is on reducing poverty and exclusion among our communities, giving everyone the tools and support they need to tackle the problems they face in order to change their lives for the better.

We will invest £10 million each year to improve the lives of our residents and improve our communities. With additional external funding our investment will be £150 million over the next 10 years.

Our approach focuses on the areas of most benefit to the business and our residents:

- Supporting residents into work and training
- Tackling financial exclusion, including energy saving advice
- Improving digital skills and online access
- Supporting our young people with the transition to adulthood
- Building stronger communities and supporting place-making activities.

Social value

While we make extensive use of quantitative data to help us track performance we seek to demonstrate our wider social impact. Both Circle and Affinity Sutton had previously developed innovative ways of calculating social value, for instance by calculating the uplift in wellbeing from working or volunteering, or by using Social Return on Investment (SROI) methodologies to, for instance, calculate the savings to the Exchequer of getting people off benefits and into work. For 2016/17 the social value of our community investment activity was £85 million (2016: £104 million).

House Exchange

Clarion provides a programme, House Exchange, which is the largest not-for-profit provider of online mutual house exchange services in the UK. 2016/17 was a strong year in which we helped over 11,000 people move to a home better suited to their needs – whether it's larger, smaller or closer to family or a new workplace. Over 1.3 million social housing residents can access our new website free-of-charge, resulting in web visits increasing by 74% over the year. We also launched a House Exchange mobile app this year, which resulted in a 10% increase in mobile usage to access the website.

Photo (top): A Love London Working adviser helped Anna return to a career in the fashion industry.

Photo (bottom): Nancy was supported to develop her CV, improve her interview skills and build on her confidence leading to a job in the catering team at Tottenham Hotspur Football Club.

Love London Working

In October 2015, our charitable foundation secured £6.64 million from the European Social Fund (managed by the Greater London Authority) to deliver a £13.3 million project to support 21,000 of London's most vulnerable and excluded residents into employment and training. Clarion is leading Love London Working on behalf of 15 housing associations in London. By the end of March 2017, 4,207 people had been enrolled onto the programme and 960 helped into work.

Transforming lives and communities

- 4,000 plus people supported into work and training each year – we are one of the biggest providers of employment services in the country
- 250 high quality apprenticeships provided each year
- 3,000 residents supported with free debt advice and over 2,000 affordable loans provided to help residents take control of their finances
- 15,000 young people a year supported to make a better start in life through targeted interventions.

Maintaining long-term financial resilience

Our priority

Maintaining long-term financial resilience so we can continue to provide homes to those in housing need for another 100 years. This means maintaining and protecting our financial strength and delivering efficiencies while providing customers with the best possible service.

The challenge

Operating in a challenging economic environment, increasing our development output against the backdrop of Brexit, and without the clarity of future rent setting or capital grant on anything like the scale it was in the past.

Financial Golden Rules

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

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

Our Financial Golden Rules are all being met across our long term financial plan. More information on how the Group performed against some of its key financial performance indicators, including the Financial Golden Rules, is on page 40.

Corporate Structure

In creating the new Group we separated our core social work from our more commercially focussed activity which is designed to make a profit. In setting up Latimer we have sought to isolate the housing associations from some of the riskier aspects of our build for sale programme in a range of ways. This includes placing a prudential cap on the amount of the associations' revenue that we will invest in Latimer and aiming to ensure that Latimer's Balance Sheet can withstand market downturns and shocks on its own account.

2016/17 Performance

As reported in the financial review section on page 41, this year we met all of our internal Golden Rules across the Group. Achieving this while also absorbing the significant merger costs is an indication of our financial strength.

Our financial longevity is key. Just as we can look back on our heritage – providing affordable homes and improving communities for the last century, our financial stability gives us the capacity to deliver our housebuilding and community improvement ambitions for the next 100 years.

Now that the merger is complete, we are looking to reduce our operating costs per unit by 2020/21 to Affinity Sutton's previous level of below £4,000. Savings of £4 million have already been realised, and further savings will be realised through office and staff rationalisation, procurement and streamlining processes and customer services over the coming year. Our financial strength and Financial Golden Rules mean that we are not reliant on government subsidy in order to meet our growth ambitions.

Programme for change

Clarion is in the process of developing a new Enterprise Resource Programme (ERP), in partnership with Hitachi, which will be rolled out across the entire Group. The development and implementation of ERP represents a major investment in new systems and is a game-changer for the housing sector. ERP will transform ways of working, provide our staff with major improvements to the tools they need and improve customer services. In addition our investment in new Microsoft systems provides us with a platform for future growth.

Consolidating Circle Housing's Registered Providers

One of the benefits of merger will be enabling us to use our financial resources more efficiently. Central to this is simplifying the Group's structure. Consolidation of the separate housing associations in the former Circle Housing Group is a priority in achieving this and has continued to progress. Out of the nine individual Registered Providers that made up Circle Housing, seven have come together. Circle Housing Mercian, Circle Housing Wherry, Circle Housing South Anglia, Circle Housing Roddons, Circle Housing Mole Valley and Circle Housing Merton Priory have all come together under Circle 33 – now simply known as Circle Housing.

Creating a single housing association

In anticipation of completing consolidation, preparation is underway to bring together Circle 33 and Affinity Sutton Homes to establish a single housing association landlord under Clarion Housing Group, thereby ensuring consistent customer services and driving economies of scale. In addition to legal and regulatory approvals, we will consult residents. Exact timescales are dependent on the consolidation of Circle Housing Group, but we expect the single landlord will be in place by the end of 2017.

Asset management

Following a comprehensive review, we have developed a new asset management strategy to ensure all decisions about our housing stock and assets best serve our customers' needs over the long-term, deliver value for money, and result in a sustainable, high-performing portfolio. This strategy covers four key areas: carefully managing and analysing our stock data; using Neighbourhood Planning to take long-term decisions about stock; establishment of a 'Clarion Homes Standard' so all residents know what they can expect from our properties and for us to realise efficiencies through standardisation and; proactively managing our assets – making strategic decisions on which stock to keep and which to dispose of in order to fully optimise the value of our assets.

Photo: Banbury Park, Walthamstow, London. The scheme, which replaces disused warehouses, industrial works and an electronics factory, includes a public square and retail space.

Our financial strength and Financial Golden Rules mean that we are not reliant on government subsidy in order to meet our growth ambitions.

Being a great place to work

Our priority

To be a great place to work – recruiting, retaining and developing the best staff to provide the best possible service to our customers.

The challenge

Achieving our ambitious goals will require committed and capable staff with a wider range and depth of skills than ever before. We will be looking to attract and retain talented people from all sectors to help us deliver massive change.

Our core values

Our values support us in offering the best service to our customers.

- Passionate about people, both our customers and staff
- Stronger working together
- Trust and integrity
- Ambitious and innovative
- Valuing the past, creating a better future

We have over 3,500 staff based across the country – from Newcastle in the north east to Plymouth in the south west. We invest in learning activities that support the business, help us meet our regulatory requirements, improve overall organisational performance and encourage self development. Such activities include a wide range of professional development qualifications and apprenticeships to provide people with rewarding long term career opportunities.

2016/17 performance

Integrating teams across the new Group so that we can maintain high standards of operational efficiency from day one of the merger has been a formidable, but successful, undertaking. We delivered events for staff where the senior team and board members explained the strategic direction of the Group and gained valuable feedback from staff on the type of culture they would like to see in the new organisation.

Being a great place to work also means having the right tools for the job. Our ERP programme will completely modernise our working environments and help us deliver our strategic objectives.

We also have a Corporate Social Responsibility ("CSR") strategy (page 52) that is focused on staff volunteering, employee networks and diversity and inclusion.

Affinity Sutton and Circle had both worked hard on a new office strategy in recent years with the goal of creating more effective ways of working. It was agreed that Clarion would establish one main office outside London as the base for support functions and transactional work. This opened in Norwich in May 2017 and consolidated all previous Norwich offices enabling us to create a more efficient space which also includes some expansion space for future growth. We have also consolidated our corporate headquaters in one location in London Bridge.

"We invest in learning activities that support the business, help us meet our regulatory requirements, improve overall organisation performance and encourage self development.

Building a successful, respected and influential national business

Our priority

To promote the contribution we make to the communities in which we operate. We will work with government, partners and organisations who share our view, to promote a professional, customer-focused, housing sector.

The challenge

It is important that our independence is not compromised. We will explore new approaches and models to address the housing crisis and wider trends such as an ageing population. As the largest housing association we must demonstrate our thought leadership.

2016/17 performance
Clarion continues to influence in terms of research and policy across the sector and we are represented at key sector bodies such as the g15.

Regeneration report
Clarion led the g15 in developing the *Meeting the challenge of urban renewal* report, highlighting the importance of estate regeneration in solving the capital's housing crisis. The research has been used in meetings with ministers and senior government officials. Many key elements of the report have subsequently been granted through various announcements made by government since publication, including the Autumn Statement, which offered greater flexibility to deploy government funding according to local need.

Economic and Social Research Council (ESRC) conditionality work
Residents and staff members continue to be involved in the ESRC funded five year study to understand the impacts of welfare conditionality and sanctions. Evidence on the impact to tenants, including that fixed term tenancies can cause considerable anxiety for some, especially those with a disability or health problems, was used by Lord Kerslake to support proposed amendments to the Housing and Planning Bill.

Photo: We have plans to invest £1 billion regenerating three estates in the London Borough of Merton.

LGBT Experiences of Housing research
Clarion is leading a coalition of six housing providers in association with the University of Surrey to understand LGBT resident experiences of social housing. The research follows a small scale study by Affinity Sutton in 2015, which illustrates resident fears about possible landlord homophobia and questions around landlord support for LGBT+ residents, particularly their ability to deal effectively with cases of harassment. The findings will inform practical steps that social landlords can take to secure the wellbeing of LGBT+ residents, such as implementing a scheme similar to the Pink Passkey in the Netherlands, which awards certificates to care organisations and social service providers as evidence of LGBT+ friendliness.

The Clarion Index
This is customer insight research published annually for the last five years by Affinity Sutton. A number of others have become interested in the research and, as a result, we have established a working group comprising Clarion, Peabody, Orbit and Optivo to pilot a collaborative approach to setting questions and ensuring consistent methodology. Once the concept has been proven we plan to roll it out to others in the sector in 2018 and have already received requests from other housing associations to be included.

Photo: The Clarion Index provides year on year insight into the views and experience of residents.

“

Clarion continues to influence in terms of research and policy across the sector.

Strong financial performance

Clarion Housing Group has delivered strong financial performance in its first year reporting as a newly combined entity with a surplus of £173 million (2016: £234 million) on a turnover of £796 million (2016: £825 million), delivering an operating margin of 36% (2016: 37%) against a Financial Golden Rule benchmark of a minimum of 30%. This strong performance has been achieved while absorbing the inevitable one-off exceptional costs related to the successful delivery of the UK's largest housing sector merger and a comparatively smaller sales programme.

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

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

During our first year we invested 1.6 times our surplus (£271 million) in new and existing housing stock (Figure 1) while maintaining a Debt to Turnover ratio of 3.7, lower than our Financial Golden Rule maximum benchmark of 4.5. This demonstrates the scale of Clarion Group and its capacity to deliver.

We are in an extremely strong position as we continue to face the challenges of an uncertain political and economic environment. We have the long term capacity to build more homes for those in housing need, invest in communities and provide a quality service for our customers.

Statement of Comprehensive Income (Table 1)

1. Operating surplus

Against a backdrop of merger related costs we have ended the year with a full year operating margin of 36%. As highlighted in Figure 2, this is just a 1% reduction on the combined position for 2015/16 and a 3% increase on our combined position five years ago in 2013. Operating surplus at £290 million is 36% higher than that achieved in 2013 and £21 million (8%) higher than our five year combined average.

1.1 Turnover (Figure 3)

Turnover overall has fallen by £29 million predominantly due to a reduction in direct sales revenue (£30 million). £25 million of the reduction in direct sales relates to our private market activity, the result of a smaller sales programme for the current year and delays in the handover of homes in two build-for-sale schemes. Whilst a reduction on the prior year, direct sales volumes have remained better than expectation indicating the continued strength of the UK property market and a well executed sales strategy. We ended the year with total sales of 516 properties, of which 419 were shared ownership properties. Average sales margins were strong at 39% (2016: 35%).

The £5 million reduction in other income follows the sale of two subsidiaries. The £20 million reduction in cost of sales correlates to the overall reduction in direct sales.

1.2 Operating costs

Operating costs for the year totalled £495 million representing an increase of £12 million or 2.5% compared with last year's total of £483 million. As anticipated, we incurred a number of exceptional and non-recurring costs in the year relating to merger and restructuring the Group. Additionally we faced a number of operational business challenges which led to service charge and maintenance spend exceeding our expectations but were necessary to maintain service delivery.

Excluding one off costs in the current and prior years, underlying operating costs have only increased by £5 million (1.1%), explained by inflationary increases and a small increase in homes under management.

We have an excellent track record of delivering efficiencies from merger. Our approach to securing value for money and great efficiency in our business is to expect and plan for savings to arise from growth. This will be savings from synergies we achieve post merger, and growth in homes we manage by outpacing any increases in our underlying operating costs.

Figure 1: Surplus vs long-term investment in social housing
£m

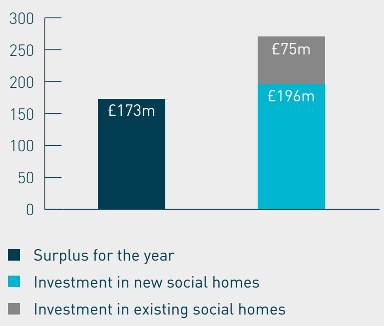


Table 1: Summary of the Group's combined Statement of Comprehensive Income

	2016/17 £m Group	2015/16 £m Group
Turnover	**796**	825
Cost of sales	**(48)**	(68)
Operating costs	**(495)**	(483)
Disposal of properties	**37**	32
Operating surplus	**290**	306
Gain on revaluation	**17**	28
Surplus on disposal of operations	**7**	–
Share of Joint Ventures	**6**	33
Net interest and other financial income	**(140)**	(139)
Movement in fair value of financial instruments	**(4)**	7
Other	**(3)**	(1)
Surplus for the year	**173**	234

Figure 2: Operating margin and operating surplus over five years

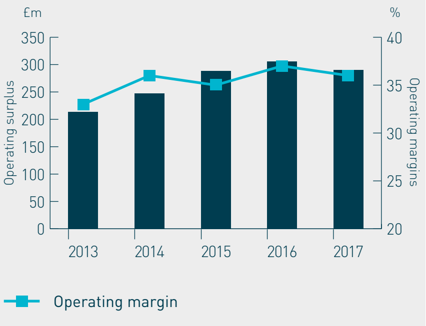
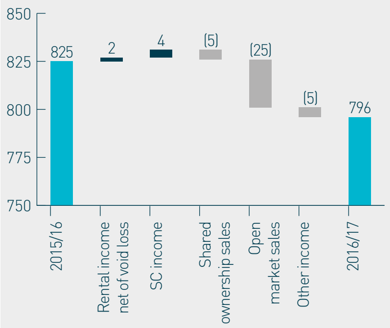


Figure 3: Turnover
£m



At the end of the financial year we had committed funds of £1.1 billion to new developments compared to £714 million in the previous year.

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

	2016/17 £m Group	2015/16 £m Group
Tangible fixed assets	**6,780.5**	6,670.1
Net current assets	**382.0**	379.8
Creditors due in over one year	**(5,909.2)**	(5,934.3)
Other	**56.3**	40.2
Total net assets	**1,309.6**	1,155.8
Income and expenditure account	**1,705.0**	1,542.0
Cash flow hedge and other reserves	**(395.4)**	(386.2)
Total capital and reserves	**1,309.6**	1,155.8

Integration will continue to be a focus over the coming year through our new change programme. This brings together the two historic Affinity Sutton and Circle Housing change programmes and will not only bring efficiencies but will also improve the way we do business, particularly with the introduction of a new Enterprise Resource Planning system.

Our Value for Money statement on page 48 expands further on our efficiency plans.

1.3 Disposal of properties
Through stock rationalisation and a proactive sales strategy we have realised a £32 million surplus on the sale of existing properties. This is an increase of £1 million on 2015/16 and primarily driven by shared owner residents purchasing further shares in their homes.

A further £4.7 million surplus has been realised through the sale of 120 market rent properties located in Norfolk.

Our sales surplus provides the Group with additional subsidy for building new affordable homes to replace reducing levels of government grant.

2 Gain on revaluation
At £17 million, the Group has seen a significant valuation increase on its market rent and commercial portfolios. The increase is largely driven by our market rent portfolio particularly in the north east and east London where there is good demand for properties for sale and rent.

3 Disposal of other assets
On 30 November 2016 the Group capitalised on the market and disposed of its investment in Landericus Holdings Sarl, a property investment vehicle focused on the German private rented sector. The Group received proceeds of €46.9 million and realised a substantial surplus of £6 million. Funds from this sale will be reinvested in building affordable homes for our core customers in the UK.

The remaining surplus on disposal was realised through the sale of the Group's domiciliary care provider, Prime Care, on 1 April 2016. The sale has allowed the Group to focus on geographical areas that align with the Group's stock profile and tenant base.

4 Share of joint ventures
Our share of joint venture surplus has seen a reduction on the prior year as we come to the end of two joint venture arrangements with Mount Anvil: 261 City Road Developments LLP ("City Road") and 72 Farm Lane Developments LLP ("Farm Lane"). During the year the remaining homes and commercial units at City Road completed with 18 units sold (2016: 131 homes). Nine homes at Farm lane and the freehold also sold in the year (2016: 17 homes).

Statement of Financial Position (Table 2)

5 Tangible fixed assets
The increase in our tangible fixed asset base is predominantly driven by our investment in new and existing homes. Overall, £271 million (2016: £257 million) has been invested this year.

The majority of this increase relates to the construction of new homes with £196 million (2016: £174 million) invested.

At the end of the financial year we had committed funds of £1.1 billion to new developments compared to £714 million in the previous year.

6 Creditors due in over one year
The main source of funding has been our cash generated from operations and we therefore only required a £67 million increase in debt funding. As a result, gearing remains comfortably lower than our financial covenant at 45.6%.

Key Group Financial Indicators (Tables 3 and 4)
Table 3 highlights the Group's performance against its Financial Golden Rules. Our Financial Golden Rules create a framework for maintaining financial resilience and credit strength while allowing the Group to realise its objectives. They recognise the differing parts of the Clarion Group and isolate the risks of our commercial business (in particular a sudden downturn in the housing market)

from our core social housing activity which we seek to protect against adverse shocks and market movements.

Our private sales exposure is managed by ensuring that our work in progress balance does not exceed £600 million; that development sales do not exceed 40% of turnover; that the Housing Associations' investment in Latimer does not exceed 20% of its revenue reserves; and that Latimer has at least £1.5 of equity and revenue reserves for every £1 it could potentially lose if house prices fell by 35% (the 'Value at Risk' ratio). All indicators have comfortably been met in the year.

In terms of the Housing Association, interest costs can be serviced one and a half times over from our core social housing business with Social Housing Interest Cover sitting at 1.5 and twice over from its cash with EBITDA MRI Cash Interest Cover at 2.1. Operating margin at 36.6% is also comfortably above target.

As shown in table 4, our Statement of Financial Position metrics are strong. At 45.6% gearing remains comfortably below our 70% maximum benchmark keeping us well within our financial covenants, and shows an improvement on 2015/16.

Whilst operating cost per home exceeds target, this does include a number of one-off costs associated with the merger. After adjusting for these in the current and prior year, operating costs per unit are marginally lower than target at £4,266 versus £4,274. Our operating costs are expected to reduce further during 2017/2018 as we deliver our merger synergy plans.

Cash generation from operations is a critically important measure since it provides an indication of our ability to meet underlying obligations of our properties without recourse to debt finance and without reliance on property sales. Positive cash generation provides vital support for our investment in social housing, including the development of new homes, while keeping debt levels lower than they might otherwise be.

As shown in Figure 4, the cash generated from operations has continued its upwards trend over a five year period. Cash generation during the year was strong from both rental and sales activity and in the twelve months to 31 March 2017 we converted 1.3 times our operating surplus into operating cash flow.

Figure 4: Cash generated from Operations
£m

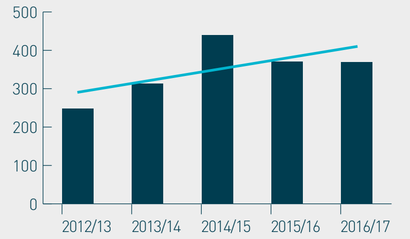


Table 3: Summary of the Group's Financial Golden Rules

	Financial Golden Rules								
	Clarion Group			Housing Association			Latimer		
	Actual	Target/ budget	Status	Actual	Target/ budget	Status	Actual	Target/ budget	Status
EBITDA MRI Cash Interest Cover[1]	2.0	>1.5	✔	2.1	>1.5	✔	2.0	>1.5	✔
Operating Margin	36.4%	>30%	✔	36.6%	>35%	✔			
Net Debt to Full Year Turnover incl. JVs	3.7	<4.5	✔						
Sales as a Percentage of Turnover	13.1%	<40%	✔						
Social Housing Interest Cover				1.5	>1.3	✔			
Housing Association Investment in Latimer[2]				16.6%	<20%	✔			
Maximum Development for Sale Work in Progress							101	<£600m	✔
Value at Risk Coverage[3]							6.7	>1.5	✔

1 measures the ratio of earnings before interest, tax, depreciation, amortisation and major repairs spend against interest payable.
2 measures the Housing Associations' equity or debt invested in Latimer as a proportion of Housing Association revenue reserves.
3 measures the impact of a 35% fall in house prices against Latimer's equity and reserves.

Table 4: Summary of the Group's Key Performance Indicators

	Clarion Group KPIs		
	Actual	Target/budget	Status
Gearing	45.6%	<70%	✔
Operating Cost per Home, £	4,623	4,566	✘
Net Margin	22%	21%	✔
Net Debt per Unit, £	28,553	28,700	✔

Maintaining long term capacity

As at 31 March, the Group had £4.10 billion of committed debt funding (2016: £4.18 billion), with drawn funding totalling £3.28 billion. This was broadly unchanged from £3.26 billion in 2016, because housing capital expenditure was largely covered by cash generated from operations.

The Group continues to maintain a diversified loan portfolio in terms of funding sources. As at 31 March 33% of committed funding was from the capital markets and 67% from bi-lateral loans with nine banks and building societies (see Figure 1 and 2).

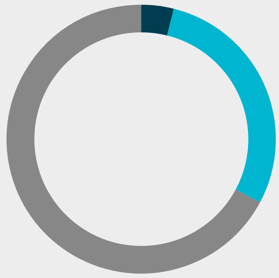
The Group has limited re-financing risk in the next five years with over two thirds of the Group's debt maturing after 10 years (see Figure 3).

As at 31 March, the Group maintained £812 million of committed undrawn facilities and £165 million of available cash, representing total liquidity of £977 million (see Figure 4). These resources are more than sufficient to meet all of the Group's contractual commitments to developers and housebuilders.

The Group continues to be risk averse in its approach to interest rate management. Borrowing related to cash in hand is held at floating rates of interest, which is consistent with the interest profile of the Group's cash investments. The Group targets a flexible policy of hedging 80% to 100% of its net debt with predominantly fixed rate instruments, with flexibility to depart from these parameters if circumstances make this more appropriate. At the year-end, this policy resulted in a portfolio that was 94% fixed-rate and 6% floating-rate (see Figure 5).

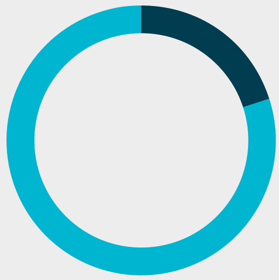
The Group maintains its desired interest rate profile through a mixture of embedded instruments (including fixed rate bank loans).

Figure 1: Committed facility mix



Bond – private placement	4%
Bond – public and other	29%
Bank	67%

Figure 2: Total committed funding



Undrawn debt	20%
Drawn debt	80%

Figure 3: Debt repayment profile

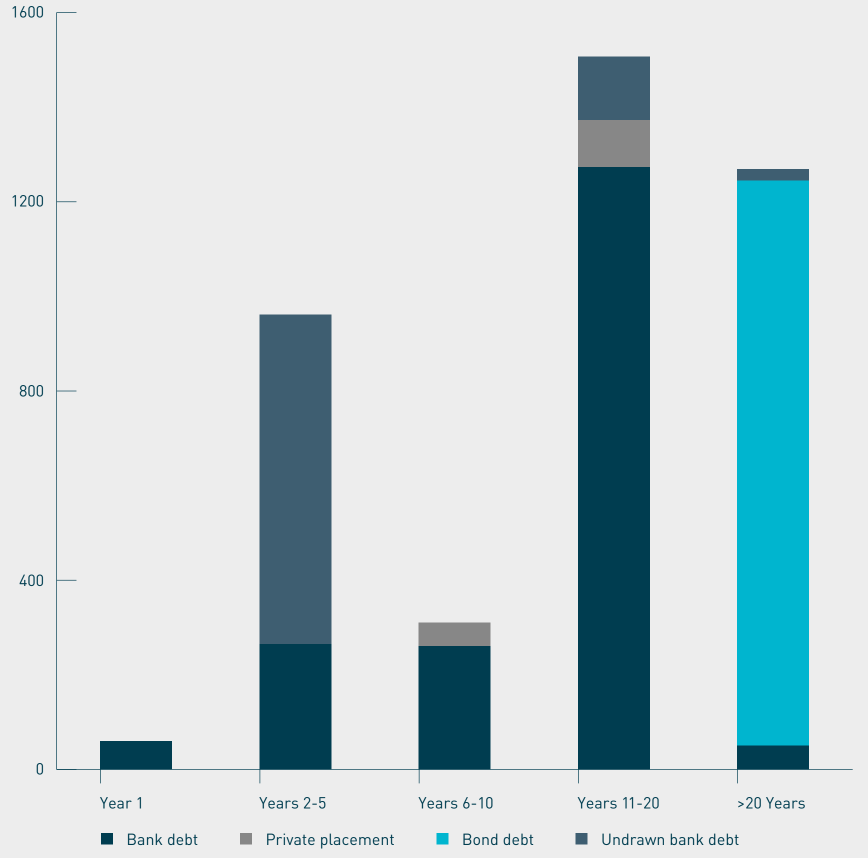


Figure 4: Liquidity

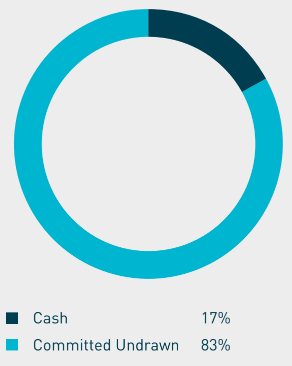
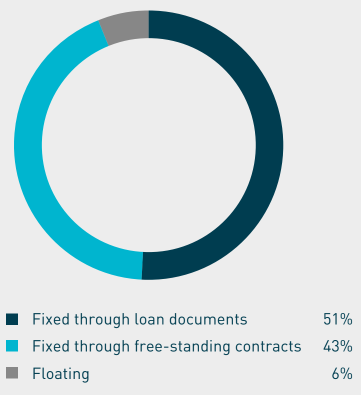


Figure 5: Hedging Activity



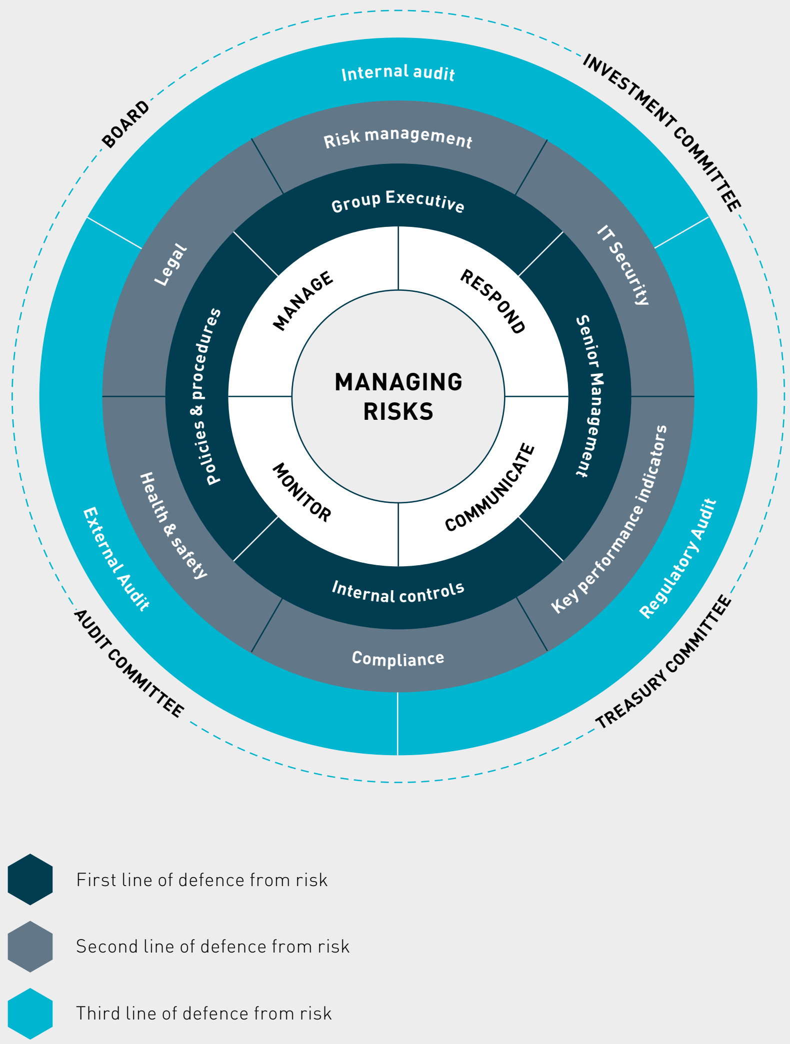
Risk management in delivering our strategic ambitions

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

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

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

Risk management framework



Our risk assessment

The table below shows the risks we are managing:

	Risk description	Impact	Mitigation	Change in year
1	**Failure to improve services**	– Negative reputational impact – Customer service fails to meet regulatory requirements – Loss of customer confidence – Negative impact on our regulatory standing	– Dedicated resources devoted to performance improvement plan – Active involvement of Executive and Board in resolution – Suite of reporting metrics focused on rectification – Business continuity arrangements	Decrease in risk. The service failures have been predominantly in our London homes owned by the former Circle Group. As the integration of the business completes this year we expect the risk to reduce
2	**Failure to comply with health and safety regulations**	– Serious incident involving death or injury – Criminal and or civil proceedings	– Regular board reporting – Dedicated specialist personnel – Routine compliance testing and checking	Increase in risk. Increase in risk due to increase in size and scale of business
3	**Failure to deliver 50,000 new homes**	– Adverse operational and financial impact – Negative reputational impact	– Investment strategy agreed – Over 5,000 homes approved since merger – Skilled and competent team recruited	Increase in risk. Increase in risk due to scale of programme
4	**Massive financial shock**	– Increased cost of funds – Lack of available debt – Increased counterparty risk – Hedging arrangements ineffective	– Market scanning and stress testing undertaken – Investor relationship management – Specialist Treasury Committee and advice for Board	Stable / no change. Stable
5	**Failure to deliver transformational change**	– Increased cost base – Failure to deliver customer expectations – Inability to use customer intelligence	– Specialist team and contractors – Dedicated business involvement – Audit and Risk Committee oversight – Regular gateway checks	Stable / no change. Stable
6	**Failure to achieve efficiencies**	– Increased cost base – Costs higher than competitors – Inability to deliver value for money	– Simplification of corporate structures – Team and corporate savings targets – Board ownership and oversight	Stable / no change. Stable
7	**Succession**	– Change leads to instability – Loss of skills and knowledge – Capacity of the business to absorb change	– Nominations Committee oversight – Specialist advisors – Long term planning and talent management	Increase in risk. Increased level of risk following merger
8	**IT security and cyber attack threat**	– Loss of customer confidence – Loss of stakeholder confidence – Loss of income	– Security review – Routine penetration testing – Staff training – Audit and Risk Committee oversight	Increase in risk. Heightened risk generally in the market

Increase in risk Stable / no change Decrease in risk

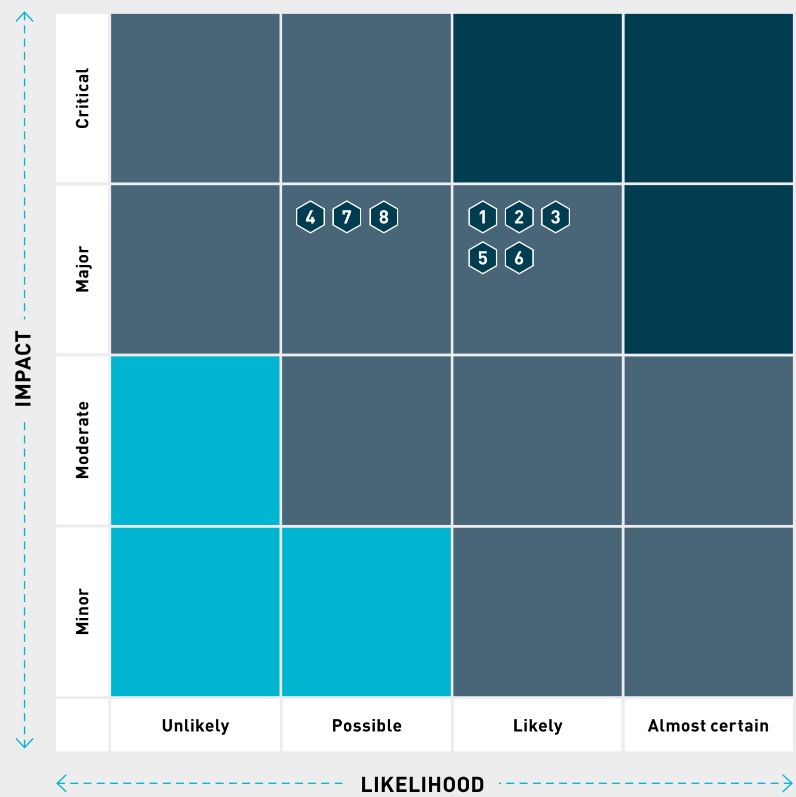
> **A risk scoring methodology is used to ensure a consistent approach is taken to assessing the potential impact and likelihood to the group.**

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

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

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

Mapping our key risks: Current assessment



1. **Failure to improve services**
2. **Failure to comply with health and safety regulations**
3. **Failure to deliver 50,000 new homes**
4. **Massive financial shock**
5. **Failure to deliver transformational change**
6. **Failure to achieve efficiencies**
7. **Succession**
8. **IT security and cyber attack threat**

Our risk appetite

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

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

Risk focus this year

The Board considers the business is well placed to manage the risks it faces. This has been a year of significant change, with the merger of Affinity Sutton and Circle Housing. There have been particular operational challenges to deal with, predominantly in north and east London. However the Board is of the view that the business has a solid asset base and operationally is resilient in the longer term. The inherent financial strength of the Group has meant we have been able to resource the recovery of the service. We are in a position to lay the ground for more efficient and effective services based on modern ways of working, supported through new technology which will be rolled out from late 2017.

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

As we publish these accounts the business is engaged in assessing the impact of the tragedy at Grenfell Tower. The safety of our residents is paramount and while we do not yet know what steps the government might take to reinforce standards to building regulations following its independent inquiry, we are ready to take all reasonably practical steps to ensure the safest environment for those living in our homes.

Driving significant economies of scale

The completion of the merger process and the formation of Clarion Housing Group marks the beginning of the Clarion journey. Indeed the merger itself will enable us to drive significant efficiencies of scale, thereby providing better value for money.

You can read our Value for Money Statement at: **clarionhg.com/valueformoney**

As a social landlord we are committed to providing the best possible services while ensuring we continue to provide value for money. Given that we reinvest any surplus in our core business activities, it is essential that we are as cost-effective as we can possibly be. In 2016/17 specific efficiency initiatives across Affinity Sutton Group and Circle Housing resulted in savings of more than £4 million. Additionally we have delivered efficiencies of £8 million which directly help our residents, such as securing additional housing and other state funded benefits through our welfare and income teams.

As Clarion we will maintain a year on year focus to keep operating costs under control and to forecast no growth in underlying costs. The former Circle Group had operating costs of £4,935 per home, compared to Affinity Sutton's £3,970. At the year end the new Group had operating costs of £4,623 per home. Our ambition is to achieve costs which are closer to the operating costs of the former Affinity Sutton within three years. We have made a start in agreeing the budget for 2017/2018 with running costs which are £30 million less than 2016/17.

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

The work we have produced with Housing Associations' Charitable Trust (HACT) to develop a set of financial values which can be attributed to particular interventions is increasingly being adopted by other landlords in the sector. In 2016/17 we achieved a social benefit of £85m, indicating improved performance year on year.

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

An important element of our community investment programme is our employment service. Over the last year we have also

“ The Group continues to prioritise financial inclusion work and debt advice services which are more in demand than ever.

Photo: Clarion is developing a total of 167 homes within Ebbsfleet Garden City, a mix of affordable rented and shared ownership accommodation.

been the lead agent for a group of housing associations who have rolled out employment services across London with funding from the Greater London Authority and the European Social Fund. This year the service helped a record 1,745 people find work. In addition we also achieved another record by providing 122 apprenticeships, helping those young people learn vital work skills.

Over the next few years we expect to be helping 15,000 young people annually to fulfil their potential through training support and bursaries.

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

We have also continued to invest in Welfare Advice Services for our residents helping them to claim benefits to which they are entitled. This work alone has benefitted our residents by securing an extra £8.3 million in income they would otherwise have foregone.

New homes

Clarion aims to be a developer of homes on a significant scale. Over the last year we have built 1,340 new homes across a range of tenures. Central to our development programme is ensuring we are able to focus on those who are failed by the market. Those homes were developed with just 4% of public subsidy, an average of £14,000 per home. Supporting a programme of this scale has meant we have undertaken commercial activities to generate returns to fill the gap left by shrinking public funds.

This year's financial surplus of £173 million should be seen in the context of the £196 million long-term investment we made in social housing over the last 12 months. We invested £179 million into the construction of new social housing properties and 1.6 times our annual surplus was applied to our core social housing activity through a programme of planned improvements, as well as the development of new social housing.

Procurement

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

Procurement aims to ensure value for money is achieved at the awarding of contracts and extends to strategic delivery. We expect to deliver additional value from the tender process as well as ongoing contract management.

Since the year end we have commenced a programme of retendering services as part of the integration of the two merged businesses. This has realised projected savings for future years of £4 million from service contracts for lifts and domestic gas.

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

This table shows Clarion Housing Group's performance for 2016/17 (with 2015/16 comparatives) and ranks this with our peer group's 2015/16 published data. We have also included national averages where available.

Financial VfM analysis	2016/17	2015/16
Operating costs per home	**£4,623**	£4,530
Management cost per home	**£764**	£716
Service charges cost per home	**£562**	£500
Maintenance and major repairs expenditure (including capitalised) per home	**£2,599**	£2,641
Rent void losses per home (general needs and Affordable properties, excluding garages)	**£68**	£66
Social housing lettings operating margin	**34.5%**	35.6%
Board and Executive pay per home	**£26.51**	£24.77
Chief Executive pay per home	**3.07**	5.50
Ratio of Chief Executive emoluments to average staff emoluments (excluding employer's pension contribution)	**10.77**	9.93
Housing management VfM analysis		
Current arrears – social housing properties	**3.52%**	3.2%
Rent loss due to voids	**1.5%**	1.5%
Residents' satisfaction overall	**76.7%**	77.6%
Residents' satisfaction with repairs	**79.9%**	85.5%

Peer group weighted average 2015/16 (26 members)	Clarion peer group ranking	National average	
£5,075	13	£3,970	We have faced a number of cost pressures in the year which has led to a year on year increase in our cost base. The overall operating cost per unit has increased 2.1% but at £4,623 is lower than the peer group average. We are currently ranked in the second quartile on operating cost per unit.
£1,051	7	£1,080	At £764 per home, management costs have increased 6.7% but remain comfortably within the national and peer group averages.
£687	16	£530	Higher utility bills and increased spend on communal repairs, mostly compliance works has led to a 12.4% annual increase in service charge expenditure. This means our costs are lower than peer group average but above the national average.
£2,094	19	£1,950	Our cost of £2,599 is marginally lower than last year. Our investment in existing homes (several hundred are over 100 years old) remains higher than the national and peer group averages. Steady investment in our core housing assets remains a priority for the organisation.
£56	20	N/A	At £68 per home we are a quartile 4 performer compared to our peers. We are working hard to address performance and utilising tenant incentives and new marketing campaigns to generate increased demand.
33.8%	16	27.6%	At 34.5% social housing operating margin is slightly above the peer group average but better than the national average. We are committed to delivering efficiency savings over the next three years and are targeting an improvement in operating financial performance.
£32.8	12	N/A	Board and Executive pay per home is mid ranked and lower than the peer group average. There are a number of duplicate senior roles in 2016/17 which will reduce next financial year and we can expect to see this ratio improve. The Remuneration and Nominations Committee agrees Executive pay and for Non Executives it makes recommendations to the Board.
6.8	1	N/A	At 3.07:1, the ratio of Chief Executive pay per home is top quartile and significantly lower than peer group average which reflects that we are the largest housing association in England.
8.51	24	N/A	This ratio is 8.5% higher than last year and reflects the change in senior pay to reflect increased responsibility from heading up the largest social housing group in England.
3.97%	7/24		Arrears performance is good and remains within target but marginally outside top quartile when compared to our peers.
1.37%	14/19		Void rent loss performance is stable but remains an area of performance we continue to monitor.
81.93%	9/24		There have been a number of operational performance challenges in many north and east London boroughs and this has led to a fall in the overall satisfaction rating.
85.52%	11/18		At almost 80% repairs satisfaction has dropped compared to last year but largely reflects poor repairs performance on a number of north and east London estates.

Clarion as a responsible business

One of the benefits of the merger has been bringing together two organisations that share similar values, not least in our approach to CSR. Our focus is on adding value for our people, our communities and on environmental sustainability. We aim to achieve this in a pioneering and innovative way.

Homes that are warm, comfortable and affordable

Addressing fuel poverty among our residents continues to be one of our major priorities and 4,500 of our homes received nearly 5,000 energy efficiency improvements in 2016/17. These included installing high efficiency boilers, loft, cavity and solid wall insulation. In addition our Energy Advisor Service provided in-home support and energy packs to our residents, with estimated bill savings of £244 per visit.

A baseline assessment of the energy performance and retrofit potential of our entire stock was undertaken which will feed into the new Asset Management Strategy and the five year asset investment programme.

"

Our staff raised over £50,000 for the Charity WellChild over the last two-and-a half years, through a number of volunteering initiatives.

Breaking out of the cycle of disadvantage

We are continuing support of the Albert Kennedy Trust's Purple Door London project, designed to take LGBT young people out of danger and off the streets. They stay in a safe house for up to three months while supported with mentoring, advocacy, access to life skills training and longer-term accommodation support. The house, which is provided and managed by Clarion, provides a safe and positive space for more than 30 young people a year to regain their self-esteem and autonomy.

Supplier diversity forum

In 2016 we launched a supplier diversity Forum to bring together contractors and suppliers including: Breyer, Keepmoat, Mears, Robert Heath Heating and Swale Heating, as well as our inhouse contractors. The aim was to think about increasing the diversity of the supply chain, as well as celebrating the diversity of our combined workforces.

Immediate benefits from this collaboration included the development of a new guide to Supplier Diversity, *Spreading the Wealth.* The Forum will continue with a wider CSR remit going forward.

Staff charity

Our staff raised over £50,000 for the Charity WellChild over the last two and a half years, through a number of volunteering initiatives. WellChild, whose Patron is Prince Harry, was able to help 1,200 severely ill children and their families, by providing nursing staff, support for bringing children home and making homes safer.

Photo: Young project volunteers at a 'Who Do We Think We Are?' event.

A celebration of our heritage to build a brighter future

A 'Who do we think we are?' project, supported by the Heritage Lottery Fund, was launched on one of our 100-year old estates in Alum Rock in Birmingham in July 2016. This year-long project has collected oral histories from residents, hundreds of photos and involved more than 50 volunteers. The oral histories will be archived in the Library of Birmingham, featured in a touring exhibition, and stored in a time capsule.

Simplifying structures inherited at merger

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

The Group Board has 10 non executive directors and two executive directors who bring a broad range of skills, experience and knowledge to their roles, including expertise in finance, business and public administration. The Board has the collective skills to fulfil their responsibilities under the NHF Code of Governance, which they have adopted. The code is based on clear requirements and commitments which enable the Board to demonstrate compliance with best practice in the housing sector.

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

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

The Group is simplifying the structures it inherited at merger. Specifically the Group aims to have a single asset owning landlord which manages its homes. At merger there were 10 individual housing associations in the Group. The Board considers that simple structures provide better and more effective decision making and it aims to consolidate where possible into three key business streams: the landlord, the development company and the charitable foundation.

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

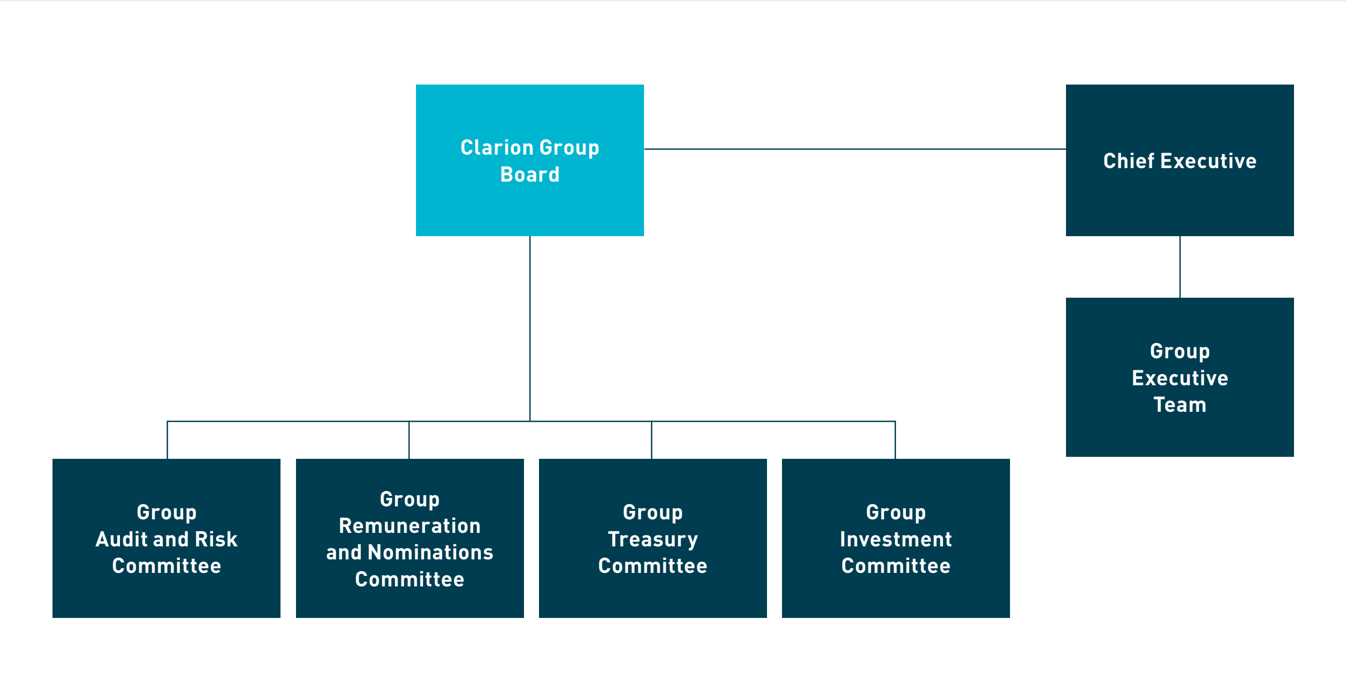
The key responsibilities of the Group Board are to lead, control and monitor the overall performance of the Group. The Group Board approves the budgets and business plans of its subsidiary companies and retains control through the ability to appoint and remove subsidiary board members. The Group delegates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

Governance and Financial Viability Standard

The Group received a G2 and V1 rating from the HCA in November at the conclusion of merger. The ratings represent the lower of the ratings applied to the two predecessor organisations. The Board has considered its obligations under regulation and is satisfied that it complies in all material respects with the standards.

“ The key responsibilities of the Group Board are to lead, control and monitor the overall performance of the Group.

Simple structures provide better and more effective decision making



Clarion Group Board
The board directs the affairs of the association in accordance with its objects and rules and ensures that its functions are properly performed. The board is responsible for delivering the aims and objectives of the Group as well as ensuring compliance with the values and objectives of the association and the Group as a whole. It approves each year's accounts prior to publication and approves each year's budget. It appoints (and if necessary removes) the Group Chief Executive.

Audit and Risk Committee
Advises the Group and subsidiary boards on the effectiveness of assurance arrangements across the group. Has oversight of the risk framework, advising the Group on the effectiveness of arrangements.

Remuneration and Nominations Committee
Responsible for Board member and chief executive appointments. Agrees the remuneration strategy for all employees and remuneration for the Group Chief Executive and executive directors.

Treasury Committee
Advises on funding strategy for the Group and provides expert opinion to the borrowers within the group.

Investment Committee
Responsible for scrutiny of all proposed projects involving major investment, by way of acquisition, development, regeneration or major repairs. Approves within delegated limits and recommends to the Group Board any projects outside agreed delegations.

Chief Executive
Responsible for managing the overall performance of the business and ensuring an effective and motivated leadership team is in place. Also leads on developing and implementing strategy.

Group Executive Team
Responsible for assisting the Group Chief Executive in the development and implementation of strategy, budget and operational performance.

The right blend of experience and expertise

Neil Goulden
Group Chairman
Neil joined the Affinity Sutton Board as Chairman in 2010. Following a successful career in the leisure and hospitality industry, Neil now focusses on organisations with a social purpose.

In addition to his role at the Clarion Housing Group, he is Pro Chancellor and Chair of Governors at Nottingham Trent University. He is also Chair of Ambitious About Autism (an education based charity) and Chair at Sue Ryder (the healthcare charity). In the commercial world Neil is Chairman of Jackpot Joy Plc. He also sat on the Low Pay Commission for eight years from 2007 to 2015.

G R T

Sue Killen
Group Vice Chair
Sue is the Chief Executive of St John Ambulance (SJA). Before joining SJA in September 2007 she was a Director General in the Department for Transport. Previous Government roles include leading cross cutting work to tackle drug abuse and practical preparations for the single currency. She also worked on the privatisation of a number of major companies.

From September 2006 to June 2007 she led an independent review of children and young people's palliative care. She has been a Board member of Addaction, the National Treatment Agency and FYF.

F H R

David Avery
Non Executive Director
David has over 10 years' experience serving on housing association boards with more than six years as Chair. Initially with Saxon Weald Homes Limited and more recently with Peabody as Chair of their 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 an NED of an NHS Trust. He is a founding investor and advisor to SDCmaterials Inc, a technology start-up company based in Phoenix, Arizona and a NED of Gen2 Property Limited.

H A

Helen Bailey
Non Executive Director
Helen Bailey is the Chief Executive of iMPOWER Consulting, working with the public sector to solve complex social problems by changing behaviours. Helen is an experienced Chief Executive who has worked at senior level in Local, Central and London Government.

Prior to joining iMPOWER Helen has been the Chief Executive of a London Borough, Director of Public Services at HM Treasury and headed up the Mayor's Office for Policing and Crime. Helen has experience of customer services, housing and related services through overseeing direct delivery, working on service improvement and from a national policy perspective.

R

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

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

A T

John Coghlan
Non Executive Director
John is Chair of the Audit Committee at Severn Trent plc, a director of Associated British Ports and Chair of its Audit Committee and Chair of the Freight Transport Association Ireland.

A

Greg Reed
Non Executive Director
Greg has recently been appointed Chief Executive Officer at HomeServe Membership, having previously been Chief Marketing Officer.

Rupert Sebag-Montefiore
Non Executive Director
Rupert is Chair of Latimer Developments Limited. Rupert has recently retired from Savills plc where he was on the Main Board, followed by the Group Executive Board, for 21 years. Rupert is Chairman of Prime Purchase Limited, a trustee of Salisbury Arts Theatre and the Orchestra of the Age of Enlightenment and a member of the Investment Committees of Winchester College and Christ Church, Oxford.

Brian Stewart OBE
Non Executive Director
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.

H R

Colin Sturgeon
Non Executive Director
For 30 years Colin's career has revolved around leading and managing the origination and execution of corporate and government finance, together with client advisory services, in the international debt and equity capital markets.

Colin played a major role for over 20 years in the establishment of Royal Bank of Canada as a leading integrated international investment bank and held key governance roles in the bank's European businesses. Since retirement from RBC Capital Markets in July 2005 he has provided advisory and independent non-executive director services to a number of government, corporate and social entities.

T

Keith Exford CBE
Group Chief Executive
A leading figure in the UK social housing sector, Keith was Chief Executive of Affinity Sutton for over 20 years and will be leading the Clarion Housing Group.

A non-executive director of The Housing Finance Corporation, he is also a Trustee of the children's cancer charity CLIC Sargent.

I

Mark Washer
Chief Financial Officer
Mark is Clarion Housing Group's Chief Financial Officer and is a chartered accountant, having qualified with Deloittes. He is a Board Member and deputy chair of the National Housing Federation.

I L T

- G Chair of the Group Board
- A Audit and Risk Committee
- H Common Housing Association Board
- F Foundation Board
- I Investment Committee
- L Latimer
- R Remuneration and Nominations Committee
- T Treasury Committee
- Denotes Committee Chair

The Executive Team is focused on delivering Clarion's strategy and social mission

Keith Exford CBE
Group Chief Executive

A leading figure in the UK social housing sector, Keith was Chief Executive of Affinity Sutton for over 20 years and is now leading the Clarion Housing Group.

Keith is also non-executive director of the Housing Finance Corporation and a trustee of the children's cancer charity CLIC Sargent.

Mark Washer
Chief Financial Officer

Mark joined the Affinity Sutton Group in 2001 and became Clarion Housing Group's Chief Financial Officer following the merger with the Circle Housing Group in November 2016. Mark is a chartered accountant, having qualified with Deloittes.

Clare Miller
Group Director of Governance & Compliance and Company Secretary

Clare joined Affinity Sutton in 2010 and became Group Director of Governance and Compliance as well as the Clarion Group Company Secretary following the merger with the Circle Housing Group in November 2016. Clare was an Executive Director of the TSA where she was responsible for the regulation of housing associations in England. Prior to that she worked for the Housing Corporation, where she led the financial regulatory work dealing with associations in special measures.

Neil McCall
Housing Association Chief Executive

Neil joined the Affinity Sutton Group in 1995 and became the Chief Executive Officer – Housing Association for Clarion Housing Group following the merger with Circle Housing Group in November 2016.

Jonathan Cawthra
Group Director of HR and Corporate Services

Jonathan joined the Affinity Sutton group in 2003 and became the Group Human Resources Director following the merger with Circle Housing Group in November 2016. Jonathan is responsible for creating a culture in which all staff have the opportunity and commitment to make a real contribution to the success of Clarion Housing Group. Before joining Affinity Sutton in 2003, Jonathan held a number of senior roles at Royal Mail, latterly as Communications Director.

Austen Reid
Group Director of Transition

Austen joined Circle Housing Group in 2015 as Chief Operations Officer and became Clarion's Director of Transition following the merger with the Affinity Sutton Group in November 2016. Austen has significant property and social sector experience, having worked at Circle Housing, Catalyst, The Hyde Group and Savills.

Kerry Kyriacou
Group Director of Development

Kerry joined the Affinity Sutton Group in March 2000 and became Clarion Group's Director of Development following the merger with Circle Housing Group in November 2016. Kerry brings with him extensive experience in both commercial and residential development. His background as a qualified architect and member of the Royal Institute of British Architects has influenced Clarion Housing Group's strong commitment to creating well designed homes and communities. Kerry's development career began in industry working for Smiths Group, a large multi-national group and he then went on to architecture practice.

Michelle Reynolds
Group Director of Commercial Services

Michelle joined the Affinity Sutton Group Executive Team in January 2013 and became Clarion's Group Director of Commercial Services following the merger with Circle Housing Group in 2016. Michelle heads up the commercial and charitable arm of Clarion Housing Group, namely looking after Centra's care and support services; our repairs businesses ASR, CBS and Circle Housing Property Services; property management company, Grange; and property exchange service House Exchange. In addition, Michelle oversees the Group's two charitable foundations.

With over 25 years experience in the sector, Michelle has held various roles including previous directorships at Affinity Sutton and William Sutton, and was Chief Executive of Aashyana, the first Asian-led housing association in the South West.

Report from the Remuneration and Nominations Committee

Membership of the Committee – Helen Bailey (Chair), Neil Goulden, Brian Stewart, Sue Killen.

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

To determine the Board membership the chairs of the two predecessor organisations agreed that it was essential to have a Board with the right skills to lead the largest social housing organisation in the country. All members of the Board were independently assessed by a third party specialist recruitment agency and appointed to the Shadow Board initially, and then to the Group Board at the date of merger. We are a business which manages assets for the long term and we value the experience and knowledge of our Board members. We appoint for a maximum nine year term and we think that the experience gained over that time is invaluable. Our Board understands the property market and the cycles it displays, which helps to manage and mitigate the risks of the business.

Board members are appraised annually. Last year (because the Board was recruited and assessed at appointment) individual appraisals were deferred until completion of the merger. Appraisals are carried out by the Chairman.

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

The Committee is aware of its responsibility to create conditions which encourage and promote a diverse workforce.

The Committee adopts the Group Code of Conduct.

Directors' remuneration

Director	Current Role(s)	2016/17 Fee £	2016/17 Other benefits £	2016/17 Total £	2015/16 Total £
Non Executive Directors					
Neil Goulden[a]	Group Chairman	**35,500**	–	**35,500**	25,000
Sue Killen[b]	Group Vice Chair, Chair of Foundation Board, member of Audit and Risk Committee, Common Housing Association Board and Treasury Committee	**14,333**	–	**14,333**	12,500
David Avery[c]	Chair of Common Housing Association Board and member of Audit and Risk Committee	**16,300**	–	**16,300**	6,175
Helen Bailey[d]	Chair of Remuneration and Nominations Committee	–	–	–	–
Tania Brisby	Member of Audit and Risk and Treasury Committees	**18,227**	–	**18,227**	13,811
John Coghlan[e]	Chair of Audit and Risk Committee	–	–	–	–
Greg Reed[f]	Board member	–	–	–	–
Rupert Sebag-Montefiore[f]	Chair of Latimer	–	–	–	–
Brian Stewart OBE	Member of Common Housing Association Board and Remuneration and Nominations Committee	**19,547**	–	**19,547**	16,066
Colin Sturgeon	Chair of Treasury Committee	**17,500**	–	**17,500**	14,234
Simon Braid[g]		**17,620**	–	**17,620**	15,075
Sir Robin Young[h]		**47,440**	–	**47,440**	30,360
		186,467	–	**197,092**	134,766

Above remuneration covers current roles in the Clarion Housing Group ("CHG") from 29 November 2016 and previous roles in either the Affinity Sutton Group ("ASG") or the Circle Housing Group ("Circle").

a ASG Chair 1/4/16–29/11/16, Clarion Vice Chair 29/11/16–31/3/17, Clarion Chairman from 1/4/17.
b Remuneration paid to employer, St John Ambulance.
c Appointed 13/10/15.
d Remuneration not drawn.
e Appointed 6/7/17. Appointed Chair of Audit and Risk Committee 19/7/17.
f Appointed 6/7/17.
g Resigned 19/7/17. Circle Chair of Audit and Risk Committee 1/4/16–29/11/16, CHG Chair of Audit and Risk Committee 29/11/16–19/7/17.
h Circle Chair 1/4/16–29/11/16. Clarion Chair 29/11/16 - 31/3/17, Resigned 1/4/17.

Report of the Audit and Risk Committee

Membership of the Committee – Simon Braid (Chair until 19 July 2017), John Coghlan (Chair from 19 July 2017), David Avery, Tania Brisby, Aruna Mehta and Kirstin Baker (appointed 6 July 2017).

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

We scrutinise the financial statements and propose them to the Group Board for approval. We examine in detail the work of internal audit, and the risk framework, advising the Board of any new and emerging risks of which we consider the Board should be aware.

Internal audit

Clarion has its own internal audit and risk function, which is supplemented by PWC who carry out specific internal audit reviews and test key controls. We believe this model gives us a suitably skilled and flexible resource which we can deploy to best effect. The Committee looked at the model in detail at the point of merger and decided that the arrangements were effective in reviewing internal controls, monitoring compliance and testing business continuity. The Committee has agreed that it will use external expertise where necessary, and particularly so in specialist areas where QS skills may be required or in testing the resilience of IT systems to cyber attack. The focus of the audit programme after the merger has been the areas of concern in the Regulatory Notice such as repairs, complaints, safety check compliance and underlying asset records as well as routine work in key controls, IT and service charges.

External audit

KPMG has been appointed as auditors of the Group, having previously audited both predecessor organisations. Our intention is to tender for external audit on completion of the 2016/17 financial statement when the current contracted arrangements expire.

Committee effectiveness

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

The year ahead

The future prospects for Clarion Group are good. We are ambitious to grow and to use our enhanced capacity to further our charitable mission. The policy environment is one of constant change and the Committee's role remains vital in advising the Board and working closely with management to secure the best outcomes for those who benefit from our services.

Board statement on the effectiveness of the system of internal control for the period ending 31 March 2017

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

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

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

- Corporate governance arrangements.
- Written Group-wide financial regulations and delegated authorities, which were subject to review during the year.
- Policies and procedures for all key areas of the business. These are reviewed periodically to ensure their continued appropriateness.
- A Group-wide Internal Audit function, structured to deliver the Audit and Risk Committee's risk-based audit plan. As well as having an inhouse team, the Group uses the services of professional firms of auditors and other specialists as necessary. All audit reports are reviewed by the Audit and Risk Committee, which also receives updates on the implementation of agreed external and internal audit recommendations. Detailed reports on the Group's and subsidiaries' activities are also presented to senior managers so that recommendations for strengthened controls and improvement can be implemented promptly.
- A Group-wide Health and Safety function.
- Management structures providing balance and focus within the Group.
- A Group-wide risk management process, which enables management to manage risk so that residual risk, after appropriate mitigation, can be absorbed without serious permanent damage to the Group or its subsidiaries. This includes a formal risk management approach to new business and major development initiatives and action plans to mitigate the worst effects of the risks. Risk management is considered at each Audit and Risk Committee meeting, through reviews of individual risk areas and/or risk maps, as well as considered regularly by the Board.
- The Group and its subsidiaries have annual budgets and long-term business plans. Throughout the year, Boards and managers regularly monitored performance against budgets, value for money and other quality indicators. An important tool in this process is the Group's Balanced Scorecard which identifies performance against key performance indicators, underpinned by supporting performance indicators and management information.
- Regulatory requirements and service objectives with managers ensuring that variances are investigated and acted upon.
- An anti-fraud and anti-bribery culture which is supported by a policy and procedure for dealing with suspected fraud, bribery and whistleblowing. The Group participated in the 2016/17 National Fraud Initiative, sponsored by the Audit Commission.
- All housing investment decisions and major commitments were subject to appraisal and approval by the Group Investment Committee (or its predecessor committees) and, when appropriate, the Group Executive Team and the relevant Board, in accordance with the Group's financial regulations; and
- A Group-wide treasury management function reporting at least three times a year to the Group Treasury Committee.

The Group Chief Executive and senior subsidiary managers have reviewed the internal control and assurance arrangements by reference to checks on the above and a report has been made to the respective Boards on the effectiveness of the control systems for the year ended 31 March 2017 and up to the date of approval of the Annual Report and the Financial Statements. The Group Audit and Risk Committee and the Group Board have expressed their satisfaction with these arrangements.

Status

No weaknesses were found in internal controls which resulted in material losses, contingencies or uncertainties that require disclosure in the financial statements, for the year ended 31 March 2017 and up to the date of approval of the financial statements.

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

The Board is responsible for preparing the Report of the Board and the financial statements in accordance with applicable law and regulations. Co-operative and Community Benefit Society law requires the Board to prepare financial statements for each financial year. Under those regulations the Board has elected to prepare the Financial Statements in accordance with UK Generally Accepted Accounting Practice including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

The Financial Statements are required by law to give a true and fair view of the state of affairs of the Group and Parent and of the income and expenditure of the Group and the Parent for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent will continue in business.

The Board is responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Group and the Parent and enable the Board to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008, and the Accounting Direction for Private Registered Providers of Social Housing 2015. The Board has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the Group and the Parent and to prevent and detect fraud and other irregularities.

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

Going Concern

After reviewing the Group's budget for 2017/2018 and those of its subsidiaries, the 30-year business plan, and based on normal strategic business planning and control procedures, the Board has a reasonable expectation that Clarion Housing Group Limited has adequate resources to continue in operational existence for at least twelve months from the date of approval of the financial statements.

Disclosure of information to auditor

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

Auditors

Due to EU procurement rules, the Group's statutory audit contract for the next five years will be put out for tender in 2017, with the new auditor appointed in time to audit the annual report and financial statements for the year ended 31 March 2018. KPMG LLP, the Group's current auditors, have expressed their interest in tendering.

By order of the Board

Neil Goulden
Group Chairman
19 July 2017

Registered address: Level 6, 6 More London Place, Tooley Street, London SE1 2DA

Independent auditor's report to Clarion Housing Group Limited

We have audited the financial statements of Clarion Housing Group Limited for the year ended 31 March 2017 set out on pages 68 to 119.

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

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

Respective responsibilities of the Board and auditor

As more fully explained in the Statement of Board's Responsibilities set out on page 64, the Association's Board is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at **www.frc.org.uk/auditscopeukprivate.**

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the Association as at 31 March 2017 and of its income and expenditure for the year then ended;
- comply with the requirements of the Co-operative and Community Benefit Societies Act 2014; and
- have been properly prepared in accordance with the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Matters on which we are required to report by exception

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

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

Andrew Sayers
for and on behalf of KPMG LLP,
Statutory Auditor
Chartered Accountants
15 Canada Square, London, E14 5GL

Statement of Comprehensive Income
For the year ended 31 March 2017

Group

	Notes	2017 £m	Combined 2016 £m
Turnover	4a	**795.6**	824.6
Cost of sales	4a	**(48.2)**	(67.1)
Operating costs	4a	**(495.2)**	(483.3)
Surplus on disposal of properties	4a	**37.3**	32.2
Operating surplus	4a	**289.5**	306.4
Surplus on disposal of other fixed assets	4a	**0.6**	0.7
Surplus on disposal of operations	34	**6.6**	-
Share of operating surplus of JCEs and associates	17	**5.5**	32.9
Gain on revaluation of investment properties	15	**17.2**	27.5
Interest receivable	7	**5.1**	5.4
Interest payable and financing costs	8	**(144.9)**	(144.3)
Movement in fair value of financial instruments	9	**(3.6)**	6.5
Surplus on ordinary activities before taxation	10	**176.0**	235.1
Tax charge on surplus on ordinary activities	11	**(2.7)**	(1.6)
Surplus for the year		**173.3**	233.5
Actuarial (losses)/gains on pension schemes	28	**(9.5)**	16.4
Movement in fair value of financial instruments	9	**(9.2)**	(28.7)
Foreign exchange rate gains		**0.8**	2.9
Tax charge on other comprehensive income	11	**(1.5)**	(1.0)
Total comprehensive income for the year		**153.9**	223.1

All operations are continuing.

Adjustments have been made in combining the prior year, including those arising from the alignment of accounting policies (see notes 14, 36 and 37).

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

Neil Goulden
Group Chairman

Mark Washer
Chief Financial Officer

Clare Miller
Company Secretary

19 July 2017

Parent

	Notes	2017 £m	Combined 2016 £m
Turnover	4a	**158.6**	208.9
Cost of sales	4a	**(11.1)**	(12.8)
Operating costs	4a	**(144.8)**	(189.7)
Operating surplus	4a	**2.7**	6.4
Interest receivable	7	**6.7**	4.9
Interest payable and financing costs	8	**(5.5)**	(5.2)
Surplus on ordinary activities before taxation and Gift Aid	10	**3.9**	6.1
Gift Aid payment to subsidiary		**(2.6)**	(5.7)
Surplus on ordinary activities before taxation		**1.3**	0.4
Tax (charge)/credit on surplus on ordinary activities	11	**(1.3)**	0.1
Surplus for the year		**-**	0.5
Actuarial (losses)/gains on pension schemes	28	**(6.1)**	4.1
Tax charge on other comprehensive income	11	**(1.5)**	(0.8)
Total comprehensive income for the year		**(7.6)**	3.8

All operations are continuing.

Adjustments have been made in combining the prior year, including those arising from the alignment of accounting policies (see notes 14, 36 and 37).

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

Neil Goulden
Group Chairman

Mark Washer
Chief Financial Officer

Clare Miller
Company Secretary

19 July 2017

Statement of Financial Position
As at 31 March 2017

Group

	Notes	2017 £m	Combined 2016 £m
Fixed assets			
Goodwill	12	**6.3**	6.6
Other intangible assets	13	**33.2**	27.3
Social housing properties	14	**6,503.2**	6,335.5
Investment properties	15	**228.3**	290.6
Non-housing fixed assets	16	**49.0**	44.0
Interests in JCEs and associates	17	**92.0**	69.5
Other fixed asset investments	18	**14.5**	15.9
		6,926.5	6,789.4
Current assets			
Stock	19	**171.6**	136.3
Debtors: amounts falling due within one year	20	**80.1**	78.5
Debtors: amounts falling due after more than one year	20	**140.1**	150.7
Current asset investments	21	**111.2**	102.1
Cash and cash equivalents		**168.5**	166.3
		671.5	633.9
Current liabilities			
Creditors: amounts falling due within one year	22	**(289.5)**	(254.1)
Net current assets		**382.0**	379.8
Total assets less current liabilities		**7,308.5**	7,169.2
Creditors: amounts falling due after more than one year	23	**(5,909.2)**	(5,934.3)
Provisions for liabilities and charges	27	**(89.7)**	(79.1)
Total net assets		**1,309.6**	1,155.8
Capital and reserves			
Non-equity share capital	32	**-**	-
Cash flow hedge reserve		**(395.4)**	(386.2)
Income and expenditure reserve		**1,705.0**	1,542.0
Total capital and reserves		**1,309.6**	1,155.8

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

Neil Goulden
Group Chairman

Mark Washer
Chief Financial Officer

Clare Miller
Company Secretary

19 July 2017

Parent

	Notes	2017 £m	Combined 2016 £m
Fixed assets			
Other intangible assets	13	**32.1**	26.9
Non-housing fixed assets	16	**21.7**	15.8
Other fixed asset investments	18	**1.3**	1.3
		55.1	44.0
Current assets			
Debtors: amounts falling due within one year	20	**76.5**	53.6
Debtors: amounts falling due after more than one year	20	**98.2**	76.0
Cash and cash equivalents		**104.7**	81.8
		279.4	211.4
Current liabilities			
Creditors: amounts falling due within one year	22	**(155.9)**	(139.1)
Net current assets		**123.5**	72.3
Total assets less current liabilities		**178.6**	116.3
Creditors: amounts falling due after more than one year	23	**(184.4)**	(121.9)
Provisions for liabilities and charges	27	**(2.7)**	(10.8)
Total net liabilities		**(8.5)**	(16.4)
Capital and reserves			
Non-equity share capital	32	**-**	-
Income and expenditure reserve		**(8.5)**	(16.4)
Total capital and reserves		**(8.5)**	(16.4)

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

Neil Goulden
Group Chairman

Mark Washer
Chief Financial Officer

Clare Miller
Company Secretary

19 July 2017

Statement of Changes in Capital and Reserves
For the year ended 31 March 2017

Group

	Share capital £m	Cash flow hedge reserve £m	Income and expenditure reserve £m	Total capital and reserves £m
At 31 March 2015	-	(362.3)	1,289.4	927.1
Change in accounting policy (see note 37)	-	4.8	6.8	11.6
Correction of prior period error (see note 14)	-	-	(6.0)	(6.0)
At 31 March 2015 (restated)	-	(357.5)	1,290.2	932.7
Surplus for the year ending 31 March 2016	-	-	233.5	233.5
Other comprehensive income for the year	-	(28.7)	18.3	(10.4)
At 31 March 2016	-	(386.2)	1,542.0	1,155.8
Surplus for the year ending 31 March 2017	-	-	173.3	173.3
Other comprehensive income for the year	-	(9.2)	(10.3)	(19.5)
At 31 March 2017	-	**(395.4)**	**1,705.0**	**1,309.6**

Parent

	Share capital £m	Income and expenditure reserve £m	Total capital and reserves £m
At 31 March 2015	-	(20.2)	(20.2)
Surplus for the year ending 31 March 2016	-	0.5	0.5
Other comprehensive income for the year	-	3.3	3.3
At 31 March 2016	-	(16.4)	(16.4)
Surplus for the year ending 31 March 2017	-	-	-
Other comprehensive income for the year	-	(7.6)	(7.6)
Distribution-in-kind from Group undertaking	-	15.5	15.5
At 31 March 2017	-	**(8.5)**	**(8.5)**

Statement of Cash Flows
For the year ended 31 March 2017

Group

	2017 £m	2017 £m	Combined 2016 £m	Combined 2016 £m
Surplus for the year	**173.3**		233.5	
Gain on revaluation of investment properties	**(17.2)**		(27.5)	
Surplus on disposal of other fixed assets	**(0.6)**		(0.7)	
Share of operating surplus of JCEs	**(5.5)**		(32.9)	
Surplus on disposal of operations	**(6.6)**		-	
Net financing costs	**143.4**		132.4	
Tax charge on surplus on ordinary activities	**2.7**		1.6	
Operating surplus	**289.5**		306.4	
Adjustments for:				
Proceeds from disposal of properties in excess of surplus	**33.8**		45.1	
Amortisation of government grants	**(22.8)**		(22.7)	
Corporation tax paid	**(0.2)**		-	
Amortisation/impairment of intangible assets	**20.6**		5.5	
Depreciation including component write off	**93.6**		94.2	
Impairment	**-**		5.8	
Impairment reversal of JCE investment	**(4.4)**		-	
Increase in stock	**(35.3)**		(30.7)	
Increase in debtors	**(7.2)**		(7.8)	
Decrease in trade and other creditors	**(4.5)**		(36.2)	
Pension contributions in excess of expense	**(6.0)**		(1.4)	
Other increase in other provisions	**6.9**		13.3	
Net cash from operating activities		**364.0**		371.5
Cash flows from investing activities				
Proceeds from disposal of other fixed assets	**0.7**		0.9	
Proceeds from disposal of operations (net of cash disposed)	**38.0**		-	
Proceeds from disposal of investment properties	**18.9**		-	
Interest received	**5.1**		5.5	
Acquisition of intangible assets	**(24.4)**		(14.5)	
Acquisition of social housing properties	**(207.7)**		(181.8)	
Spend on capital major works	**(74.3)**		(84.3)	
Acquisition of non-housing fixed assets	**(12.4)**		(5.6)	
Acquisition of investment properties	**(3.1)**		-	
(Investment in)/repayment of investment by JCEs and associates	**(25.2)**		4.8	
Distributions from JCEs and associates	**17.2**		28.8	
Acquisition of other fixed asset investments	**1.4**		-	
Increase in current asset investments	**(9.1)**		(81.6)	
Social housing property grants received	**7.6**		14.9	
Net cash from investing activities		**(267.3)**		(312.9)
Cash flows from financing activities				
Interest paid	**(156.7)**		(154.4)	
Net borrowing of loans and bonds	**66.6**		22.9	
Capital transaction costs paid	**(4.4)**		(1.8)	
Proceeds from swap cancellation and other financing income	**-**		2.8	
Payment of finance lease capital	**-**		(0.2)	
Net cash from financing activities		**(94.5)**		(130.7)
Net increase/(decrease) in cash and cash equivalents		**2.2**		(72.1)
Cash and cash equivalents at 1 April		**166.3**		238.4
Cash and cash equivalents at 31 March		**168.5**		166.3

1. Accounting policies

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

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

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

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

Going concern
On the basis of their assessment of the Group's financial position and resources, the Board believes that the Group is well placed to manage its business risks. Therefore the Group's Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for at least 12 months from the date of approval of the financial statements. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

The Group, through its subsidiaries, has provided confirmation of support to Leamington Waterfront LLP, Anglia Maintenance Services Limited, Affinity Sutton Professional Services Limited, Broomleigh Regeneration Limited, Affinity Sutton Investments Limited and one of its joint ventures, Linden/Downland Graylingwell LLP. This confirmation of support is for at least twelve months after their financial statements for the year ended 31 March 2017 are signed.

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

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

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

Merger
On 29 November 2016, Circle Anglia Limited, the ultimate parent of the Circle Housing Group, transferred its engagements (that is, its assets and liabilities) to Affinity Sutton Group Limited, the ultimate parent of the Affinity Sutton Group, as permitted by the Co-operative and Community Benefit Societies Act 2014. Concurrently, Affinity Sutton Group Limited changed its name to Clarion Housing Group Limited.

In accordance with FRS 102, this transaction has been accounted for as a merger, and so these financial statements are presented as if Clarion Housing Group Limited had existed in its current form since the start of the previous reporting period. Further details are provided in note 36.

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

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

a. in any accounting period, the exchange gains and losses arising on foreign currency borrowings are offset only to the extent of the exchange differences arising on the net investments in foreign enterprises; and

b. the foreign currency borrowings, whose exchange gains or losses are used in the offset process, do not exceed, in aggregate, the total amount of cash that the net investments are expected to be able to generate.

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

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

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

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

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

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

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

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

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

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

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

Other intangible assets

ERP system	10 years
Other computer software	4 years

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

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

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

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

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

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

Non-housing fixed assets

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

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

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

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

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

1. Accounting policies continued

Impairment continued

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

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

Interest receivable, interest payable and financing costs

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

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

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

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

Corporation tax

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

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

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

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

Goodwill

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

Social housing properties, investment properties and stock

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

a. Most of the Group's housing properties are held for social benefit and the rent charged to the tenants is below or even significantly below market rates. These properties are shown as *rental-only social housing properties* .

b. However, some housing properties are held to earn income at market rates and/or for capital appreciation, and these are treated as *investment properties* .

c. The Group also develops housing properties for open market sale and these are shown as *non-social stock* .

d. Housing properties developed for sale to another registered provider are shown as *social stock* .

e. Shared ownership (also known as "low cost home ownership", or LCHO) is where, initially, a long lease on a property is granted through a sale to the occupier, in return for an initial payment (the "first tranche"). The occupier then has the right, but not the obligation, to purchase further shares ("staircase") until they own 100% of the property; they pay a subsidised rent on the portion of the property they don't own. The cost of the expected first tranche proportion of shared ownership properties is shown as social stock with the remainder included in *shared ownership social housing properties* .

f. Non-residential properties such as retail units or offices, which are sometimes built as part of a residential development, are treated as *investment properties* if they are held for rental, or as non-social stock if they are developed for sale on a long lease (i.e. a premium is paid on completion, followed by a nominal rent).

g. Mixed tenure schemes where the precise mix is yet to be finalised; investment properties under construction; and land without planning consent or grant allocation ("land bank") are included in *social housing properties under construction* .

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

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

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

Interests in jointly controlled entities and associates

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

Public benefit concessionary loans

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

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

Stock transfers

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

Social housing property grants

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

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

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

HomeBuy grants

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

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

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

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

As a result of changes made by the Housing and Planning Act 2016, from 6 April 2017 the Group will not be required to recycle any further proceeds to the DPF.

Non-derivative financial instruments

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

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

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

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

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

1. Accounting policies continued

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

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

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

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

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

a. fair value hedges when hedging exposure to changes in the fair value of a recognised asset or liability; or

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

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

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

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

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

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

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

a. where they exist, quoted market prices in an active market for an identical asset or liability; or

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

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

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

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

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

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

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

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

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

2. Significant judgements and accounting estimates

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

1 Accounting for the transfer of engagements of Circle Anglia Limited to Affinity Sutton Group Limited (now Clarion Housing Group Limited) as a merger, both on a consolidated and unconsolidated basis.

2 Determining which properties, which would otherwise be shown as social housing properties or non-housing fixed assets, meet the definition of investment properties (see note 15).

3 Deeming the disposal of the Group's holding in Landericus Holding Limited S.à.r.l. and Prime Care Holdings Limited to be immaterial for the purposes of disclosure of discontinued operations (see note 34).

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

1 The useful economic lives ("UELs"), and residual values, of intangible assets, social housing properties and non-housing fixed assets.

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

2 The allocation of property development costs between tenures, and between components for rental-only social housing properties, and the expected first tranche proportion.

Allocation of costs between tenures is carried out on a scheme-by-scheme basis, and the non-land cost of rented properties is allocated to components on the basis of an internal review of component costs. The Group uses 35% as the default expected first tranche proportion as this is close to its average first tranche sales percentage.

3 The valuation of investment properties.

See note 15. These have been professionally valued, with the exception of a small number of immaterial properties which have been valued internally using the professional valuations as a guide.

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

See note 17.

2. Significant judgements and accounting estimates continued

Accounting estimates continued

5 The recoverable amount of stock.

Construction costs, including costs to complete for properties in the course of construction, have been compared to property valuations. In general, this should not be a significant risk due to the Group's regularly high sales margins.

6 The recoverable amount of tenant and other debtors.

Balances owed by former tenants are provided for in full; for current tenants, the provision is 40% for tenants of Affinity Sutton Homes Limited, and 25% for tenants of the five other (ex-Circle) registered providers. These percentages have been derived from separate reviews of two different groups of debtors, which were until recently managed by two separate organisations, and so would not necessarily agree. Other debtors are reviewed on a case-by-case basis and provided for as deemed to be necessary.

7 The fair value of derivative financial instruments. See note 26.

8 The valuation of defined benefit pension scheme obligations.

See note 27 for the valuation of the Social Housing Pension Scheme (SHPS) deficit funding contributions and note 28 for valuations of defined benefit assets/liabilities.

A number of critical underlying assumptions are made when measuring a defined benefit scheme, including standard rates of inflation, mortality, discount rates and anticipation of future salaries. Variation in these assumptions may significantly impact the net asset/liability and the annual expense. These assumptions and calculations are prepared by independent actuaries.

3. Units under management

Group	Combined 1 April 2016	Handed over	Net conversion to affordable	Disposal of Landericus	Other movements	At 31 March 2017
Social housing						
Social rent	77,558	226	(417)	-	(345)	**77,022**
Affordable rent	10,375	584	429	-	(15)	**11,373**
General needs	87,933	810	12	-	(360)	**88,395**
Supported	1,574	-	-	-	(32)	**1,542**
Housing for older people	7,488	-	(2)	-	(94)	**7,392**
Shared ownership	7,024	394	-	-	(179)	**7,239**
Intermediate rent	815	2	(9)	-	(22)	**786**
Keyworker	706	-	(1)	-	33	**738**
Social leaseholders	9,512	-	-	-	198	**9,710**
Staff accommodation	153	-	-	-	(3)	**150**
Social homes under management	115,205	1,206	-	-	(459)	**115,952**
Non-social housing						
Market rent	990	-	-	-	(121)	**869**
Non-social leaseholders	5,518	64	-	-	60	**5,642**
Homes under management	121,713	1,270	-	-	(520)	**122,463**
Non-housing						
Garages and car parking spaces	11,129	-	-	-	(55)	**11,074**
Commercial leaseholders	208	-	-	-	22	**230**
Community centres	84	1	-	-	(9)	**76**
Units under management	133,134	1,271	-	-	(562)	**133,843**
Units owned but not managed	4,050	73	-	(1,853)	(161)	**2,109**

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

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

Group	Turnover £m	Cost of sales £m	Operating costs £m	Surplus on disposal £m	2017 Operating surplus £m	Combined 2016 Turnover £m	Combined 2016 Operating surplus £m
Social housing activities							
Social housing lettings (note 4b)	**669.9**	**-**	**(438.8)**	**-**	**231.1**	663.4	236.5
Shared ownership first tranche sales	**51.9**	**(29.5)**	**(0.1)**	**-**	**22.3**	56.5	22.2
Other social housing activities							
Care and support services	18.4	-	(17.6)	-	**0.8**	20.2	-
Development costs not capitalised	-	-	(7.1)	-	**(7.1)**	0.1	(2.9)
Community investment	1.1	-	(7.9)	-	**(6.8)**	0.6	(7.4)
Other	7.4	(2.3)	(18.2)	-	**(13.1)**	6.5	(2.6)
Total	**26.9**	**(2.3)**	**(50.8)**	**-**	**(26.2)**	27.4	(12.9)
Surplus on disposal of social housing properties	**-**	**-**	**-**	**32.6**	**32.6**	-	31.8
Total social housing activities	**748.7**	**(31.8)**	**(489.7)**	**32.6**	**259.8**	747.3	277.6
Non-social housing activities							
Open market sales	**24.4**	**(16.4)**	**(0.6)**	**-**	**7.4**	49.8	15.3
Other non-social housing activities							
Market rent lettings	13.2	-	(4.8)	-	**8.4**	13.9	5.6
Garage lettings	2.8	-	(1.1)	-	**1.7**	2.7	0.7
Commercial lettings	3.8	-	(2.4)	-	**1.4**	3.7	1.8
Reversal of JCE loan impairment	-	-	4.4	-	**4.4**	-	-
Other	2.7	-	(1.0)	-	**1.7**	7.2	5.0
Total	**22.5**	**-**	**(4.9)**	**-**	**17.6**	27.5	13.1
Surplus on disposal of investment properties	**-**	**-**	**-**	**4.7**	**4.7**	-	0.4
Total non-social housing activities	**46.9**	**(16.4)**	**(5.5)**	**4.7**	**29.7**	77.3	28.8
Total social and non-social housing activities	**795.6**	**(48.2)**	**(495.2)**	**37.3**	**289.5**	824.6	306.4
Analysis of disposals							
Social housing properties	74.4	(41.0)	(0.8)	**32.6**	**32.6**	79.2	31.8
Investment properties	23.8	(19.1)	-	**4.7**	**4.7**	0.8	0.4
Other fixed assets	1.1	(0.5)	-	**0.6**	**0.6**	1.0	0.7

Parent

The Parent's turnover includes corporate recharges to operating companies (see Note 35) and other revenue grants.

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

Group	General needs housing £m	Supported housing/ housing for older people £m	Shared ownership accommodation £m	Other £m	Total 2017 £m	Combined Total 2016 £m
Income						
Rent receivable net of identifiable service charges	516.6	44.5	24.3	11.5	**596.9**	594.4
Service charge income	22.0	11.5	6.9	8.7	**49.1**	44.7
Amortisation of government grants	19.6	1.7	1.2	0.3	**22.8**	22.7
Other revenue grants/income	0.8	0.1	0.1	0.1	**1.1**	1.6
Turnover from social housing lettings	**559.0**	**57.8**	**32.5**	**20.6**	**669.9**	663.4
Expenditure						
Management	(61.4)	(13.2)	(2.8)	(4.4)	**(81.8)**	(76.4)
Service charge costs	(28.8)	(14.0)	(8.4)	(9.0)	**(60.2)**	(53.3)
Routine maintenance	(115.6)	(10.3)	(0.2)	(1.6)	**(127.7)**	(129.2)
Planned maintenance	(66.6)	(6.6)	(1.4)	(0.9)	**(75.5)**	(69.3)
Bad debts	(4.2)	(0.2)	(0.1)	-	**(4.5)**	(3.7)
Depreciation of housing properties	(80.5)	(5.9)	(1.1)	(0.8)	**(88.3)**	(88.3)
Impairment of housing properties	-	-	-	-	**-**	(4.6)
Other costs	(0.2)	(0.1)	-	(0.5)	**(0.8)**	(2.1)
Operating costs on social housing lettings	**(357.3)**	**(50.3)**	**(14.0)**	**(17.2)**	**(438.8)**	(426.9)
Operating surplus on social housing lettings	**201.7**	**7.5**	**18.5**	**3.4**	**231.1**	236.5
Void losses	**6.0**	**3.0**	**0.2**	**0.6**	**9.8**	9.6

Other includes intermediate rent, keyworker, and social leaseholders.

£0.1 million (2016: £0.2 million) of depreciation relating to garages is included in note 4a.

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

5. Employees

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

	Group		Parent	
	2017 Number	Combined 2016 Number	**2017 Number**	Combined 2016 Number
	3,544	3,897	**1,209**	2,814

FTEs are based on a standard working week, which varies between 35 and 42 hours, but is 36 hours for most employees, including most of the Parent's. The Parent's reduction in FTEs from 2016 to 2017 is explained by an intragroup transfer of employees to Affinity Sutton Homes Limted. This transfer took place on the date of merger.

	Group		Parent	
	2017 £m	Combined 2016 £m	**2017 £m**	Combined 2016 £m
Staff Costs				
Wages and salaries	**123.8**	127.7	**42.5**	97.3
Compensation for loss of office	**7.3**	1.6	**5.1**	1.2
Social security costs	**12.4**	12.1	**4.4**	9.4
Pension costs	**8.3**	12.3	**3.0**	5.6
	151.8	153.7	**55.0**	113.5

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

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

	Group	
	2017 Number	**Combined 2016 Number**
£60,000 to £69,999	**67**	92
£70,000 to £79,999	**48**	45
£80,000 to £89,999	**41**	20
£90,000 to £99,999	**10**	13
£100,000 to £109,999	**19**	17
£110,000 to £119,999	**11**	7
£120,000 to £129,999	**4**	3
£130,000 to £139,999	**1**	4
£140,000 to £149,999	**1**	2
£150,000 to £159,999	**2**	2
£160,000 to £169,999	**2**	1
£180,000 to £189,999	**1**	1
£190,000 to £199,999	**2**	2
£210,000 to £219,999	**-**	1
£220,000 to £229,999	**2**	1
£230,000 to £239,999	**1**	-
£240,000 to £249,999	**2**	1
£300,000 to £309,999	**1**	-
£320,000 to £329,999	**-**	1
£370,000 to £379,999	**1**	-
Total	**216**	213

In the table above, the 2016 comparative has been restated to include compensation for loss of office.

6. Directors' remuneration

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

	2017 £'000	Combined 2016 £'000
Non Executive Directors	**261**	259
Executive Directors		
Salary and other benefits	**2,568**	2,200
Compensation for loss of office	**171**	246
Pension contributions, or pay in lieu thereof, in respect of services as Directors	**247**	310
	2,986	2,756
Total Directors' remuneration	**3,247**	3,015

	2017 £	2016 £
Emoluments to highest paid Director (excluding pension contributions, or pay in lieu thereof, but including benefits in kind)	**376,199**	325,527

The highest paid Director received cash in lieu of pension payment of £14,548 (2016: £14,700).

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

7. Interest receivable

	Group		Parent	
	2017 £m	Combined 2016 £m	2017 £m	Combined 2016 £m
Interest receivable on bank deposits	**1.1**	1.1	**0.6**	-
Interest receivable from Group undertakings	**-**	-	**6.1**	4.5
Interest receivable from participating interests	**2.0**	1.1	**-**	-
Other interest receivable	**2.0**	3.2	**-**	0.4
	5.1	5.4	**6.7**	4.9

8. Interest payable and financing costs

	Group		Parent	
	2017 £m	Combined 2016 £m	2017 £m	Combined 2016 £m
Interest payable on loans	**35.4**	38.0	**-**	-
Interest payable on bonds	**68.2**	68.3	**-**	-
Interest payable on derivatives	**42.1**	39.2	**-**	-
Interest payable on finance leases	**0.5**	0.5	**-**	-
Interest payable to Group undertakings	**-**	-	**3.8**	4.7
Interest payable relating to pensions (see notes 27 and 28)	**2.2**	2.5	**0.2**	0.4
Other interest payable	**0.4**	1.1	**-**	-
Loan breakage costs	**0.2**	3.1	**-**	-
Other charges	**6.9**	1.9	**1.5**	0.1
	155.9	154.6	**5.5**	5.2
Interest payable capitalised	**(11.0)**	(10.3)	**-**	-
	144.9	144.3	**5.5**	5.2

The Group's weighted average interest rate for general borrowings was 4.44% (2016: 4.37%).

9. Movement in fair value of financial instruments

Group

	2017 £m	Combined 2016 £m
Included in income and expenditure		
Fair value gains on		
Derivatives treated as fair value hedging instruments	**3.4**	6.8
Derivatives treated as cash flow hedging instruments - ineffective	**-**	4.9
Derivatives not in hedging relationships	**0.4**	3.0
	3.8	14.7
Fair value losses on		
Borrowings treated as fair value hedging item	**(4.6)**	(8.2)
Derivatives treated as cash flow hedging instruments - due to changes in credit risk	**(2.8)**	-
	(7.4)	(8.2)
Total included in income and expenditure	**(3.6)**	6.5

	2017 £m	Combined 2016 £m
Included in other comprehensive income		
Fair value losses on		
Derivatives treated as cash flow hedging instruments - effective	**(9.2)**	(16.7)
Derivatives previously hedged and cancelled in the year	**-**	(12.0)
	(9.2)	(28.7)

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

10. Surplus on ordinary activities before taxation

	Group 2017 £m	Group Combined 2016 £m	Parent 2017 £m	Parent Combined 2016 £m
Surplus on ordinary activities before taxation is stated after charging/(crediting):				
Amortisation				
Goodwill	**0.3**	0.1	**-**	-
Other intangible assets	**6.8**	5.5	**6.5**	4.8
	7.1	5.6	**6.5**	4.8
Depreciation				
Social housing properties	**88.3**	88.4	**-**	-
Non-housing fixed assets	**7.0**	5.7	**5.1**	4.2
	95.3	94.1	**5.1**	4.2
Impairment: charge/(reversal)				
Goodwill	**-**	0.9	**-**	-
Other intangible assets	**13.8**	-	**13.8**	-
Social housing properties	**-**	4.6	**-**	-
Other fixed asset investments	**(4.4)**	-	**-**	-
Stock	**-**	0.3	**-**	-
	9.4	5.8	**13.8**	-
Operating lease rentals	**7.3**	5.8	**5.3**	3.2

	2017 £m	Combined 2016 £m	2017 £m	Combined 2016 £m
Auditor's remuneration (exclusive of VAT)				
- for statutory audit services	**0.4**	0.5	**-**	-
- for other services	**0.3**	0.1	**0.2**	-
	0.7	0.6	**0.2**	-

11. Taxation

	Group 2017 £m	Group Combined 2016 £m	Parent 2017 £m	Parent Combined 2016 £m
Analysis of charge in period				
Current tax:				
Current tax on income for the period	**0.3**	1.6	**0.1**	-
Adjustment in respect of prior periods	**(0.1)**	-	**-**	-
	0.2	1.6	**0.1**	-
Deferred tax:				
Origination and reversal of timing differences	**-**	1.0	**-**	0.7
Change in tax rate	**(0.2)**	-	**-**	-
Adjustments in respect of prior periods	**4.2**	-	**2.7**	-
	4.0	1.0	**2.7**	0.7
Total charge in the period	**4.2**	2.6	**2.8**	0.7
Recognised in income and expenditure	**2.7**	1.6	**1.3**	(0.1)
Recognised in other comprehensive income	**1.5**	1.0	**1.5**	0.8
	4.2	2.6	**2.8**	0.7

The tax charge for the Group for the period is less than 20% (2016: less than 20%), the rate of corporation tax in the UK. The tax charge for the Parent for the period is greater than 20% (2016: less than 20%), the rate of corporation tax in the UK. The differences are explained below:

	Group		Parent	
	2017 £m	Combined 2016 £m	**2017 £m**	Combined 2016 £m
Reconciliation of tax recognised in income and expenditure				
Surplus on ordinary activities before taxation	**176.0**	235.1	**1.3**	0.4
Tax at 20% (2016: 20%)	**35.2**	47.0	**0.3**	0.1
Effects of:				
Charitable surpluses not taxed	**(31.7)**	(45.9)	**(0.9)**	(0.1)
Other Group members not subject to UK corporation tax	**0.2**	(0.1)	**-**	-
Expenses not deductible for tax purposes	**-**	0.3	**-**	-
Capital allowances in excess of depreciation	**-**	0.1	**-**	0.1
Depreciation in excess of capital allowances	**(3.7)**	-	**(3.7)**	-
Deferred tax asset not recognised on losses carried forward	**6.9**	0.1	**5.2**	-
Other timing differences	**-**	0.1	**-**	(0.2)
Adjustment in respect of prior periods	**(0.1)**	-	**0.1**	-
Deferred tax transfer to income and expenditure	**(0.1)**	-	**-**	-
Tax due on share of JCE profits	**-**	-	**0.2**	-
Divestment from shares in Group	**(3.8)**	-	**-**	-
Remeasurement of deferred tax due to change in UK tax rate	**(0.2)**	-	**0.1**	-
	2.7	1.6	**1.3**	(0.1)

The changes in the rate of UK corporation tax to 19% from 1 April 2017, and to 17% from 1 April 2020, were substantively enacted by the reporting date.

11. Taxation continued

	Group 2017 £m	Group Combined 2016 £m	Parent 2017 £m	Parent Combined 2016 £m
Deferred tax				
Deferred tax assets				
Employee benefits (including pensions)	**0.4**	2.1	**-**	1.9
Unused tax losses	**0.1**	1.7	**-**	-
Other	**0.1**	1.3	**-**	1.2
	0.6	5.1	**-**	3.1
Deferred tax liabilities				
Unrealised gains on revaluation of investment properties	**(1.2)**	(1.3)	**-**	-
	(1.2)	(1.3)	**-**	-
Total deferred tax	**(0.6)**	3.8	**-**	3.1

Deferred tax assets have been recognised against the pension liabilities of non-charitable Group members. The reversal of these assets is contingent on the reversal of the underlying pension liabilities, for which a reliable estimate cannot be made. Deferred tax assets have also been recognised in respect of unused tax losses and, based on current profit forecasts, £0.1 million of these are expected to reverse in the following year.

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

12. Goodwill

Group

	£m
At 1 April 2016 (combined)	6.6
Amortisation	(0.3)
At 31 March 2017	**6.3**

Goodwill relates to the acquisition of Leamington Waterfront LLP, and is being amortised over the life of the development scheme as properties are sold.

13. Other intangible assets

Group

	Enterprise resource planning system £m	Other computer software £m	Total £m
Cost			
At 1 April 2016 (combined)	10.0	13.1	**23.1**
Reclassification from non-housing fixed assets	11.3	17.3	**28.6**
At 1 April 2016 (restated)	21.3	30.4	**51.7**
Additions	19.6	6.9	**26.5**
Transfers from non-housing fixed assets	-	0.1	**0.1**
Write off	(17.3)	-	**(17.3)**
At 31 March 2017	**23.6**	**37.4**	**61.0**
Amortisation/Impairment			
At 1 April 2016 (combined)	-	(8.4)	**(8.4)**
Reclassification from non-housing fixed assets	(2.0)	(14.0)	**(16.0)**
At 1 April 2016 (restated)	(2.0)	(22.4)	**(24.4)**
Amortisation charge for the year	(1.4)	(5.4)	**(6.8)**
Impairment charge for the year	(13.8)	-	**(13.8)**
Transfers from non-housing fixed assets	-	(0.1)	**(0.1)**
Write off	17.3	-	**17.3**
At 31 March 2017	**0.1**	**(27.9)**	**(27.8)**
Net book value			
At 31 March 2017	**23.7**	**9.5**	**33.2**
Net book value			
At 31 March 2016 (restated and combined)	19.3	8.0	27.3

As separate organisations, Affinity Sutton Group and Circle Housing Group had both commenced the implementation of enterprise resource planning ("ERP") systems. As the merger became more certain, the decision was taken to focus solely on the implementation being undertaken by Affinity Sutton Group, as it was the further progressed of the two. The costs incurred in relation to the Circle ERP have been impaired and written off.

13. Other intangible assets continued

Parent

	Enterprise resource planning system £m	Other computer software £m	Total £m
Cost			
At 1 April 2016 (combined)	10.0	8.3	**18.3**
Reclassification from non-housing fixed assets	11.3	16.4	**27.7**
At 1 April 2016 (restated)	21.3	24.7	**46.0**
Additions	19.6	6.4	**26.0**
Transfers to other Group members	-	(0.5)	**(0.5)**
Write off	(17.3)	-	**(17.3)**
At 31 March 2017	**23.6**	**30.6**	**54.2**
Amortisation/Impairment			
At 1 April 2016 (combined)	-	(4.1)	**(4.1)**
Reclassification from non-housing fixed assets	(2.0)	(13.0)	**(15.0)**
At 1 April 2016 (restated)	(2.0)	(17.1)	**(19.1)**
Amortisation charge for the year	(1.4)	(5.1)	**(6.5)**
Impairment charge for the year	(13.8)	-	**(13.8)**
Write off	17.3	-	**17.3**
At 31 March 2017	**0.1**	**(22.2)**	**(22.1)**
Net book value			
At 31 March 2017	**23.7**	**8.4**	**32.1**
Net book value			
At 31 March 2016 (restated and combined)	19.3	7.6	26.9

14. Social housing properties

Group

	Completed		Under construction		
	Rental-only £m	Shared ownership £m	Rental-only £m	Shared ownership £m	Total £m
Cost					
At 1 April 2016 (combined)	6,287.4	550.7	157.9	79.8	**7,075.8**
Reclassification to investment properties	(4.9)	-	-	-	**(4.9)**
Reclassification between tenures	(12.2)	12.2	-	-	**-**
At 1 April 2016 (restated)	6,270.3	562.9	157.9	79.8	**7,070.9**
Construction/redevelopment of properties	-	-	132.6	63.5	**196.1**
Additions to existing properties*	91.7	-	-	-	**91.7**
Completed construction	139.7	58.0	(139.7)	(58.0)	**-**
Transfer from/(to) non-housing fixed assets	0.7	-	(0.3)	-	**0.4**
Components replaced	(8.7)	-	-	-	**(8.7)**
Other disposals	(11.6)	(19.1)	(3.1)	-	**(33.8)**
At 31 March 2017	**6,482.1**	**601.8**	**147.4**	**85.3**	**7,316.6**
Depreciation and impairment					
At 1 April 2016 (combined)	(710.0)	(12.7)	(1.8)	-	**(724.5)**
FRS 102 conversion error	(10.9)	-	-	-	**(10.9)**
At 1 April 2016 (restated)	(720.9)	(12.7)	(1.8)	-	**(735.4)**
Depreciation charge for the year	(87.3)	(1.1)	-	-	**(88.4)**
Completed construction	(0.9)	-	0.9	-	**-**
Transfer from non-housing fixed assets	(0.1)	-	-	-	**(0.1)**
Components replaced	8.7	-	-	-	**8.7**
Other disposals	1.5	0.3	-	-	**1.8**
At 31 March 2017	**(799.0)**	**(13.5)**	**(0.9)**	**-**	**(813.4)**
Net book value					
At 31 March 2017	**5,683.1**	**588.3**	**146.5**	**85.3**	**6,503.2**
Net book value					
At 31 March 2016 (restated and combined)	5,549.4	550.2	156.1	79.8	6,335.5

*included in additions to existing properties is £75.2 million (2016: £83.2 million) of major works

Three adjustments to the numbers previously reported by the Circle Housing Group have been made:

1 A number of commercial properties included in social housing properties (or stock) have been reclassified as investment properties. The impact of this change is to increase net assets at 31 March 2016 by £5.6 million and increase the surplus for the prior year by £0.7 million.

2 £12.2 million cost of completed shared ownership properties were incorrectly reported as rental-only. Correcting this has had no impact on net assets or the surplus recognised in the prior year.

3 When adopting FRS102 in the prior year, £10.9 million of accumulated depreciation had been incorrectly transferred to reserves when reclassifying market rent properties as investment properties.

Completed properties with a combined net book value of £3,780.2 million (2016: £3,540.0 million) are held as security against debt and derivatives (see notes 24 and 26).

£12.1 million (2016: £12.1 million) of the net book value above relates to assets held under finance leases.

15. Investment Properties

Group

	Residential properties £m	Non-residential properties £m	Freeholds £m	Total £m
At 1 April 2016 (combined)	235.5	38.7	3.9	**278.1**
Reclassification from social housing properties	-	4.9	-	**4.9**
Reclassification from stock	-	2.0	-	**2.0**
Revaluation to 31 March 2016	-	5.6	-	**5.6**
At 1 April 2016 (restated)	235.5	51.2	3.9	**290.6**
Additions	-	1.1	-	**1.1**
Disposal of Landericus	(61.7)	-	-	**(61.7)**
Other disposals	(18.3)	(0.6)	-	**(18.9)**
Revaluation	13.9	2.0	1.3	**17.2**
At 31 March 2017	**169.4**	**53.7**	**5.2**	**228.3**

All residential properties and the majority of the commercial properties were valued as at 31 March 2017 by Jones Lang LaSalle, or Savills, Chartered Surveyors, on the basis of Market Value, as defined in "RICS Valuation - Professional Standards" (January 2014).

The significant assumptions applied in the valuation of commercial properties are the estimated rental value and yield, both of which are based on recent local transactions. For residential properties, the significant assumptions are the movement in market rents, changes in house prices (as it is assumed that some properties will be disposed of over time, for example as they become void) and the discount rate. For the freeholds, the significant assumption is the 4.5% investment yield which has been applied to the annual ground rent income, based on the valuer's knowledge of the investment market for ground rents.

The value of the remaining commercial properties has been estimated internally, using the Jones Lang LaSalle valuation results as a guide, as £2,217,000.

Investment properties with a combined fair value of £146.1 million (2016: £94.9 million) are held as security against debt and derivatives (notes 24 and 26).

16. Non-housing fixed assets

Group

	Freehold and leasehold offices £m	Office furniture, fixtures and fittings £m	Computer hardware £m	Total £m
Cost				
At 1 April 2016 (combined)	38.0	26.8	65.9	**130.7**
Reclassification to other intangible assets	-	-	(28.6)	**(28.6)**
At 1 April 2016 (restated)	38.0	26.8	37.3	**102.1**
Additions	0.5	9.6	2.3	**12.4**
Reclassification between categories	1.0	(1.0)	-	**-**
Transfer to other intangible assets	-	(0.1)	-	**(0.1)**
Transfer from/(to) social housing properties	0.3	(0.7)	-	**(0.4)**
Disposals	(0.2)	(0.1)	(0.2)	**(0.5)**
At 31 March 2017	**39.6**	**34.5**	**39.4**	**113.5**
Depreciation				
At 1 April 2016 (combined)	(12.0)	(18.6)	(43.5)	**(74.1)**
Reclassification to other intangible assets	-	-	16.0	**16.0**
At 1 April 2016 (restated)	(12.0)	(18.6)	(27.5)	**(58.1)**
Depreciation charge for the year	(1.1)	(2.3)	(3.6)	**(7.0)**
Reclassification between categories	(0.3)	0.3	-	**-**
Transfer to other intangible assets	-	0.1	-	**0.1**
Transfer to social housing properties	-	0.1	-	**0.1**
Eliminated on disposals	0.2	-	0.2	**0.4**
At 31 March 2017	**(13.2)**	**(20.4)**	**(30.9)**	**(64.5)**
Net book value				
At 31 March 2017	**26.4**	**14.1**	**8.5**	**49.0**
Net book value				
At 31 March 2016 (restated and combined)	26.0	8.2	9.8	44.0

16. Non-housing fixed assets continued

Parent

	Freehold and leasehold offices £m	Office furniture, fixtures and fittings £m	Computer hardware £m	Total £m
Cost				
At 1 April 2016 (combined)	2.7	11.4	50.2	**64.3**
Reclassification to other intangible assets	-	-	(27.7)	**(27.7)**
At 1 April 2016 (restated)	2.7	11.4	22.5	**36.6**
Additions	0.1	9.2	2.2	**11.5**
Transfer to other Group members	-	(0.5)	(0.2)	**(0.7)**
Disposals	-	-	(0.2)	**(0.2)**
At 31 March 2017	**2.8**	**20.1**	**24.3**	**47.2**
Depreciation				
At 1 April 2016 (combined)	(0.9)	(6.4)	(28.5)	**(35.8)**
Reclassification to other intangible assets	-	-	15.0	**15.0**
At 1 April 2016 (restated)	(0.9)	(6.4)	(13.5)	**(20.8)**
Depreciation charge for the year	(0.3)	(1.2)	(3.6)	**(5.1)**
Transfer to other Group members	-	0.1	0.1	**0.2**
Eliminated on disposals	-	-	0.2	**0.2**
At 31 March 2017	**(1.2)**	**(7.5)**	**(16.8)**	**(25.5)**
Net book value				
At 31 March 2017	**1.6**	**12.6**	**7.5**	**21.7**
Net book value				
At 31 March 2016 (restated and combined)	1.8	5.0	9.0	15.8

17. Interests in JCEs and associates

Group
As detailed in note 34, the Group is a member of a number of jointly controlled entities ("JCEs") and has also invested in one associate.

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

	2017 £m	Combined 2016 £m
Turnover	**32.4**	117.5
Cost of sales	**(26.9)**	(84.6)
Operating surplus	**5.5**	32.9
Interest payable	**(0.6)**	(1.0)
Surplus for the year	**4.9**	31.9
Current assets	**131.2**	105.8
Creditors: amounts falling due within one year	**(69.7)**	(34.1)
Creditors: amounts falling due after more than one year	**(59.3)**	(65.3)
Net assets	**2.2**	6.4
Investment in JCEs and associates	**89.8**	63.1
Interest in JCEs and associates	**92.0**	69.5

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

Included in 'Investments in JCEs and associates' are loans from the Group totalling £89.6 million (2016: £63.1 million).

These loans include £35.4 million (2016: £24.9 million) for amounts lent to Linden/Downland Graylingwell LLP, on which interest is currently charged at the Bank of England base rate plus 3.5%. However, since 1 April 2012 no interest has been recognised by the Group based on its assessment of the recoverability of the capital and interest. Additionally, the amounts lent to this LLP are stated net of a £6.2 million impairment which was recognised in previous years (2016: £10.6 million); £4.4 million of impairment was reversed this year as a result of reviewing the LLP's profit forecasts.

Development agreements for the construction of residential property are in place between the Group and most of its JCEs and associates. The amount of construction works provided in the year was £3.0 million (2016: £4.3 million) and £0.3 million is included in creditors at the reporting date (2016: £0.3 million).

During the year, the Group received profit distributions of £17.2 million from its JCEs and associates (2016: £28.8 million).

18. Other fixed asset investments

Group

	2017 £m	Combined 2016 £m
Equity loans including HomeBuy	**14.4**	15.1
Subordinated loan	**-**	0.7
Other investments	**0.1**	0.1
	14.5	15.9

Equity loans are secured against the properties to which they relate. Interest and repayment terms vary.

Parent

	2017 £m	Combined 2016 £m
Igloo Insurance PCC Limited (Cell ASG2)	**0.4**	0.4
Circle Anglia Social Housing plc	**0.1**	0.1
Circle Thirty Three Housing Trust Limited	**0.8**	0.8
	1.3	1.3

The Parent's investment in Mercian Housing Association Limited is now an investment in Circle Thirty Three Housing Trust Limited following the transfer of engagements on 30 September 2016.

19. Stock

Group

	Under construction		Completed properties		
	Social £m	Non-social £m	Social £m	Non-social £m	Total £m
At 1 April 2016 (combined)	40.9	80.7	12.0	4.7	**138.3**
Reclassification to investment properties	-	-	-	(2.0)	**(2.0)**
At 1 April 2016 (restated)	40.9	80.7	12.0	2.7	**136.3**
Additions	30.2	49.4	-	-	**79.6**
Properties completed	(30.9)	(28.8)	30.9	28.8	**-**
Properties sold	-	-	(28.7)	(15.6)	**(44.3)**
At 31 March 2017	**40.2**	**101.3**	**14.2**	**15.9**	**171.6**

20. Debtors

	Group 2017 £m	Group Combined 2016 £m	Parent 2017 £m	Parent Combined 2016 £m
Amounts falling due within one year				
Rents and service charges arrears	**50.7**	50.2	**-**	-
Impairment	**(17.5)**	(18.3)	**-**	-
	33.2	31.9	**-**	-
Stock transfers	**12.5**	17.5	**-**	-
Prepayments and accrued income	**17.1**	13.0	**7.3**	5.6
Deferred tax assets (see note 11)	**0.6**	-	**-**	-
Amounts due from Group undertakings	**-**	-	**67.4**	45.6
Other debtors	**16.7**	16.1	**1.8**	2.4
	80.1	78.5	**76.5**	53.6
Amounts falling due after one year				
Stock transfers	**128.2**	138.6	**-**	-
Derivative financial assets (see note 26)	**11.8**	6.8	**-**	-
Deferred tax assets (see note 11)	**-**	5.1	**-**	3.1
Amounts due from Group undertakings	**-**	-	**98.1**	72.8
Other debtors	**0.1**	0.2	**0.1**	0.1
	140.1	150.7	**98.2**	76.0

21. Current asset investments

Group

	2017 £m	Combined 2016 £m
Collateral deposits	**108.5**	99.4
Cash held on deposit	**2.7**	2.7
	111.2	102.1

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

Funds held by Igloo, the Group's insurance vehicle, have been invested on a short-term basis. At the reporting date, £2.7 million is invested in various Certificates of Deposit; these mature over the course of 2017 (but it is expected that these can be liquidated at short notice, if necessary).

22. Creditors: amounts falling due within one year

	Group		Parent	
	2017 £m	Combined 2016 £m	**2017 £m**	Combined 2016 £m
Debt (see note 24)				
Bank loans and bonds	**79.2**	35.5	**-**	-
Obligations under finance leases	**0.1**	0.1	**-**	-
Amounts due to Group undertakings: loans and cash pooling	**-**	-	**133.7**	78.9
	79.3	35.6	**133.7**	78.9
Capital grants (see note 25)				
Social housing property grants	**23.0**	23.0	**-**	-
Recycled Capital Grant Fund	**7.2**	3.7	**-**	-
Disposals Proceeds Fund	**3.1**	2.3	**-**	-
	33.3	29.0	**-**	-
Other creditors				
Trade creditors	**6.6**	7.3	**1.4**	1.8
Stock transfers	**12.5**	17.5	**-**	-
Derivative financial liabilities (see note 26)	**1.2**	0.1	**-**	-
Rents and service charges received in advance	**21.7**	19.1	**-**	-
Other accruals and deferred income	**92.8**	116.4	**15.9**	20.7
Corporation tax	**0.1**	0.1	**-**	-
Other taxation and social security	**0.2**	2.8	**0.1**	1.7
Amounts due to Group undertakings: other	**-**	-	**-**	33.8
Other creditors	**41.8**	26.2	**4.8**	2.2
	176.9	189.5	**22.2**	60.2
Total creditors: amounts falling due within one year	**289.5**	254.1	**155.9**	139.1

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

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

	Group 2017 £m	Group Combined 2016 £m	Parent 2017 £m	Parent Combined 2016 £m
Debt (see note 24)				
Bank loans and bonds	**3,252.3**	3,264.0	**-**	-
Obligations under finance leases	**6.4**	6.4	**-**	-
Amounts due to Group undertakings: loans and cash pooling	**-**	-	**184.4**	121.8
	3,258.7	3,270.4	**184.4**	121.8
Capital grants (see note 25)				
Social housing property grants	**2,096.9**	2,118.8	**-**	-
HomeBuy grants	**12.3**	12.7	**-**	-
Recycled Capital Grant Fund	**13.4**	11.9	**-**	-
Disposals Proceeds Fund	**5.4**	4.0	**-**	-
	2,128.0	2,147.4	**-**	-
Other creditors				
Stock transfers	**128.2**	138.6	**-**	-
Derivative financial liabilities (see note 26)	**385.0**	374.3	**-**	-
Other accruals and deferred income	**1.6**	1.1	**-**	0.1
Other creditors	**7.7**	2.5	**-**	-
	522.5	516.5	**-**	0.1
Total creditors: amounts falling due after more than one year	**5,909.2**	5,934.3	**184.4**	121.9

24. Debt analysis

Group

	2017 £m	Combined 2016 £m
Debt is repayable as follows:		
Due within one year	**79.3**	35.6
Due between one and two years	**52.5**	41.6
Due between two and five years	**394.7**	166.3
Due after more than five years	**2,811.5**	3,062.5
	3,338.0	3,306.0

Included in the above are fair value adjustments of £2.3 million (2016: £2.8 million) relating to the acquisition of Mercian Housing Association Limited, £16.4 million (2016: £17.2 million) relating to the acquisition of Russet Homes Limited and £12.9 million (2016: £8.2 million) relating to the private placement, as required for the hedging relationship. These fair value adjustments represent the difference between the book value and the fair value of the loans at the date of acquisition 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. £1.2m of fair value has been released this year.

Also included in the above are net bond premium and amortisation adjustments of £38.1 million (2016: £35.6 million), finance leases of £5.8 million (2016: £5.8 million) and overdrawn amounts of £nil (2016: £3.1 million).

Of the remaining balance, £1,939.9 million (2016: £1,910.7 million) relates to loans drawn from committed debt facilities of £2,771.9 million (2016: £2,849.5 million). A further £635.0 million (2016: £635.0 million) relates to bond issues through Circle Anglia Social Housing Plc, £500.0m (2016: £500.0 million) relates to bond issues through Affinity Sutton Capital Markets Plc, £37.6 million (2016: £37.6 million) is represented by the bond issue through Affinity Sutton Homes Limited and £150.0 million (2016: £150.0 million) relates to the private placement through Circle Anglia Social Housing 2 Plc.

The Group's main treasury vehicle, Circle Anglia Treasury Limited, directly funds the borrowing requirements of the charitable Registered Providers ("RPs") within the Group. However, £58.6 million (2016: £57.8 million) of facilities still reside within the charitable RPs: this includes a £0.7 million (2016: £0.7 million) finance lease in Circle Thirty Three Housing Trust Limited, £9.0 million (2016: £9.4 million) of historic bonds and loans in Circle Thirty Three Housing Trust Limited, and £48.9 million (2016: £47.8 million) in historic bonds and loans in Affinity Sutton Homes Limited.

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 94% (2016: 92%) of the Group's portfolio is fixed, either directly or as a result of interest-rate swaps which convert variable interest rates to fixed rates. This minimises the Group's exposure to variable interest rates.

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

Group

	Within one year £m	Between one and two years £m	Between two and five years £m	After five years £m	Total £m
Maturity of debt					
Term	47.7	36.6	218.0	799.8	**1,102.1**
Revolver	6.1	8.2	160.9	662.6	**837.8**
Bond	-	-	-	1,172.6	**1,172.6**
Private placement	-	-	-	150.0	**150.0**
Finance lease	-	-	0.3	5.5	**5.8**
Other	1.0	1.1	5.2	13.0	**20.3**
At 31 March 2017	**54.8**	**45.9**	**384.4**	**2,803.5**	**3,288.6**
At 31 March 2016 (combined)	34.1	41.2	164.4	3,011.2	3,250.9

Group

	Within one year £m	Between one and two years £m	Between two and five years £m	After five years £m	Total £m
Maturity of facilities					
Term	47.7	36.6	218.0	799.8	**1,102.1**
Revolver	35.0	39.6	648.0	926.9	**1,649.5**
Bond	-	-	-	1,172.6	**1,172.6**
Private placement	-	-	-	150.0	**150.0**
Finance lease	-	-	0.3	5.5	**5.8**
Other	1.0	1.1	5.2	13.0	**20.3**
At 31 March 2017	**83.7**	**77.3**	**871.5**	**3,067.8**	**4,100.3**
At 31 March 2016 (combined)	40.9	48.3	627.9	3,460.7	4,177.8

The above numbers are based on the notional amounts, whereas the amounts shown elsewhere in the accounts are measured as per the accounting policies.

24. Debt analysis continued

Group

	Fixed interest rate (average)	Year fixed (average)	Fixed rate £m	Floating rate £m	Total £m
Interest rate analysis					
Term	4.20%	11	1,102.1	-	1,102.1
Revolver	4.20%	11	527.8	310.0	837.8
Bond	6.25%	23	1,172.6	-	1,172.6
Private placement	3.80%	14	100.0	50.0	150.0
Finance lease	8.79%	21	5.8	-	5.8
Other	9.59%	10	19.1	1.2	20.3
Borrowings at 31 March 2017	**5.10%**	**17**	**2,927.4**	**361.2**	**3,288.6**
Deposits	9.47%	1	(0.1)	(156.7)	(156.8)
Collateral deposits	-	-	-	(108.5)	(108.5)
Cash and deposits at 31 March 2017	9.47%	1	(0.1)	(265.2)	(265.3)
Net borrowings at 31 March 2017	**5.10%**	**17**	**2,927.3**	**96.0**	**3,023.3**
Net borrowings at 31 March 2016 (combined)	4.20%	17	2,845.8	405.1	3,250.9

The interest rate analysis above takes into account interest rate swaps, forward rate agreements and embedded fixes which hedge floating-rate debt as at 31 March 2017 for an average of 17 years (2016: 17 years).

25. Capital grants

Group

	HomeBuy Grants £m	Social housing property grants £m
At 1 April 2016 (combined)	12.7	2,141.8
New grant recognised	-	6.6
RCGF/DPF utilised	-	3.1
Amortisation	-	(22.8)
Recycled on disposals	(0.4)	(7.5)
Disposals not required to be recycled	-	(1.3)
At 31 March 2017	**12.3**	**2,119.9**
Amounts falling due within one year	-	23.0
Amounts falling due after more than one year	12.3	2,096.9
	12.3	**2,119.9**

	HCA £m	GLA £m	Total £m
Recycled Capital Grant Fund			
At 1 April 2016 (combined)	8.7	6.9	**15.6**
Additions to fund due to disposals	3.0	3.6	**6.6**
Transfers from other private registered providers	0.4	0.6	**1.0**
Utilised against new properties	(1.0)	(1.0)	**(2.0)**
Transfers to other private registered providers	-	(0.6)	**(0.6)**
At 31 March 2017	**11.1**	**9.5**	**20.6**
Amounts falling due within one year			7.2
Amounts falling due after more than one year			13.4
			20.6
Amounts three years old or older which may need to be repaid	1.9	0.3	**2.2**

	HCA £m	GLA £m	Total £m
Disposal Proceeds Fund			
At 1 April 2016 (combined)	2.9	3.4	**6.3**
Additions to fund due to disposals	1.4	1.9	**3.3**
Transfers from other private registered providers	0.2	0.2	**0.4**
Utilised against new properties	(0.4)	(0.7)	**(1.1)**
Transfers to other private registered providers	(0.2)	(0.2)	**(0.4)**
At 31 March 2017	**3.9**	**4.6**	**8.5**
Amounts falling due within one year			3.1
Amounts falling due after more than one year			5.4
			8.5
Amounts three years old or older which may need to be repaid	0.7	0.8	**1.5**

26. Financial instruments

Group

The following financial derivative contracts are in place:

	2017			Combined 2016		
	Active £m	**Forward starting £m**	**Total £m**	Active £m	Forward starting £m	Total £m
Notional						
Interest-rate caps	-	-	**-**	11.1	-	**11.1**
Interest-rate swaps - option	160.0	-	**160.0**	-	-	**-**
Interest-rate swaps - pay fixed	1,481.3	100.0	**1,581.3**	1,391.6	265.5	**1,657.1**
Interest-rate swaps - receive fixed	100.0	-	**100.0**	100.0	-	**100.0**
	1,741.3	**100.0**	**1,841.3**	1,502.7	265.5	**1,768.2**
Fair value						
Interest-rate caps	**-**	**-**	**-**	-	-	-
Interest-rate swaps - option	1.6	-	**1.6**	-	-	-
Interest-rate swaps - pay fixed	(377.9)	(8.3)	**(386.2)**	(354.8)	(19.6)	(374.4)
Interest-rate swaps - receive fixed	10.2	-	**10.2**	6.8	-	6.8
	(366.1)	**(8.3)**	**(374.4)**	(348.0)	(19.6)	(367.6)

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.

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

	2017 £m	Combined 2016 £m
Due within one year	**(1.2)**	(0.1)
Due between one and two years	**-**	(2.2)
Due between two and five years	**(54.4)**	(22.4)
Due after more than five years	**(318.8)**	(342.9)
	(374.4)	(367.6)

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.

	2017 £m	Combined 2016 £m
Fair value hierarchy:		
Level 1	**-**	-
Level 2	**(374.4)**	(367.6)
Level 3	**-**	-
	(374.4)	(367.6)

Fair value measurement

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

27. Provisions for liabilities and charges

	Group 2017 £m	Group Combined 2016 £m	Parent 2017 £m	Parent Combined 2016 £m
Pension liabilities	**57.2**	50.9	**-**	9.6
Deferred tax liabilities	**1.2**	1.3	**-**	-
SHPS deficit funding payments	**15.9**	17.0	**0.1**	0.1
Other	**15.4**	9.9	**2.6**	1.1
	89.7	79.1	**2.7**	10.8

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

	Deferred tax liabilities £m	SHPS deficit funding payments £m	Other £m	Total £m
Deferred tax liabilities, SHPS and other provisions				
At 1 April 2016 (combined)	1.3	17.0	9.9	**28.2**
Additions	0.1	-	6.3	**6.4**
Amounts utilised	-	(1.7)	(0.8)	**(2.5)**
Unused amounts reversed	(0.2)	-	-	**(0.2)**
Unwinding of discounted amount	-	0.6	-	**0.6**
At 31 March 2017	**1.2**	**15.9**	**15.4**	**32.5**

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

The Group is a member of the defined benefit section of the Social Housing Pension Scheme and has made a provision for the deficit funding payments it has agreed to make in the future (see note 28). The payments have been discounted at 2.5% (2016: 3.7%) and the interest cost on unwinding was £0.6 million (2016: £0.4 million).

Up until 31 March 2017, the Group had an agreement with Thames Water to pay the water and sewage charges for some 17,000 of its housing properties, as part of which the Group billed those properties' tenants. As part of this agreement, the Group received a credit from Thames Water as an administration fee as well as to account for credit risk and some properties being void. A High Court judgement in March 2016 against Southwark Council – which has a similar arrangement with Thames Water - decided that the Council should have passed on this credit to its residents. The Group was not party to this case, and whatever course of action Southwark Council has chosen to take subsequent to the ruling, applies only to its own tenants. The Group along with other housing associations and local authorities is considering its position with regard to its own tenants, as part of which it has recognised a provision for £6.5 million (2016: £6.4 million).

Other provisions also includes, amongst other amounts, £5.4 million (2016: £1.1 million) for remedial structural works required at Queen Mary Gate, South Woodford; £1.7 million (2016: £1.1 million) for dilapidations at leased offices that the Group has decided to vacate; and £nil (2016: £0.8 million) in relation to a contractual dispute arising from the construction of commercial premises.

Parent

	Deferred tax liabilities £m	SHPS deficit funding payments £m	Other £m	Total £m
Deferred tax liabilities, SHPS and other provisions				
At 1 April 2016 (combined)	-	0.1	1.1	**1.2**
Additions	-	-	1.5	**1.5**
At 31 March 2017	**-**	**0.1**	**2.6**	**2.7**

The Parent is a member of the defined benefit section of the Social Housing Pension Scheme and has made a provision for the deficit funding payments it has agreed to make in the future (see note 28). The payments have been discounted at 2.5% (2016: 3.7%) and the interest cost on unwinding was £nil (2016: £nil).

Other provisions also includes, amongst other amounts, £1.7 million (2016: £1.1 million) for dilapidations at leased offices that the Parent has decided to vacate.

28. Pensions

Social Housing Pension Scheme (defined benefit section)
The Group participates in the scheme, a multi-employer scheme which provides benefits to some 500 non-associated employers. The scheme is a defined benefit scheme in the UK. It is not possible for the Group to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme; therefore, it accounts for the scheme as a defined contribution scheme.

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

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

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

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

The share of these deficit funding payments payable by the Group will be £2.4 million in 2017/18, rising to a maximum of £2.6 million in 2019/20, before falling to £2.2 million in 2020/21 and reducing further until completion in 2026/27. The total share payable by the Parent between 2017/18 and 2026/27 is £0.1 million.

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

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

On the date of the merger, Affinity Sutton Homes Limited replaced the Parent as the Group's admitted body for the Norfolk County Council Superannuation Fund, taking on its £14.2 million net liability. This has been accounted for as a distribution-in-kind. Prior in the year to this, the Parent replaced Anglia Maintenance Services Limited as the admitted body for its share, and received a £1.4 million net asset.

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

Reconciliation of opening and closing pension assets and liabilities:

	Group		Parent	
	2017	Combined 2016	**2017**	Combined 2016
	£m	£m	**£m**	£m
Fair value of scheme assets				
At the beginning of the year	**237.2**	239.0	**28.8**	28.0
Interest income	**8.3**	7.7	**0.8**	0.9
Actual return on scheme assets less interest income	**37.6**	(6.1)	**0.4**	(0.2)
Contributions by employer	**7.1**	6.4	**1.0**	1.1
Contributions by members	**0.4**	0.5	**0.1**	0.1
Benefits paid	**(10.2)**	(10.3)	**(1.0)**	(1.1)
Cessation of schemes	**(3.6)**	-	**-**	-
Transfer to other Group member	**-**	-	**(30.1)**	-
At the end of the year	**276.8**	237.2	**-**	28.8
Defined benefit obligation				
At the beginning of the year	**288.1**	308.3	**38.4**	42.0
Current service cost	**2.0**	2.1	**0.2**	0.4
Past service cost and curtailments	**1.2**	0.2	**0.5**	-
Interest expense	**9.9**	9.8	**1.0**	1.3
Actuarial losses/(gains) in respect of liabilities	**47.1**	(22.5)	**6.5**	(4.3)
Contributions by members	**0.4**	0.5	**0.1**	0.1
Benefits paid	**(10.2)**	(10.3)	**(1.0)**	(1.1)
Cessation of schemes	**(4.5)**	-	**-**	-
Transfer to other Group member	**-**	-	**(45.7)**	-
At the end of the year	**334.0**	288.1	**-**	38.4
Pension liabilities	**(57.2)**	(50.9)	**-**	(9.6)

Amounts credited/(charged) to the Income Statement:

	Group		Parent	
	2017	Combined 2016	**2017**	Combined 2016
	£m	£m	**£m**	£m
Operating costs				
Current service cost	**(2.0)**	(2.1)	**(0.2)**	(0.4)
Past service cost and curtailments	**(1.2)**	(0.2)	**(0.5)**	-
	(3.2)	(2.3)	**(0.7)**	(0.4)
Interest payable relating to pensions				
Interest income	**8.3**	7.7	**0.8**	0.9
Interest expense	**(9.9)**	(9.8)	**(1.0)**	(1.3)
	(1.6)	(2.1)	**(0.2)**	(0.4)
Total charged to the Income Statement	**(4.8)**	(4.4)	**(0.9)**	(0.8)

28. Pensions continued

Gains/(losses) recognised in other comprehensive income:

	Group 2017 £m	Group Combined 2016 £m	Parent 2017 £m	Parent Combined 2016 £m
Actuarial gains/(losses)				
Actual return on scheme assets less interest income	**37.6**	(6.1)	**0.4**	(0.2)
Actuarial (losses)/gains in respect of liabilities	**(47.1)**	22.5	**(6.5)**	4.3
	(9.5)	16.4	**(6.1)**	4.1

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

	Group 2017 £m	Group Combined 2016 £m	Parent 2017 £m	Parent Combined 2016 £m
Equities	**177.6**	145.2	**-**	16.6
Gilts	**5.6**	4.7	**-**	-
Other bonds	**59.8**	51.6	**-**	7.8
Property	**19.8**	20.8	**-**	3.8
Cash	**5.7**	5.2	**-**	0.6
Target return portfolio	**5.1**	3.3	**-**	-
Other	**3.2**	6.4	**-**	-
	276.8	237.2	**-**	28.8
Actual return	**45.9**	1.6	**1.2**	0.7

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

	Group 2017	Group 2016	Parent 2017	Parent 2016
Inflation	**2.3%-3.5%**	2.0%-3.0%	**n/a**	n/a
Future salary increases	**2.5%-4.3%**	3.2%-4.3%	**2.7%-2.7%**	3.2%
Future pension increases	**2.3%-3.4%**	2.0%-2.9%	**2.4%-2.4%**	2.2%
Discount rate	**2.5%-2.8%**	3.4%-3.8%	**2.5%-2.5%**	3.5%
Retiring today - male	**21.9-24.4**	21.1-23.2	**22.1-22.1**	22.1
Retiring today - female	**24.0-26.0**	23.9-25.8	**24.4-24.4**	24.3
Retiring in 20 years - male	**23.3-26.6**	23.2-25.5	**24.1-24.1**	24.5
Retiring in 20 years - female	**25.5-28.3**	25.4-28.5	**26.4-26.4**	26.9

29.Contingent assets/liabilities

Group

As per note 1, the original amount of social housing property grants may become repayable. In addition to the amounts disclosed in creditors, £292.1 million of grant has been credited to reserves to date through amortisation (2016: £270.4 million). The timing of any future repayment is uncertain.

Under the admission agreement for the Norfolk County Council Superannuation Fund, all parties - including the Group - are jointly and severally liable for the fund's liabilities.

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

The Group has a contingent liability in relation to defects found at 63 other properties. For five of these cases, a formal liability assessment has been made, totalling £0.1 million.

Parent

The Parent has no contingent assets/liabilities.

30. Capital commitments

Group

	2017 £m	Combined 2016 £m
Contracted for but not provided for in the financial statements	**695.6**	216.9
Authorised by the Board but not contracted for	**490.5**	507.8
	1,186.1	724.7

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

Amounts contracted for but not provided for in the financial statements include £72.0 million (2016: £3.3 million) for the Group's share of the capital commitments of its JCEs and associates (excluding Linden/Downland Graylingwell LLP).

Amounts authorised by the Board but not contracted for includes £34.7 million (2016: £41.4 million) for the Group's share of the future gross capital expenditure committed through the development agreement relating to Linden/Downland Graylingwell LLP. This development agreement allows construction programme timings to be varied, with sales receipts from earlier phases used to fund the construction of further units.

At the reporting date the Group had £168.5 million of cash and cash equivalents and £812 million of undrawn funding. The remaining £151.9 million is expected to be funded by future surpluses and debt funding, sourced from banks and debt capital markets.

The Group considers this to be a reasonable expectation given its previous success in these markets and its strong investment grade credit rating.

Parent

	2017 £m	Combined 2016 £m
Contracted for but not provided for in the financial statements	**42.1**	10.8
Authorised by the Board but not contracted for	**18.9**	-
	61.0	10.8

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

31. Commitments under leases

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

	Group 2017 £m	Group Combined 2016 £m	Parent 2017 £m	Parent Combined 2016 £m
Within the next year	**4.7**	6.3	**2.2**	3.3
Between one and five years' time	**17.5**	13.7	**11.1**	6.2
Later than five years' time	**12.3**	7.5	**10.6**	2.8
	34.5	27.5	**23.9**	12.3

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

	Group 2017 £m	Group Combined 2016 £m	Parent 2017 £m	Parent Combined 2016 £m
Within the next year	**0.6**	0.6	**-**	-
Between one and five years' time	**2.5**	2.5	**-**	-
Later than five years' time	**11.2**	11.8	**-**	-
	14.3	14.9	**-**	-

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

	Group 2017 £m	Group Combined 2016 £m	Parent 2017 £m	Parent Combined 2016 £m
Obligations under finance leases				
Amounts falling due within one year	**0.1**	0.1	**-**	-
Amounts falling due after more than one year	**6.4**	6.4	**-**	-
	6.5	6.5	**-**	-
Interest payable to be recognised in future periods	**7.8**	8.4	**-**	-
	14.3	14.9	**-**	-

32. Non-equity share capital

	2017	Combined 2016
Shares of £1 issued and fully paid		
At the beginning of the year	**17**	17
Shares issued to members of Circle Anglia Limited as a result of the merger	**5**	-
At the end of the year	**22**	17

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

33. Legislative provisions

The Parent is a registered society under the Co-operative and Community Benefit Societies Act 2014 and is regulated by the Homes and Communities Agency.

34. Subsidiaries, JCEs and associates

At the reporting date, Clarion Housing Group Limited controls the following entities. It also owns 100% of each of these entities, either directly or indirectly, with the exception of Thackeray Mews Ltd of which it owns 62%:

Full Name	Company	FCA Registered Society	Charity Commission	Homes & Communities Agency
Registered Providers (Public Benefit Entities)				
Affinity Sutton Homes Limited	-	31412R	-	4673
Circle Thirty Three Housing Trust Limited	-	18652R	-	L0031
Merton Priory Homes	-	30843R	-	L4548
Mole Valley Housing Association Limited	-	30312R	-	L4500
Old Ford Housing Association Limited	03487210	-	1075125	L4221
Russet Homes Limited	-	27076R	-	LH3922
Property maintenance or management				
Anglia Maintenance Services Limited	03300038	-	-	-
Affinity Sutton Repairs Limited	07885319	-	-	-
Community Building Services (CBS) Limited	04129615	-	-	-
Grange Management (Southern) Limited	08351375	-	-	-
Registered charities (Public Benefit Entities)				
Clarion Futures	07156509	-	1135056	-
Circle Anglia Foundation Limited	01832817	-	326681	-
Circle Care and Support Limited	03307684	-	1107432	-
Treasury vehicles				
Affinity Sutton Capital Markets PLC	06678086	-	-	-
Affinity Sutton Funding Limited	05589011	-	-	-
Circle Anglia Social Housing PLC	06370683	-	-	-
Circle Anglia Social Housing 2 PLC	09781172	-	-	-
Circle Anglia Treasury Limited	06133979	-	-	-
Property development				
Affinity Sutton Investments Limited	07466271	-	-	-
Affinity Sutton Professional Services Limited	07068999	-	-	-
Broomleigh Regeneration Limited	06494492	-	-	-
Circle Grimaldi LLP	OC399999	-	-	-
Circle Housing Asset Design Limited	08822471	-	-	-
Downland Regeneration Limited	06456605	-	-	-
Grimaldi Development Company Ltd	09596741	-	-	-
Latimer Developments Limited	05452017	-	-	-
Leamington Waterfront LLP	OC318351	-	-	-
Merton Developments Limited	09042606	-	-	-
Your Lifespace Limited	02998648	-	-	-
Zenith Development Partnership Limited	04565189	-	-	-
Property investment				
Landericus Limited	48291	-	-	-

34. Subsidiaries, JCEs and associates continued

Full Name	Company	FCA Registered Society	Charity Commission	Homes & Communities Agency
Property management				
Avon View & Swan House Management Company Limited	06371295	-	-	-
Thackeray Mews Ltd	02666421	-	-	-
Waterfront (Warwick) Management Company Limited	06371938	-	-	-
Willow View and Bridge House Management Company Limited	06371331	-	-	-
Other				
Circle Living Limited	05737166	-	-	-
Invicta Telecare Limited	04133585	-	-	-
Old Ford Homes Limited	04625160	-	-	-

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

Full Name	Company	FCA Registered Society	Charity Commission	Homes & Communities Agency
Insurance vehicle				
Igloo Insurance PCC Limited (Cell ASG2)	53462			

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

Full Name	Company	FCA Registered Society	Charity Commission	Homes & Communities Agency
Property development				
72 Farm Lane Developments LLP	OC379893	-	-	-
261 City Road Developments LLP	OC360210	-	-	-
Bonner Road LLP	OC401099	-	-	-
Circle Hill LLP	OC397177	-	-	-
Latimer Hill LLP	OC415952	-	-	-
Linden (York Road) LLP	OC392756	-	-	-
Linden/Downland Graylingwell LLP	OC332712	-	-	-
Ramsden Regeneration LLP	OC352417	-	-	-
Wilmington Regeneration LLP	OC352419	-	-	-

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

Full Name	Company	FCA Registered Society	Charity Commission	Homes & Communities Agency
City Road (Lexicon) Limited	30048	-	-	-
261 City Road Management Company Limited	05896743	-	-	-

261 City Road Developments LLP has the following JCE, which it also owns 50% of:

Full Name	Company	FCA Registered Society	Charity Commission	Homes & Communities Agency
City Basin Midco Limited	06027968	-	-	-

Additionally, the Group has invested in the following associate, where both its control and ownership is 30%:

Full Name	Company	FCA Registered Society	Charity Commission	Homes & Communities Agency
Property development				
Mayfield Market Towns Ltd	08161672	-	-	-

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

After the reporting date, the Group acquired 100% of LJ Green Lanes Limited (now Latimer Green Lanes Limited), a property development company registered on the Isle of Man.

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

After the reporting date, Mole Valley Housing Association Limited and Merton Priory Homes transferred their engagements (i.e. their assets and liabilities) to Circle Thirty Three Housing Trust Limited.

On 8 May 2017, as a result of the merger, Affinity Sutton Community Foundation changed its name to Clarion Futures.

On 18 July 2017, Circle Grimaldi LLP was dissolved.

35. Related party disclosures and intra-group transparency

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

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

Prior to the merger, Affinity Sutton Group Limited was the group parent of the Affinity Sutton Group and Circle Anglia Limited was the group parent of the Circle Housing Group. Each incurred their own costs and these were recharged to other members of the respective group according to the methodologies in place.

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

For former members of the Circle Housing Group, a marginal approach was taken to commercial entities with any remaining costs recharged to the Registered Providers on the basis of turnover, with the exception that maintenance provided by Circle Housing Property Services (a division of Circle Anglia Limited) is recharged to the Registered Provider who owns the property.

A new, aligned methodology for the Clarion Housing Group has been developed and this will apply from 1 April 2017; the potential impact of using the new methodology for the four months post-merger was found to be immaterial, and so the old methodologies continued to be used until 31 March 2017.

35. Related party disclosures and intra-group transparency continued

	2017 £m	Combined 2016 £m
Affinity Sutton Community Foundation	**1.0**	2.4
Affinity Sutton Homes Limited	**21.1**	58.3
Affinity Sutton Repairs Limited	**0.3**	0.6
Affinity Sutton Professional Services Limited	**0.7**	2.2
Circle Anglia Treasury Limited	**-**	0.7
Circle Care and Support Limited	**1.0**	1.4
Circle Housing Asset Design Limited	**0.4**	0.3
Circle Thirty Three Housing Trust Limited	**85.1**	34.8
Community Building Services (CBS) Limited	**0.5**	1.4
Grange Management (Southern) Limited	**0.1**	0.4
Invicta Telecare Limited	**0.6**	0.9
Landericus Limited	**0.4**	0.9
Latimer Developments Limited[a]	**0.2**	0.1
Leamington Waterfront LLP	**0.2**	0.1
Mercian Housing Association Limited[b]	**-**	5.4
Merton Priory Homes	**14.5**	17.9
Mole Valley Housing Association Limited	**8.7**	11.5
Old Ford Housing Association Limited	**10.2**	11.5
Roddons Housing Association Limited[b]	**-**	8.5
Russet Homes Limited	**12.8**	13.4
South Anglia Housing Association Limited[b]	**-**	19.2
Wherry Housing Association Limited[b]	**-**	15.3
Your Lifespace Limited	**0.2**	0.6
	158.0	207.8

[a] Previously known as William Sutton Developments Limited.

[b] Transferred engagements to Circle Thirty Three Housing Trust Limited during the current year.

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

No other related party transactions require disclosure.

36. Merger

As stated in note 1, Clarion Housing Group Limited ("Clarion Housing Group") was formed when Circle Anglia Limited ("Circle") transferred its engagements to Affinity Sutton Group Limited ("Affinity Sutton") on 29 November 2016, and this has been accounted for as a merger as allowed by FRS 102. Therefore, these financial statements are presented as if the Clarion Housing Group had existed in its current form since the start of the previous reporting period.

As part of this, the accounting policies of the two merging parties have been aligned and any costs relating to the merger have been expensed. Additionally, any transactions between the two parties prior to the merger are now required to be eliminated as part of consolidation, but no material amounts were identified.

The following disclosures provide an analysis of the numbers reported in these financial statements between the two parties prior to the merger, and of the combined party post-merger. The amounts shown below already take into account the adjustments for Affinity Sutton adopting IFRS 9 prior to the merger (see note 37) and the correction of errors in the amounts previously reported by Circle (see note 14).

Group

Total comprehensive income for the year ended 31 March 2017:

	Affinity Sutton £m	Circle £m	Accounting policy adjustments £m	Clarion £m	Total £m
Turnover	236.9	282.0	-	276.7	**795.6**
Operating surplus	107.1	52.2	15.3	114.9	**289.5**
Surplus for the year	79.0	31.2	-	63.1	**173.3**
Total comprehensive income for the year	82.8	13.5	-	57.6	**153.9**

Total comprehensive income for the year ended 31 March 2016:

	Affinity Sutton £m	Circle £m	Accounting policy adjustments £m	Total £m
Turnover	386.4	438.2	-	**824.6**
Operating surplus	158.0	125.8	22.6	**306.4**
Surplus for the year	147.2	86.3	-	**233.5**
Total comprehensive income for the year	148.7	74.4	-	**223.1**

The net assets of Affinity and Circle at the date of merger were £811.8 million and £440.3 million, respectively.

Parent

Total comprehensive income for the year ended 31 March 2017:

	Affinity Sutton £m	Circle £m	Accounting policy adjustments £m	Clarion £m	Total £m
Turnover	9.2	98.7	-	50.7	**158.6**
Operating (deficit)/surplus	(0.5)	3.0	-	0.2	**2.7**
(Deficit)/surplus for the year	(1.4)	(0.8)	-	2.2	**-**
Total comprehensive income for the year	(1.4)	(0.8)	-	(5.4)	**(7.6)**

Total comprehensive income for the year ended 31 March 2016:

	Affinity Sutton £m	Circle £m	Accounting policy adjustments £m	Total £m
Turnover	65.7	143.2	-	208.9
Operating surplus	0.9	5.5	-	6.4
Surplus/(deficit) for the year	0.6	(0.1)	-	0.5
Total comprehensive income for the year	0.6	3.2	-	3.8

The net liabilities of Affinity Sutton and Circle at the date of merger were £1.4 million and £17.2 million, respectively.

36. Merger continued

The following material changes in accounting policy have been made as a result of the merger (all numbers quoted are for the respective group):

1 Circle: surpluses on disposal of properties are now reported within operating surplus, to match the treatment applied by Affinity Sutton. In the current year up to the date of the merger, Circle made a £15.3 million surplus on disposal of properties and a £22.6 million surplus in the whole of the prior year.

2 Affinity Sutton: the amount of social housing property grants expected to be amortised within the next year is now included in creditors due within one year, to match the treatment applied by Circle. This increases Affinity Sutton's creditors due within one year by £9.9 million at both the start of the year and at the date of the merger.

3 Circle: ERP and other software costs have been reclassified from non-housing fixed assets to other intangible assets, to match the treatment applied by Affinity Sutton. See note 13 for details of the £12.6m reclassification of brought forward fixed assets.

All three changes are strictly presentational, and do not affect the surplus for the year or reserves,

Additionally, the following immaterial changes in accounting policy have been made as a result of the merger, and are being applied prospectively from the date of the merger:

4 The useful economic lives of fixed assets - which determine the amortisation/depreciation charged - used by both Affinity and Circle have been reviewed and aligned to form the Clarion policy. In some cases, this has resulted in new lives which differ from both the previous Affinity Sutton and Circle policies.

5 Whereas Circle depreciated shared ownership social housing properties, Affinity Sutton did not on the basis of the high residual value of these properties; the latter is the policy followed by Clarion.

6 For other intangible assets and non-housing fixed assets, Circle charged a full year's amortisation/depreciation in the year of acquisition, whereas Affinity Sutton commenced amortisation/depreciation in the month of acquisition; the latter is the Clarion policy.

7 For marketing costs relating to property sales, Circle's policy was to defer these until the sale completes, whereas Affinity Sutton expensed them as incurred; the latter is the Clarion policy.

8 For weekly rent charged in advance, Circle did not defer at the reporting date the amount relating to the first few days of April, whereas Affinity Sutton did defer; the latter is the Clarion policy.

9 For ongoing maintenance works to existing properties, Circle accrued costs in full where more than 50% of the work had been carried out, with no accrual otherwise. Affinity Sutton's policy was to accrue on the basis of work done and this is the Clarion policy.

10 For costs incurred in the construction of new properties, Circle's policy was to only accrue for unpaid contractor invoices dated on or before the reporting date. Affinity Sutton's policy was to also make an estimate of the uninvoiced work completed up to the reporting date and this is the Clarion policy.

37. Change in accounting policy: IFRS 9

As part of adopting FRS 102, Circle had adopted the recognition and measurement provisions of IFRS 9, as allowed by FRS 102, whereas Affinity Sutton had adopted the recognition and measurement provisions of IAS 39, as allowed by FRS 102. Prior to the merger, Affinity Sutton decided to adopt the recognition and measurement provisions of IFRS 9 and amounts reported in the previous financial statements of Affinity Sutton have been adjusted as follows:

	Reserves as at 31 March 2015 £m	Surplus for the year ended 31 March 2016 £m	Reserves as at 31 March 2016 £m
As previously reported using IAS 39	568.5	144.8	713.4
Fair value of derivatives and related hedging*	11.6	2.5	15.6
Restated using IFRS 9	**580.1**	**147.3**	**729.0**

*The fair value of Affinity Sutton's interest rate swaps was different under IFRS 9, when compared to IAS 39. Additionally, the effectiveness of the hedging was different and therefore there has also been a change to the level of ineffectiveness recognised.

38. Event after the end of the reporting period

On 8 May 2017 and 1 June 2017, the Financial Conduct Authority respectively registered the transfer of engagements of Mole Valley Housing Association Limited and Merton Priory Homes to Circle Thirty Three Housing Trust Limited.

Clarion Housing Group

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