CLARION
HOUSING GROUP

Annual Report & Accounts

2018/19

Annual Report & Accounts 2018/19 Contents

Front cover: Clarion resident with her daughter in their new affordable rented home at the Brickett Wood development
Inside front cover: Jackie Harris MBE, Clarion resident and Chair of the Old Ford Community Panel

The year at a glance

We delivered a solid operational and financial performance over the course of the year, building much needed homes and investing to support our residents and their communities.

Financial highlights

- **£816m** Turnover
- **£154m** Net surplus
- **£541m** Capital investment in new homes
- **£4,441** Operating cost per home
- **£119m** Sales income
- **1.8** Interest cover
- **A3** Credit rating (Moody's)
- **A** Credit rating (Standard & Poor's)

Operational highlights

- **80.5%** Overall resident satisfaction
- **89.4%** Resident satisfaction with repairs
- **4.8%** Rent arrears as a percentage of rent debit (social housing)
- **124,333** Homes managed at the end of the year
- **£125m** Social value of community investment

Property development highlights

- **1,243** New homes completed
- **1,163** New affordable homes completed
- **2,663** New homes started
- Over **16,000** New homes pipeline

Chairman's foreword

“There are some who claim that large housing associations have lost their social purpose – the reality could not be more different.”

Neil Goulden
Group Chairman

It has been a pleasure to serve as the Chairman of Clarion Housing Group, and after a nine-year term (firstly as Chair of Affinity Sutton), this will be my last report. As I reflect on the achievements made by Clarion and how the broader social and political context has changed, it strikes me that our mission has never been more important.

As the largest social landlord in the country, around 360,000 people now call a Clarion home their own. This provides us with both a great responsibility and an enormous opportunity to make a difference to the lives of our residents. As we have grown in size, so has the positive impact we make for our residents. The work of Clarion Futures is a great illustration: our charitable foundation will only celebrate its second birthday in October, yet we have already helped tens of thousands of people to access financial advice, learn new skills and return to work. There are some who claim that large housing associations have lost their social purpose – the reality could not be more different.

We are the guardians of a legacy that spans more than 100 years, which we can date back to the philanthropy of William Sutton. Of course, the standard of living and quality of housing has risen dramatically over that time, but there are parallels in the challenges faced then and today. There is still an urgent need for more social housing and for our sector to continue to demonstrate our value to government.

360,000
people now call a Clarion home their own

For the first time this year, our team has estimated the amount of money we save individuals and the Exchequer by providing homes to people at sub-market rent – an incredible £350 million per year.

With a new Prime Minister about to take office, it will be vital to reaffirm the value we bring to society and how we make every pound invested in grant go further. Moreover, Clarion can be at the forefront of the debate about the need to create mixed communities and promote alternative tenures (like affordable rent and shared ownership) that meet the needs of different groups and are fit for the future.

I leave Clarion Housing Group in no doubt that this organisation is uniquely well placed to play its part in meeting the housing crisis. It is a much larger business than the one I joined nine years ago, but we should never be afraid to see the size and scale of Clarion as a virtue. Our scale gives us a national footprint and the ability to influence lives across the country. Our financial strength allows us to invest in our homes and regenerate communities.

Our secure position means we will continue to build new homes, irrespective of the external environment.

It will be difficult to chair my last meeting of the Board, but I will hand over to the new Group Chair David Avery (currently Chair of Clarion Housing Association) and the new leadership team with complete confidence that Clarion has the leadership, staff and strategy to continue to make a positive difference to the lives of all of our residents.

I was delighted to welcome Clare Miller as Group Chief Executive during the year; Clare brings a wealth of experience and energy to her role. She is a passionate advocate, not only for Clarion, but for helping those in housing need. I know that this passion will serve Clarion well as it continues to deliver against its ambitions in the years ahead.

Group Chief Executive's foreword

"I am proud that this year we invested £124 million in improving and refurbishing existing homes and that over 90% of the new homes we built were affordable tenures."

Clare Miller
Group Chief Executive

It was a great privilege to have been appointed as Group Chief Executive in September last year and to now have the opportunity to briefly reflect on our achievements in the last 12 months and set out my priorities for our organisation. I would like to thank staff across the organisation, who have worked so hard in what has been a year of transition for the business.

We are pleased to report a good set of results and a stable financial position, endorsed by a strong investment grade rating from Standard & Poor's and Moody's. This financial position provides a solid foundation from which to deliver our mission to provide good-quality, affordable homes and neighbourhoods to people inadequately served by the housing market.

Clarion has 360,000 residents across the country, and I want all of our residents to have the opportunity to enjoy their homes and thrive in their communities. Last year, around 7,600 new households moved into a Clarion home; individuals and families at the start of a relationship with us that will often last for decades.

As Group Chief Executive, I want to see the same long-term vision in our approach to development. I want to ensure that Clarion strikes the right balance between building much-needed affordable new homes, while having a plan to guarantee that our existing properties are fit for the future.

I am proud that this year we invested £124 million in improving and refurbishing existing homes and that over 90% of the new homes we built were affordable tenures.

With more than 100 years of history behind us, we understand both the value and necessity of regeneration in our communities and the importance of placemaking. I am pleased that we are bringing forward a number of significant schemes in Plymouth, Merton and Ealing. All are at different stages of development, but in each case, existing residents are being provided with a brand-new social home that meets modern standards and includes improved amenity spaces. The Merton regeneration project is the largest in our history and will ultimately see more than 2,800 homes built across a mix of tenures.

As we grow as an organisation, we also intend to pursue a more ambitious new development programme. A number of significant land deals have been signed in the last 12 months, and I am pleased to report we exceeded our own internal target for starts on new builds, with work beginning on 2,663 new homes.

When I speak to colleagues around the organisation, it is clear how deeply engrained the commitment is to our social mission. Our charitable foundation, Clarion Futures, has a positive impact on tens of thousands of residents – changing lives and extending new opportunities.

Our employment and training service supported over 4,000 people into employment last year. The figure is a record for Clarion Futures and includes 250 apprenticeships and 132 people who were helped to set up their own business.

As well as judging our success by the service we provide to residents and building new homes, I also want Clarion to become an even more respected and influential organisation. We are the largest social landlord in the UK and with our size comes responsibility. We have recruited a new Executive Team in the last year, all of whom bring a wealth of experience to their roles. I am confident that in the year ahead we will continue to meet and exceed our responsibility to our residents and play our part in meeting the housing crisis.

Last year, around
7,600
new households moved into a Clarion home

Board, Executive Directors and Advisers

Board

Neil Goulden (Group Chairman)
Sue Killen (Vice Chair)
Clare Miller (Group Chief Executive) (appointed 24 September 2018)
David Avery
Tania Brisby
John Coghlan
Mark Hattersley (Group Chief Financial Officer) (appointed 7 November 2018)
David Orr CBE (appointed 1 November 2018)
Greg Reed
Rupert Sebag-Montefiore
Brian Stewart OBE

Helen Bailey (resigned 2 March 2019)
Ruth Cooke (appointed 3 April 2018, resigned 24 September 2018)
Keith Exford CBE (retired 6 April 2018)
Mark Washer (resigned 15 June 2018)

Executive Directors

Clare Miller
Richard Cook (appointed 1 February 2019)
Mark Hattersley (appointed 7 November 2018)
Catrin Jones (appointed 1 May 2019)
Rob Lane (appointed 1 May 2019)
Michelle Reynolds
Caroline Romback (appointed 4 June 2019)
Ian Woosey (appointed 30 May 2018)

Jonathan Cawthra (retired 14 June 2019)
Ruth Cooke (appointed 3 April 2018, resigned 24 September 2018)
Keith Exford CBE (retired 6 April 2018)
Neil McCall (retired 24 April 2019)
Austen Reid (resigned 31 January 2019)
Mark Washer (resigned 15 June 2018)

Company Secretary

Louise Hyde (appointed 12 October 2018)

Clare Miller (resigned 12 October 2018)

Principal Solicitors

Allen & Overy LLP
One Bishops Square
London E1 6AD

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

Devonshires Solicitors
London
30 Finsbury Circus
London EC2M 7DT

Trowers & Hamlins 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

External environment

The 2018/19 political landscape continued to be overshadowed by Brexit. With the dominance of the issue and arithmetic of a hung parliament, the government has had limited capacity to focus on other significant domestic policy areas.

The Social Housing Green Paper was published in the summer of 2018, and we responded, with the support of a survey of 2,000 of our own residents. We welcomed the call for the empowerment of residents and reaffirmed that we are open to working with all parties to build on the success of the sector scorecard in measuring performance.

During the year, the government increased its investment in affordable homes, pledging £2 billion of new funding over the next 10 years – underlining a commitment to supporting our sector.

The UK will have a new Prime Minister by the end of July 2019, and it will be increasingly important for Clarion and the wider sector to keep social housing on the political agenda. There is a risk that future housing policy will be taken in a different direction. The onus is on Clarion, as an influential national business, to make sure that we remain at the heart of government decision-making.

The formation of the Building Better, Building Beautiful Commission in November 2018, followed by the Policy Exchange's publication of *Building Beautiful* in January 2019, underlined the importance of creating aesthetic and sustainable urban environments to enhance public health and wellbeing. At the same time, the need for eco-friendly building methods and materials was reinforced by the Smart and Sustainable Cities agenda, now part of the UN Sustainable Development Goals (SDGs). It was also echoed by Friends of the Earth, whose 10XGreener project made the case for increased green space in our cities and towns. This is against the backdrop of the Secretary of State, James Brokenshire, having a consistent message on the importance of 'place' and better design and build quality.

The Grenfell Tower tragedy has continued to have an impact on building standards and the Hackitt Review, triggered in response, has made a welcome contribution – in particular, the emphasis on engaging with residents. Clarion is represented on the Ministry of Housing, Communities and Local Government's (MHCLG) Social Sector (Building Safety) Engagement Best Practice Group and is committed to working with residents, contractors and government to continue to raise standards.

In local government, the removal of the HRA borrowing cap looks set to give councils access to substantially increased funding for housing development. With such a shortage of new homes in the UK, this is a welcome development. This investment should open up new opportunities for joint ventures but could also create increased competition for land and talent within the sector. Widely welcomed by local authorities, there is an added impetus for housing associations to enter into partnerships to expedite the housebuilding the country needs.

The private rent tenure continued to grow in 2018/19, with the UK housing market becoming increasingly polarised around age. While older generations are far more likely to own property, and in many cases own it outright, younger people remain caught in the rent trap and often lack security of tenure, or cannot afford to rent accommodation that is suitable for their needs. These trends, along with Brexit, will continue to be prominent over the next 12 months.

Who we are and where we operate

Clarion Housing Group is a charitable organisation that comprises the UK's largest social landlord; a property development company, a charitable foundation and a maintenance contractor.

We aim to:
- Invest in, develop and operate housing for those not adequately served by the market;
- Invest in homes, communities and places to improve the lives of our residents and the quality of their neighbourhoods;
- Operate with long-term aims and a long-term timeframe;
- Use our size, scale and reputation to lead networks and consortia to deliver our strategic priorities;
- Provide more than just bricks and mortar;
- Know that residents are not the same – different groups and different people have different needs;
- Use our financial return to deliver our social purpose; and
- Support our residents through our employment and training, digital skills and money management advice services.

We operate nationally, with homes across the country, from Newcastle to Plymouth. We work across 179 local authorities and have 38 offices dispersed across the regions. Our scale allows us to meet national challenges while providing a truly local service to our residents.

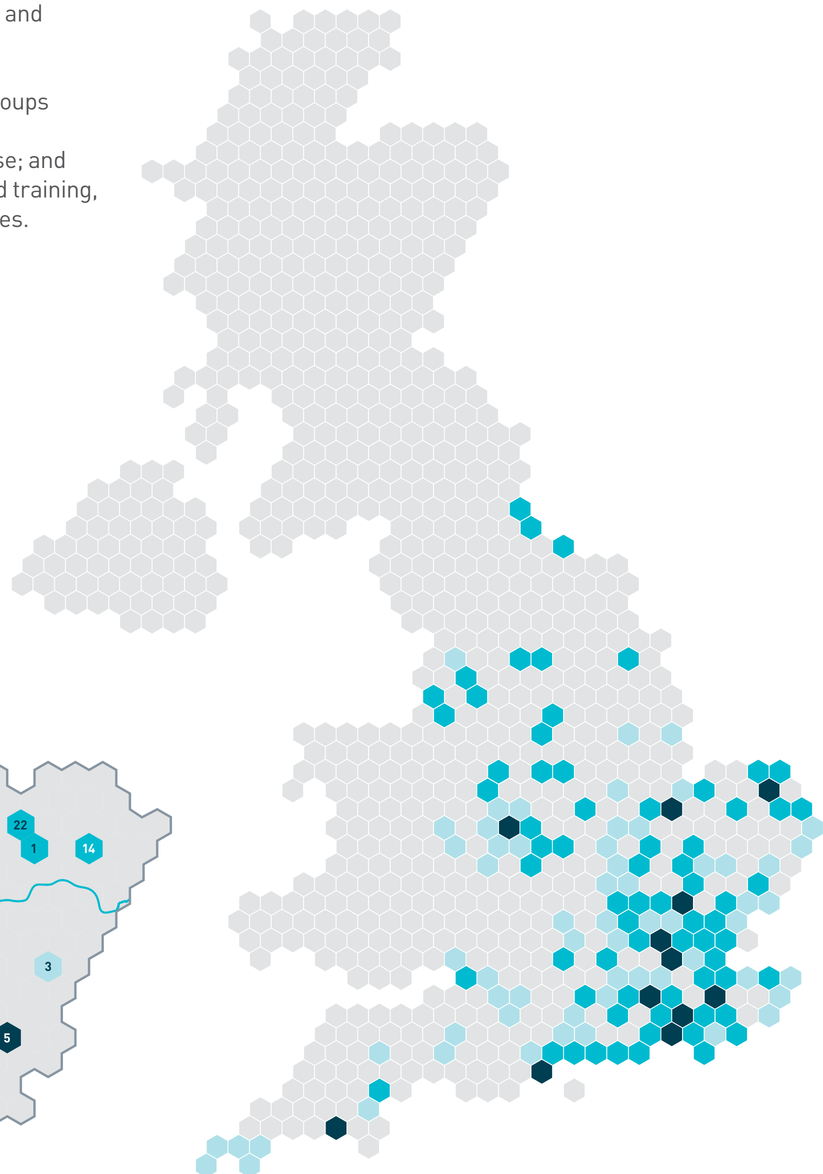
With 125,000 properties nationwide, over 360,000 people call a Clarion Housing property their home. In our approach to housing, we believe it is possible to be both large and local. By leveraging our scale, we can provide an equitable offer to all our customers, creating opportunities that change people's lives.

Amount of homes in each area

under 100 | 101-1000 | over 1000

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



Development highlights 2018/19

Clarion has ambitions to build towards 5,000 new homes a year, at least two thirds of which will be affordable. To achieve this, we have moved beyond the traditional model for housing associations. Clarion is also committed to delivering large strategic schemes through joint ventures or partnerships as well as working with housebuilders to maximise Section 106 opportunities.

Sherford joint venture

In September, Clarion joined forces with Bovis Homes to deliver much-needed new homes at Sherford, Devon. The joint venture will deliver around 1,500 new homes at the Plymouth site over the next 15 to 20 years.

Honingham Thorpe

Late in 2018, we entered into a land promotion agreement on a 368-hectare site in Honingham Thorpe, Norfolk. The site has development potential for 3,900 new homes over the next two decades, with an additional 3,600 homes over the following 15 years.

Salford Quays

The Group has acquired a site in Salford Quays, Greater Manchester, on which it will deliver 272 new apartments. The project will be the Group's largest development to date in the North West. The Salford Quays site was purchased through a 'land and package' deal.

Regeneration

We have three significant regeneration projects in Plymouth, Ealing and Merton. In Plymouth we have submitted plans to regenerate our Barne Barton Estate, spending £22 million to provide 228 new homes. In Ealing, Clarion was selected to work in partnership with Ealing Council to regenerate the Sherwood Close Estate which will see 298 homes built including 114 for affordable home ownership / rent and 184 for market sale. In Merton, we have received planning permission to deliver around 2,800 new homes across three neighbourhoods and 9,000sqm of commercial and community space.

Clarion has ambitions to build towards
5,000
new homes a year

Social value

Clarion Housing is the largest social landlord in the country, with 125,000 homes and 360,000 residents. By providing affordable homes to people who have been failed by the market, we fulfil our social mission as a charity and make a major contribution to the economy in the process.

For the first time this year, our team has estimated the amount of money we save individuals and the Exchequer by providing homes to people at sub-market rent. It is a simple calculation, which examines the difference between the rents we charge our residents in social and affordable tenancies and the rent that would have been charged in the private sector.

We plan to develop and extend this model in future years, but we estimate that during the financial year 2018/19, our sub-market rents made a social contribution of £350 million*. We call this a social contribution, as both residents and the government are the beneficiaries. If Clarion Housing did not exist, both would have extra costs.

This £350 million social contribution is larger than our surplus for the year (£154 million) and demonstrates the positive impact that Clarion Housing has as a landlord. This is before we account for all of the work led by Clarion Futures (our charitable foundation), which independently contributed a social value of £125 million.

*Average rents charged (by bedroom number and location) deducted from average market rents for our properties (also by bedroom number and location) where data was available. Rents charged taken from systems and market rent values from Hometrack.

During 2018/19, our sub-market rents made a social contribution of

£350m

The work led by Clarion Futures made a social contribution of

£125m

Corporate strategy

We have refreshed our corporate strategy and identified three core themes to deliver our new mission. We expect these to run for the three-year lifetime of this strategy, underpinned by our enabling objectives.

Strategic theme:
Being the housing and service provider of choice

The heart of Clarion's business has always been, and will continue to be, the provision of good-quality homes and services to our communities. The long-term vision for our homes and communities is for Clarion to be the leading housing group for good-quality, fit-for-purpose, well-managed and sustainable, affordable homes.

Strategic theme:
Building new homes and successful communities

Clarion's development ambitions are substantial. We want to build on our legacy of delivering more and better homes. Our vision is to establish Clarion as a leading UK affordable housing developer:

- delivering a range of products and tenures at price points to meet a range of needs;
- including affordable housing of all types;
- in the places where demand for affordable housing is at its greatest;
- through mixed tenure development, including private sale and market rent housing; and
- great placemaking.

Strategic theme:
Building a successful, respected and influential national business

As a sector leader and social landlord of unprecedented scale, Clarion is a natural partner of local, regional and national government. We value these relationships, and we need to extend and improve them to deliver on our ambitions.

Mission

Clarion Housing Group provides good-quality, affordable homes and neighbourhoods to people inadequately served by the market.

Enabling objective:
Maintain our financial resilience

Clarion will maintain and protect its financial strength and improve efficiency to provide a platform for growth, and support ongoing investment in enhanced customer services and the quality of our existing stock.

Enabling objective:
Exploit new technology and innovation to drive business benefit and improve customer experience

Clarion's scale means it is ideally placed to utilise new and emerging technology to improve the quality of our stock, data, strategic decision-making and the customer service experience. Clarion will embrace technology which enhances our dynamic capability, allowing us to be more responsive to customer and staff needs, more efficient in our business and more informed in our strategic decision-making.

Enabling objective:
Being a great place to work

This objective will primarily be delivered via six themes: Leadership, Communication, Personal Development, Engagement and Involvement, Recognition and Reward and Employee Wellbeing, all helping to create a place where people can be committed, productive and effective.

Housing and service provider of choice

Repairs

Following the consolidation of our repair providers last year, in 2018/19 Clarion Response continued to grow and is providing an exemplary repairs service to more homes than ever before. It is important to us that everyone living in a Clarion home receives the highest-quality service. To this end, we are fully committed to getting it right first time for our residents, ensuring quick, efficient and effective repairs around the country.

Clarion Response now provides repairs to over 90,000 homes across the regions, completing over 1,000 jobs a day. Our team comprises 600 committed members of staff, over 500 of whom are out working every day in our local communities. Our fleet of 500 fully stocked and branded vans are instantly recognisable, bringing repair expertise to our residents' homes.

With high aspirations, in 2018 we also set our internal targets for customer satisfaction and 'first time fix' at 89% for the year. These targets were surpassed.

During the year:

- 97.4% of our responsive routine repairs were completed on time; and
- 89.4% of our residents were satisfied with the repairs service provided.

We also completed work in over 3,500 empty properties in the last year, achieving our 12-day turnaround target. Clarion Response was accredited with a Silver Award from Investors in People and achieved two Gold Awards from the RoSPA Occupational Health and Safety Awards.

Customer service

In 2018/19, we continued to meet customer demands and expectations, achieving an overall customer satisfaction score of 80.5%. Telephone remained our customers' communication channel of choice and during the year we answered over 1 million calls to our contact centres. We are developing other channels and our digital response offer is improving.

The speed with which we respond to and resolve issues is key to customer satisfaction. We made concerted efforts and improvements in this area, with complaint resolution down to 11 days by the end of March 2019. Arrears, at 4.8%, were slightly above our 4.0% target; the main cause of this was the introduction of new working practices as we rolled out updated systems and processes to the integrated business.

We will continue to focus on improving our performance on arrears, but at this stage we are not experiencing any major arrears increase associated with welfare reform. We continue to monitor welfare reform closely, providing advice and support to affected customers through our expert in-house team of benefits advisers. As soon as it comes to our attention that a resident is experiencing financial difficulty, we adopt early intervention with an offer of free guidance and support. We have also rolled out a number of pilot campaigns with our residents, to create awareness around Universal Credit and the changes in the way people will receive their money.

Fire safety

Since the Grenfell Tower fire in 2017, we have accelerated our existing fire safety programme, hiring additional specialist staff and increasing our level of investment in this area. The Group does not own any buildings over 18 metres with ACM-type cladding, but since 2017 we have undertaken extensive inspections and remedial work across our taller buildings, with all fire safety work carried out by a UKAS-accredited contractor.

During 2018/19, we spent £20 million on our remedial programme. We also began trial installations of a misting system in one of our sheltered housing units. Once the trial is complete, we will consider whether it can be used in other buildings as part of a risk-proportionate approach, considering factors such as the height of buildings and the vulnerability of residents.

In support of these efforts, we continued to work in an advisory role with sector bodies such as the National Housing Federation and the Chartered Institute of Housing, sharing our insight, experience and expertise in this area.

Investing in our existing homes

Over the last few years we have worked in partnership with several large and well-established contractors to deliver our planned programmes of work. During the last year we invested £124 million in improvements and refurbishments, completing over 19,400 individual components of work, alongside other projects such as external wall insulation and lift replacements. In total, we replaced 1,603 roofs and upgraded 1,891 kitchens, 1,783 bathrooms and 3,100 heating systems. As always, we conducted this work in a quick, efficient and considerate manner, resulting in a 91.7% resident satisfaction score.

Involving our residents

At Clarion, we offer full, transparent and consistent engagement so residents can help shape the service they receive. We actively listen and respond to feedback, being clear when we can or cannot act on recommendations and why.

Our resident engagement strategy enables involvement at a national, regional and local level with a focus on service review and service improvement. There are currently just under 1,700 residents involved in our core resident engagement activities, including those involved through Clarion's current digital platform, Clarion Voice.

At a national level we have four residents who sit on the Clarion Housing Association Board. We also have national Service Improvement Groups (SIGs) in place for core service areas, including complaints, development, customer accounts, available homes and anti-social behaviour. In addition, we have SIGs that focus on disability and LGBT+ issues.

At a regional level we have five Regional Scrutiny Committees (RSCs) in place who have recently presented their first-year findings to the Board and Executive Team, as well as a Property Engagement Group who have been involved in the procurement of new planned maintenance services, including our grounds maintenance and estate cleaning services.

During 2018, Resident Engagement Days (REDs) were held across all five regions. As well as being a great opportunity for us to meet with residents and provide information on key activities, the REDs also provide us with a chance to garner important resident feedback.

80.5%
our overall customer satisfaction score

Case study
Amina's story

A home with… space for family life

Amina was living in a small one-bedroom flat with her husband and daughter, just managing with the limited space by using the living room as a second bedroom.

"Our new home has made a massive difference to the quality of our life"

As their family grew and Amina fell pregnant with their second child, the family desperately needed a larger home. While bidding for properties, Amina came across a two-bedroom Clarion Housing property that was in an ideal location for her – close to her daughter's school, as well as her family.

The family were invited to view the property and they knew instantly they wanted it to be their home. Amina said: "What struck us first was the amount of space. Both bedrooms were larger than our daughter's bedroom in our old property, plus the living room my husband and I were using as a makeshift bedroom for ourselves. It seemed like a place I could be really proud to call my family's home. Being a new build it didn't need any decoration and was ready for us to move straight into."

Amina added: "Our new home has made a massive difference to the quality of our life. I think the person who enjoys it the most is our little boy who now has ample space to play!"

Building new homes and communities

Clarion Futures – investing in our communities

Clarion Futures is our charitable foundation and delivers one of the largest programmes of its kind in the UK. Over the last year, Clarion Futures delivered £125 million of social value, transforming hundreds of communities and tens of thousands of lives in the process.

1. Clarion Futures Communities

Clarion Futures Communities comprises everything we do to make our estates and neighbourhoods more attractive and vibrant places to live. We believe every community is unique; as such, we tailor our work to the needs and aspirations of local people.

In 2018/19, we:

- Donated £261,000 from our Community Grants programme to help fund 59 local projects across the country;
- Improved or upgraded over 31,000 square metres of communal land and buildings; and
- Recruited over 300 young residents to our Community Ambassador programme, through which they will make a positive difference to their local areas.

2. Clarion Futures Jobs and Training

Clarion Futures Jobs and Training is a free service available to all Clarion residents who are looking for work. Taking a bespoke and highly personalised approach, we provide a wide range of training and employment opportunities. Across the country, we have over 40 advisers offering specialist advice and support to help residents secure training and sustained employment. Through our internal Job Brokerage Team, we are also able to source a range of job opportunities to suit our residents' needs.

Through these services, we have helped Clarion residents find jobs with a range of organisations, from the NHS through to Pret a Manger, Primark and Toni & Guy. In fact, we are currently the main recruitment provider for a number of UK Primark stores. Our ambition for the future is to support increased numbers of Clarion residents in finding sustainable jobs each year.

Clarion Futures Jobs and Training is also the lead delivery partner for Love London Working. A major employment programme funded by the European Social Fund and managed by the Greater London Authority, Love London Working is open to all Londoners aged 16 and over.

In 2018/19, we:

- Supported a record 4,009 people into work, with 81% sustaining their employment for six months or longer;
- Helped 132 people to set up their own business; and
- Placed 250 people in an apprenticeship.

3. Clarion Futures Money and Digital

Through Clarion Futures Money, we help Clarion residents manage their money more effectively, providing access to online banking, loans and savings products while Clarion Futures Digital provides extensive support to help our residents get online and improve their digital skills.

In 2018/19, we:

- Provided money guidance and support to 1,803 residents;
- Referred 3,731 tenants for free debt advice; and
- Delivered 14,536 digital skills support sessions.

In May 2018, we launched the William Sutton Prize as a tribute to his legacy and to champion innovation for social good, with a prize fund of up to £20,000 on offer for individuals or organisations presenting a new concept, service or idea that can make a positive social impact on a community.

The winners were announced at an awards ceremony in London. Micro Rainbow International took home the prize for Social Entrepreneurship and Innovation, for their proposal to expand the number of safe homes available to vulnerable LGBTI asylum seekers and refugees.

The VeloCity team were crowned winners of the prize for Excellence in Social Housing Design and Placemaking. VeloCity is comprised of a group of professionals from the built environment sector, and their vision is to redesign villages for the 21st century with higher-density housing and a design that promotes physical activity and an end to car dependency.

Case study
James' story

Love London Working… helped me find work

Clarion resident James was referred to the Love London Working service by his Jobcentre adviser in 2016. After years of challenges and instability he finally got the support he needed.

James said: "I've always worked on and off. I have a young daughter to think about and she's the most important thing in my life, so that was why I always tried my best. However, as hard as I tried, I suffered with addiction and mental health issues which made it very difficult for me to actually hold down a job.

"At the point at which I was referred to Love London Working, my esteem had hit a real low. I didn't see that I really had any prospects. I was very open and honest with my adviser, Blanche, but she seemed to have confidence in me."

James's Love London Working adviser, Blanche, wrote an action plan with him which included training needs.

Love London Working arranged for James to train in DIY and health and safety, which helped James to secure a number of fixed-term contracts. The ultimate goal, however, was to secure permanent employment for James. After showing interest in security roles, Blanche helped James enrol on a security course. James successfully completed the course and is now a proud, permanently employed events steward working across a range of venues.

James said: "It's been a journey, but without Blanche believing in me and investing the time in me to get me where I wanted to be, I don't think I'd be in the fortunate position I am now. In the future, I'd like to return to bus driving, and I'm hoping Blanche can help me with that too!"

"I was very open and honest with my adviser, Blanche, but she seemed to have confidence in me"

Strategic and Directors' Report
Building new homes and communities

Building new homes

During 2018/19, we completed 1,243 new homes, 94% of which were for affordable tenures, and we started 2,663 new homes – 85% of which were for affordable tenures.

In September, Clarion Housing Group joined forces with Bovis Homes to deliver much-needed new homes in Sherford, Devon. The agreement will see the two companies form a new joint venture, Bovis Latimer (Sherford) LLP, which will build approximately 1,500 new homes at the Plymouth site over the next 15–20 years. Through Clarion's development company, Latimer, Clarion and Bovis will combine their respective expertise to maximise the delivery and quality of the new homes at Sherford.

In Sandbach, Cheshire, we began work on a 165-home scheme. Under the project agreement, Latimer will deliver 116 homes for private sale, 32 homes for affordable rent and 17 homes for shared ownership on the Abbey Road site. The scheme includes a mix of two-bedroom apartments and two-, three- and four-bedroom houses.

Abbey Road was the Group's second significant new development in the North West in 2018/19, following a project launch in Salford Quays, where 272 new apartments are being built. The development is Latimer's largest to date in the region, with a GDV of more than £57 million. The site acquisition, purchased by Latimer through a 'land and package' deal, is a strong statement of our ambitions. It is also another example of our 'land-led approach', whereby we are purchasing land on which we can build new homes.

During the year, we completed 489 shared ownership sales and 128 private sales (including our share from joint ventures), helping to fund our affordable housing programme.

In addition, we completed 342 staircasing transactions, enabling residents to own a larger share of their home, in some cases up to 100% ownership.

Meanwhile, we extended our geographical reach in the North with the launch of our first-ever shared ownership site in Cheshire.

In regeneration, Clarion's investment plans total £2.6 billion. Across the UK, our collaborative approach and expertise in placemaking, resident and stakeholder engagement, and housing and asset management support the delivery of innovative and sustainable regeneration schemes. As part of our work in this area, we also help local authorities achieve targets in housing, employment and health.

In 2018/19, we secured outline planning approval for the £1 billion Merton Regeneration Project, which will deliver around 2,800 new homes in South West London. We also carried out extensive community engagement and consultation at Barne Barton in Plymouth, culminating in the submission of a planning application for 228 homes. Furthermore, we achieved planning approval for additional homes in Ealing with full community support as part of the redevelopment of the Sherwood Close Estate.

We started work on **2,663** new homes during the year.

A respected and influential business

Capturing tenants' voice in response to the Social Housing Green Paper

Eliciting, capturing and responding to our residents' views is a vital part of our work as a respected and influential business. In 2018/19, two thousand residents fed into our response to the Social Housing Green Paper, which the government hopes will rebalance the relationship between landlords and tenants. In addition to completing an online survey, residents also had the opportunity to shape our response through participation in four regional workshops, as well as in-depth interviews and meetings with the Housing Minister.

In our response, we emphasised how Clarion is already committed to the five principles set out in the Green Paper, and that any proposals should reflect the diversity within the sector. For example, we argued that blanket changes to the Decent Homes Standard would fail to respond to the variety of stock owned by different housing associations. We also suggested that each housing association should publish its own standard, which the regulator could then use to hold landlords to account.

In April 2019, we signed up as an early adopter to the National Housing Federation's Together with Tenants initiative to help shape the charter proposals alongside tenant advisers. To support these efforts, we initiated an internal programme of activities, including a residents' day with the Clarion Housing Board and other engagements designed to enable constructive dialogue.

Supporting UK government initiatives

Following the Independent Review of Building Regulations and Fire Safety, Clarion joined the MHCLG's Social Sector (Building Safety) Engagement Best Practice Group. Each social landlord represented in the group will be joined by a resident from their respective housing stock. The aim is to share best practice and challenge existing approaches towards ensuring resident safety.

During the year, we also responded to the MHCLG's call for evidence, which aims to establish good practice on how residents and landlords can work together to keep their homes and buildings safe. We supplemented our provision of evidence with findings from over 1,000 resident responses to questions relating to fire safety in our Social Housing Green Paper survey.

As a participant in the Voluntary Right to Buy Pilot, Clarion proactively contacted residents to ensure they were able to take advantage of this purchase opportunity. We sent letters to just under 5,000 Clarion residents in the Midlands whose properties were included in the pilot. Of these residents, 404 were allocated a unique reference number allowing them to apply to buy their homes or consider an alternative property to port their discount to.

Influencing the external environment

In our efforts to influence central and local government, we responded to a large number of consultations. Keen to shape the new National Planning Policy Framework, we participated in a successful campaign to reinstate Garden City Principles. In our response to the Draft Revised National Planning Policy Framework, we also welcomed the simplification of viability testing.

Clarion was the only housing organisation to participate in the Resolution Foundation / UCL Grand Challenge exploring structural and relational inequalities. This study will combine research and evidence on inequality in the UK, with the aim of supporting informed and joined-up policy making.

Through our membership of NHS England's Healthy New Towns Network of developers and housing associations, we continued to share learning to create healthier places and communities.

As a sector leader in sustainable and holistic regeneration, we were a participant in the first year of UK Green Building Council's (UKGBC) two-year project on sustainable construction. Key activity included the launch in April 2019 of the UKGBC report, *Circular Economy: guidance for construction clients*, which sets out to apply circular economy (CE) principles at the project briefing stage. Our involvement in this programme enabled us to work with key industry players to develop our understanding of CE, and to formalise learning on how to realise its economic, environmental and social benefits. Already, we are testing CE principles on the Merton regeneration project, which featured as a case study in the UKGBC report.

Maintaining our financial resilience

Although Clarion has limited commercial exposure and the core social housing business is stable and predictable, it is critical that we understand the ability of the business to absorb external events, whether economic, political or social.

We achieve this by regularly stress-testing the Group's business plan. During 2018/19, our stress tests showed the business was well placed to withstand the shocks from numerous significantly adverse events, including those associated with Brexit scenarios. Our rigorous testing in this area included a thorough analysis of all associated remedial actions.

To maintain our strong position, we diversify our funding sources, with the majority of funds coming from bilateral loans from banks and building societies, and the remainder from the capital markets. We are committed to maintaining a strong investment grade rating and are currently rated by Moody's as A3, and by Standard & Poor's as A.

Within well-defined limits, Clarion will maximise income from private sales, rentals and other relevant ancillary services. We regard these as important sources of internal funding to supplement our external borrowing. In April 2018, we were able to capitalise on the excellent progress we have made since the merger and raised £250 million through a debut bond issue. This was an important contribution towards the delivery of new homes in line with our development strategy. Following a successful investor roadshow, the 30-year bond was 1.6 times subscribed and initially attracted over £600 million of orders from investors. This was followed by a further successful £250 million bond issue in January 2019.

Looking ahead, rental income will continue to be our primary revenue stream. Our aim is to grow this income by increasing the number of affordable homes we provide and maintaining high occupancy rates while decreasing voids and arrears.

We are also focussed on delivering further operating and efficiency improvements, enabled by economies of scale, technology, good organisation and more streamlined ways of working. In particular, we will capture the full benefits of the merger and the newly implemented Enterprise Resource Planning (ERP) systems. These developments are part of our transformational change project, FF2, to improve efficiency and effectiveness across the Group.

Exploiting new technology and innovation to drive business benefit and improve customer experience

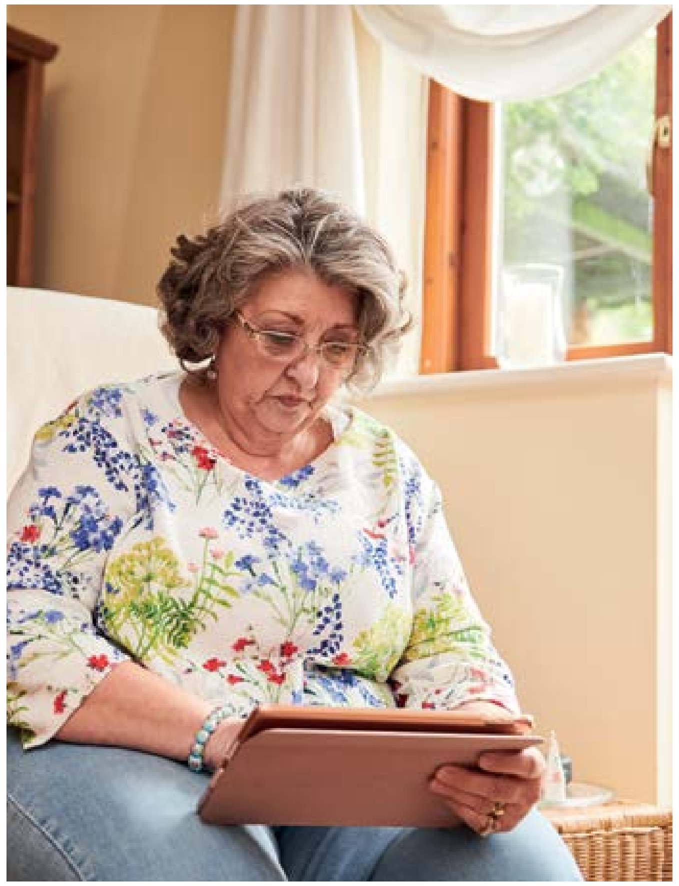
We are in the early stages of a comprehensive digital upgrade programme, which will deliver a range of new services and much-improved customer experience.

As part of this process, we are due to launch a new Clarion Customer Portal in the coming year. This will allow customers to interact across a wider range of services at their convenience, with 24/7 access to information.

The remaining part of the business will move to the new ERP system by the end of the year, allowing us to provide a consistent service to our customers with better data and tools for our staff. We will also develop and deliver a new technology strategy to sit alongside Clarion's customer service, asset and development strategies. The new strategy will focus on short-term efficiency gains, looking at how technology can support and enable positive long-term business outcomes.

Looking ahead, we know that digital and emerging technology will help to drive efficiency and shape new products, services and ways of working. The nature of each customer's enquiry should determine the best option for both them and the business. Following this principle, we will continue to create and enable simpler online interactions.

Above all, we know that innovation is not about products but about people and processes. For Clarion, innovation will create a culture of continuous, data-led and evidence-based improvement which will drive enhanced performance across the business for years to come.



Being a great place to work

At Clarion, our work culture is based on six key principles. These are:

Leadership
Managers are accessible and approachable. Staff can trust their manager to give them direction in the context of a bigger picture or agenda; to share responsibility for their team's performance and to include them appropriately.

Communication
Timely and relevant corporate communication flows effectively and consistently through the organisation, keeping our people updated, informed and enfranchised.

Professional development
Staff can develop their knowledge and skills and enhance their ability to perform their current job. They can access opportunities to grow their career and realise their personal potential.

Engagement
Staff understand Clarion's goals; they have the desire and the means to contribute to achieving these goals to the best of their ability.

Recognition and reward
Staff contributions are recognised by managers, who find and use opportunities to celebrate and reward good work.

Employee wellbeing
Work is a safe place that supports and enhances employee wellbeing, creating an environment where people can give their best.

In 2018/19, we upheld these principles in all areas, with a strong focus on staff training, development and support. We devised a Group Induction and Programme of Certificated Learning to ensure all mandatory and regulatory training needs are met. We also implemented a new leadership strategy, which includes a range of accredited development programmes from Level 3 Foundation to Level 7 Masters / MBA, with a view to improving our leadership capability and ensuring we have a pipeline of leadership talent for the future.

In the area of core compliance, we introduced Group Training Plans, including Safeguarding and Fire Safety. This resulted in approximately 800 staff progressing though online and face-to-face workshops to enhance their knowledge and skills. We also awarded professional development sponsorships to 71 staff members to undertake professional qualifications.

Following the government's Social Housing Green Paper 2018, we began working collaboratively with the Chartered Institute of Housing (CIH) on the professionalisation of the housing sector. This work included the development of a Platinum Partnership with CIH, who delivered a series of Level 3 and 4 Housing Apprenticeships in-house as part of an upskilling programme for our staff.

A place of work with... great opportunities

When Ian left school, rather than apply for university, he completed a City and Guilds in Carpentry and Joinery, keen to get into the world of work as quickly as he could. His City and Guilds course allowed him to work and begin earning while studying.

Ian joined Circle Housing's repairs team in 2013, three years before its merger to form Clarion. Ian had completed many training courses over the years to improve his skills and knowledge, but when his manager told him about the opportunity to get an MBA Degree in Leadership and Management through Clarion's Learning and Development programme, he saw a unique chance to really make the most of everything he'd learned throughout his career.

Ian said: "Working towards this degree has meant me consolidating everything I've picked up along my professional journey. I see this degree as not only benefitting me, but also hopefully the team I lead. A key part of leadership, I've learned, is supporting others to realise their own potential. It's also given me a much wider knowledge of the business, beyond my own department in repairs – the need to be strategic while always keeping our customers at the heart of everything we do.

"The course has already improved the ways I work and think day to day. I've come to this further education later in life, but it's actually suited me better. I feel I can get more out of the learning now I have years of my own experience to draw from."

Corporate responsibility

Diversity and inclusion
We are committed to discharging our responsibilities as a progressive, modern business. As we pursue our business objectives, our aim is to ensure we protect and promote the interests of our residents, employees and local communities.

The Clarion Ability Network (residents)
Set up in April 2018, the Clarion Ability Network (CAN) actively encourages people with disabilities to become involved in the long-term vision of Clarion Housing Group. With residents from all Clarion regions represented, CAN contributes to our inclusive culture by helping to remove barriers for residents with disabilities and ensuring a consistent service for all.

One of CAN's key priorities is to gain residents' views on a range of issues. The Network refers submissions to the Regional Scrutiny Committee and to focus groups for further review and insight. Through these measures, members have already influenced a number of outcomes, including the terms of Clarion's tenancy sustainment offer.

CAN members have chosen four areas of the business to focus on: communications, premises, adjustments and know-how. Looking ahead, we aim for CAN members to work with our Digital Team, Research & Customer Insight Team and Communications Team to make the voice of residents with disabilities heard across all Clarion projects.

Out & About – the LGBT+ residents' network
Clarion is committed to giving LGBT+ residents a platform from which to influence and shape our services. Through a dedicated LGBT+ network, we help provide organisation, support and social events for Clarion LGBT+ residents.

The network has identified three focus areas for the future:
- **Increase trans membership:** we have seen an increase in both trans members and guests who are engaging with us on how we can expand membership and break down barriers.
- **Straight Allies Project:** this project presents an opportunity for residents from outside the LGBT+ community who may have an LGBT+ family member or friend. Supporting the network's aims they will be virtual members, feeding into the network through reports and other activities.
- **Raising the group's profile:** we have seen a gradual increase in our network membership and our aim is to grow even bigger and demonstrate the network's value.

Diversity and inclusion
Equality, diversity and inclusion are central to the Clarion culture. Our objective is to help every individual reach their potential, regardless of their social background, race or gender. As part of our commitment to a positive work environment, we have set up a number of employee networks to help us harness and cultivate diversity.

Our employee networks are designed to help us understand the different needs and expectations of our staff and shape appropriate solutions. Our employee networks include an LGBT+ network, a BAME network, Clarion Ability Network and the Mosaic Team, which is made up of volunteers from across the business dedicated to helping Clarion celebrate diversity.

Gender pay gap
In April 2019, Clarion, in common with all UK companies with 250 or more employees, published its gender pay gap data for the second time covering the year to 31 March 2018. Compared to other large employers, Clarion has a very small gender pay gap, reflecting the work we have done over the years to ensure our organisation is free from gender bias. Our data showed median gap of less than 1% between men and women, shrinking from 1.8% in 2017 to only 0.74% in 2018.

Sustainability
A key objective of Clarion's Sustainability Strategy is to ensure our homes across all tenures are energy efficient. Our current focus is on improving our existing homes so they all achieve a minimum EPC rating of 'D' or above by 2025. This also supports our focus on reducing fuel poverty.

Fundamental to this is investing in transforming older homes with improved insulation and more efficient heating systems as part of our planned investment programme, particularly those homes with no access to gas, to make them fit for the future.

Our corporate charity
In 2017, Clarion adopted the Darel Bryan Foundation as its chosen corporate charity until 2020. Our support for the charity is helping to raise funds for brain tumour research and commemorate one of our dearly loved colleagues.

Darel was a Clarion housing officer who died tragically of a brain tumour aged 34. The Darel Bryan Foundation was subsequently created by Darel's family to raise money for Brain Tumour Research. Darel's colleagues, from our Bromley office, nominated the Foundation as Clarion Charity of the Year and set themselves a target to raise £100,000 over three years. Staff have since raised over £62,000 which, combined with Clarion's matched funding, means the target has already been exceeded, with still more fundraising events planned for the future.

Less than
1%
median gap between men and women's pay

Financial review of 2018/19

Introduction

2018/19 has been a year of stabilisation for the business, working through the post merger actions, implementing our new ERP system, investing in our existing stock, all set against a challenging development and sales market. Against this back drop, we are pleased to report a solid set of results and an ongoing strong financial position. We have maintained our net surplus at £154 million (2018: £157 million), kept operating costs to £482 million, which is broadly in line with the prior year (2018: £479 million) and delivered an operating margin of 35% (2018: 37%).

As the largest social landlord in the UK we are committed to maintaining good quality homes and services. During the year we invested £124 million (2018: £119 million) in our existing social homes and spent a further £188 million (2018: £195 million) on maintenance of these homes, including a significant £23 million investment in fire safety (2018: £10 million). We also continued to grow the development pipeline, investing £541 million in new homes (2018: £426 million), £438 million of which related to social housing assets (2018: £320 million). Overall we have invested 3.6 times our surplus (2018: 2.8) in new and existing social housing assets (Figure 1) and 0.7 times our surplus (2018: 0.7) in new non-social assets. This clearly demonstrates our commitment to use our own resources and bring in additional funding to deliver new homes for those in housing need.

We remain a financially strong and resilient organisation with assets estimated to be worth more than £24 billion. Irrespective of the external environment, we have a solid foundation from which we can deliver on our mission to provide good quality, affordable homes and neighbourhoods to people inadequately served by the housing market.

1. Operating surplus and net surplus

Operating surplus at £282 million (2018: £305 million) reduced in the year reflecting a number of factors including the 1% rent reduction imposed by the Government, the challenging housing market for sales and development and cost pressures within the business. This resulted in an operating margin of 35% (2018: 37%), slightly below the business target. Net surplus at £154 million (2018: £157 million) remained flat with lower interest costs and improved performance from joint ventures offsetting the lower operating surplus, resulting in a net margin of 19% (2018: 19%). Figure 2 shows the operating surplus and margin trends over 5 years.

Figure 1: Surplus vs investment in social housing

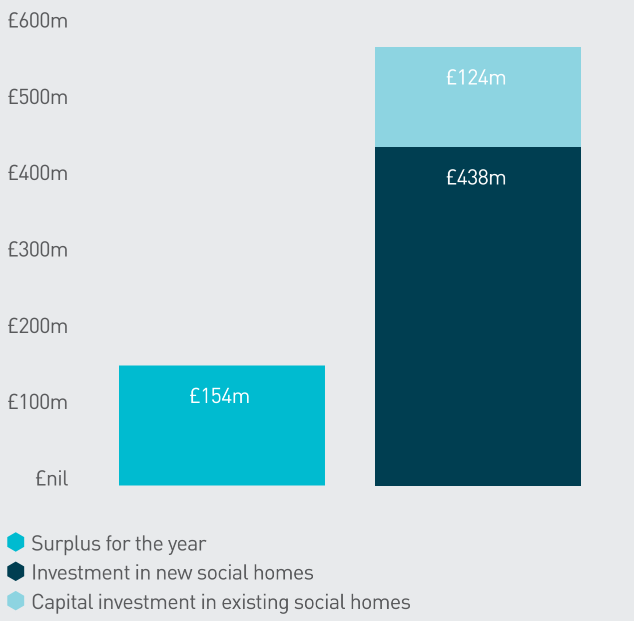
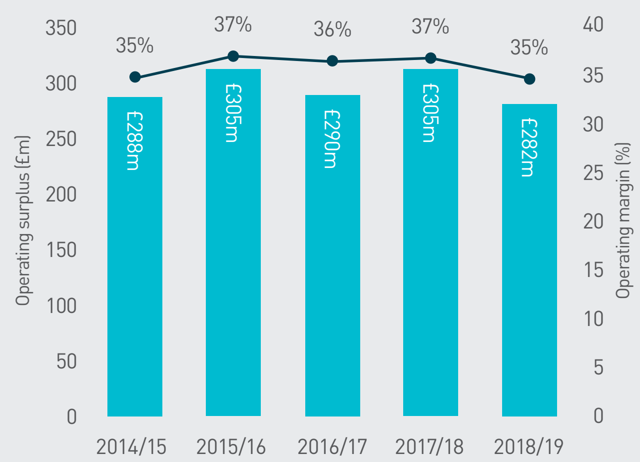


Table 1: Summary of the Group's Statement of Comprehensive Income

	2018/19 £m	2017/18 £m
Turnover	816	829
Cost of sales	(85)	(74)
Operating costs	(482)	(479)
Surplus on disposal of properties	33	29
Operating surplus	**282**	**305**
Operating margin %	*35%*	*37%*
Share of surplus / (deficit) of jointly controlled entities (JCEs) and associates	13	(1)
Gain on revaluation of investment properties	3	2
Net interest and other financial income	(137)	(144)
Movement in fair value of financial instruments	(5)	(3)
Other	(2)	(2)
Surplus for the year after tax	**154**	**157**
Net Margin	*19%*	*19%*

Figure 2: Operating margin and operating surplus over five years



2. Turnover

Turnover at £816 million (2018: £829 million) was £13 million lower. Within this, rent reduced by £4 million primarily reflecting the Government 1% rent reduction policy with service charge income being £6 million lower. Shared ownership first tranche income increased by £2 million (489 sales compared to 410 in 2018) but this was more than offset by a £5 million reduction in open market sales.

The reduction in open market sales turnover reflects a slight reduction in sales volumes to 97 (2018: 106 – both figures exclude our share of joint ventures' sales) and lower margins of 17% (2018: 30%). Whilst margins are still robust the reduction does reflect the tougher market conditions.

3. Operating Costs

At £482 million, total operating costs are £3 million (1%) higher than the prior year, resulting in a total operating cost per unit (OCU) of £4,441 (2018: £4,432). This reduces to £4,428 if we exclude our significant transfer of stock that took place in March 2019.

Figure 3: Movement in turnover during 2018/19

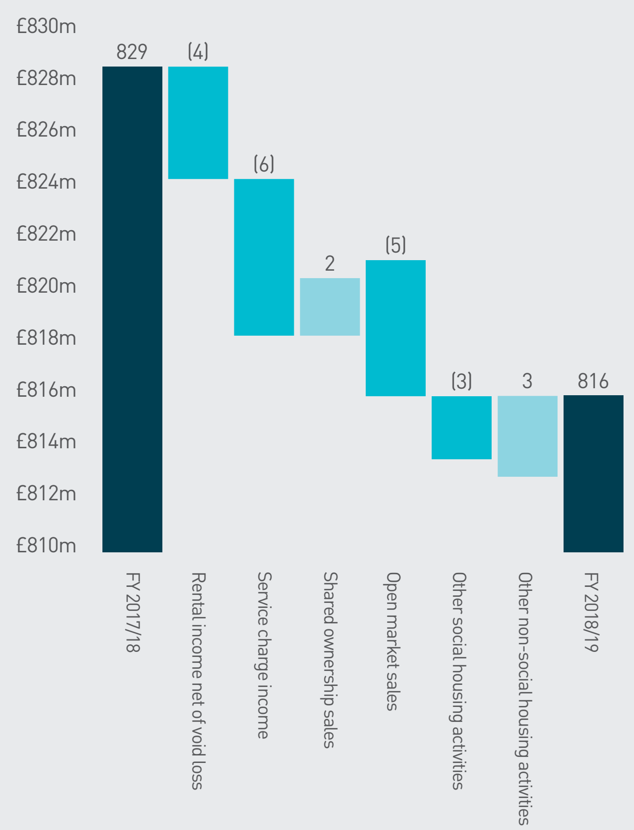
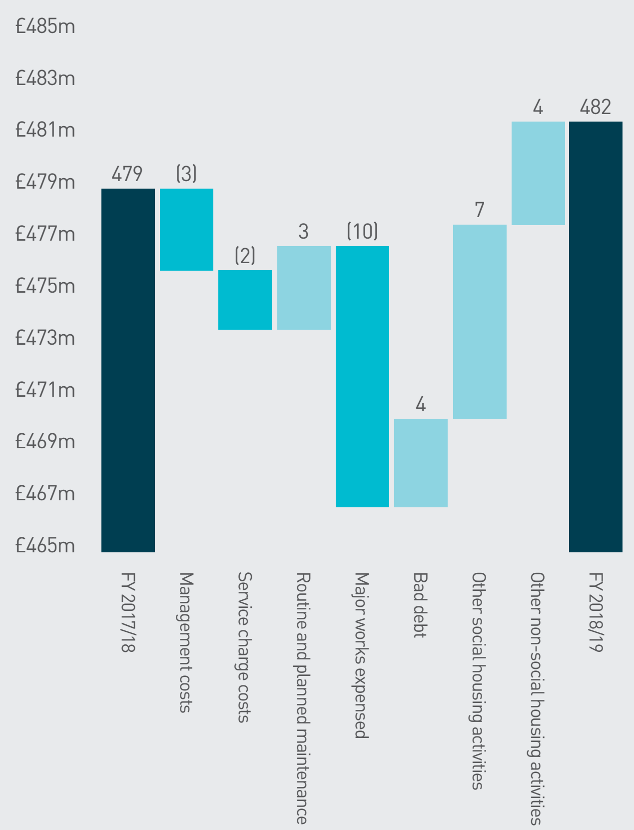


Figure 4: Movement in operating costs during 2018/19



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

Cost savings and efficiencies of £12million have been delivered on management, service charges and maintenance costs as the business continues to drive merger savings. The business, however, has also incurred cost increases across a number of areas.

The bad debt charge has increased by £4 million reflecting the first phase of transition to our new ERP system which resulted in some increase in our rent and service charge arrears as we adjusted to the new ways of working. This increase has prudently been included in our bad debt provision for the year.

Other social housing activities include an increase in "development costs not capitalised" of £7 million which is attributable to one-off abortive costs at sites in West London and Kent.

The remaining cost increase of £4 million includes increased expenditure on our community investment programme, additional expenditure on care and support, costs associated with managing the commercial asset portfolio and investment in building the market sale team and infrastructure.

4. Surplus on existing property sales
At £33 million, surplus on sales has increased by £4 million versus the prior year. This year we completed 342 shared ownership staircasing transactions, enabling residents to own a larger share of their home, and transferred 306 properties in Preston to Community Gateway Association, a housing association with a larger operational presence in the area.

5. Share of surplus / (deficit) of JCEAs
Our share of joint venture results at £13 million have improved by £14 million compared to the prior year (2018: £1 million deficit). This has primarily been driven by an adjustment to the value of our investment in the Linden/Downland Graylingwell LLP following a review of our accounting recognition – see note 17 for further explanation.

6. Gain on revaluation of investment properties
The market rent portfolio has seen a further small increase in the year of £3 million or 1.3%.

7. Net financing costs
At £137 million, net interest has reduced by £7 million on the prior year. During the year the Group arranged new bank funding and, through its EMTN debt programme, capital market funding increasing drawn debt to £3,887 million (2018: £3,548 million). As a result, interest payable across our debt and derivative portfolio increased to £157 million (2018: £153 million), but has been more than offset by £22 million capitalised on development (2018: £12 million) reflecting the increased development programme.

Interest cover at 1.8 remains comfortably above our strictest covenant.

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

	2018/19 £m	2017/18 £m
Tangible fixed assets	7,409	7,069
Net current assets	467	475
Creditors due in over one year	(6,323)	(6,102)
Other	111	77
Total net assets	**1,664**	**1,519**
Income and expenditure account	2,007	1,856
Cash flow hedge and other reserves	(343)	(337)
Total capital and reserves	**1,664**	**1,519**

Statement of Financial Position

Our Statement of Financial Position metrics remain strong. Net assets increased by £145 million (10%) to £1,664 million. As a result, gearing at 48% (per our covenant definition) remains comfortably lower than our financial covenant.

The increase in net assets is primarily explained by a £340 million increase in social housing properties, a £122 million increase in stock, a £21 million increase in our interest in JCEAs, a £15 million increase in other intangible assets, partially offset by a £339 million increase in underlying borrowings (excluding accounting adjustments).

8. Social housing properties and stock
The Group invested £541 million (2018: £426 million) in the construction and redevelopment of housing stock with 2,663 new build starts and completion of 1,243 properties (1,163 of which were for affordable tenures) to the value of £261 million (2018: 1,263 units, £270 million).

A further £3,990 million was committed at the year-end (2018: £3,323 million), of which £3,980 million related to development activity (2018: £3,315 million). The current development pipeline remains in excess of 16,000 homes.

During the year we also invested £124 million (2018: £119 million) in our existing social homes (on top of our £188 million revenue maintenance spend (2018: £195 million)).

Overall we have invested 3.6 times our surplus (2018: 2.8) in new and existing social housing assets (Figure 1). A further 0.7 times our surplus (2018: 0.7) has been invested in new non-social assets.

9. Interest in JCEAs
Clarion is also committed to delivering large strategic schemes through joint ventures or partnerships. At 31 March 2019, Clarion had 7 active developing joint ventures delivering 2,159 units (Group's share) and one long-term strategic proposal.

10. Other intangible assets
Other intangible assets increased by £15 million in the year. This was primarily driven by continued investment in our ERP platform, the first phase of which launched in April 2018 and has been amortised from this date. The second phase is due to launch later in 2019.

11. Borrowings
Drawn debt (excluding accounting adjustments) as at 31 March 2019 was £3,887 million, up from £3,548 million as at 31 March 2018. During the year the Group raised £500 million of funding through two bond issues utilising its EMTN programme, the proceeds being primarily used to fund the investment in housing assets.

Statement of Cash Flows

Table 3: Summary of the Group's Statement of Cash Flows

	2018/19 £m	2017/18 £m
Net cash from operating activities	206	285
Net cash from investing activities	(381)	(379)
Net cash from financing activities	173	108
Cash and cash equivalents at start of year	183	169
Cash and cash equivalents at end of year	181	183

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

Cash generation from operations remains high. At £206 million it far exceeds our capital investment in existing social homes (£124 million) and provides a significant contribution to our investment in new social homes (£438 million).

The net cash outflow on investing activities at £381 million is broadly in line with the prior year (2018: £379 million). Whilst cash investment in our existing social housing assets has increased by £59 million, this is largely offset by additional proceeds from existing asset property sales (£26 million) and a higher level of grant receipt (£19 million), the latter being used to help fund the Group's affordable homes programme (albeit still low compared to historic levels).

At £173 million, our cash generation from financing activities has increased by £65 million (60%). Net borrowings of loans and bonds totalled £339 million (2018: £259 million) as a result of funding raised through the Group's EMTN bond issues. This increase has been partially offset by additional interest payments of £10 million reflecting the Group's increase in borrowings.

Overall the Group has maintained cash and cash equivalents at £181 million (2018: £183 million), a significant contribution to its overall liquidity.

Treasury management report

The Group defines its treasury management activities as the management of the organisation's cash flows, its banking relationships, cash investments and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. The Group accepts treasury risk consistent with sound business planning and operation but within parameters agreed, from time to time, by the Treasury Committee and always well within the contractual obligations covenanted in funding arrangements.

Where corporate financial covenants exist they are typically interest cover and gearing based. All covenants were met throughout the period while the Group's long-term financial plan forecasts continued compliance, including under a range of scenarios reflecting severely adverse trading conditions.

Funding requirements are kept under constant review, including those in a range of potentially adverse scenarios (which are analysed though stress testing the long-term financial plan). The Group considers the availability of funding to be a key risk and therefore (among other actions) maintains a high level of liquidity and 'pre-charged' but unallocated property security, seeks to diversify funding sources appropriately and makes conservative planning assumptions about the cost of finance.

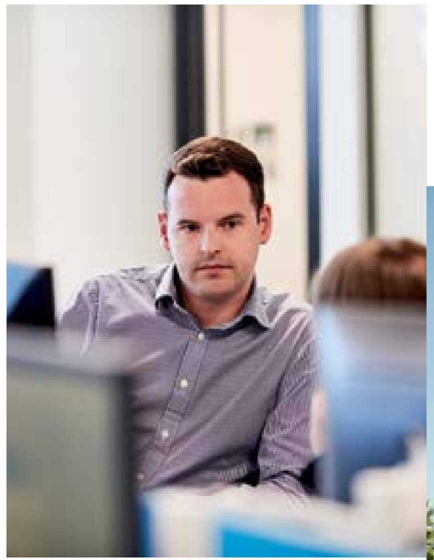
The Group's capital resources come from three main sources – its retained income and expenditure reserves, capital grant and debt funding. As at 31 March, the Group had £4.46 billion of committed debt funding (2018: £4.02 billion), with drawn funding totalling £3.89 billion (2018: £3.55 billion). The increase in drawn funding part funded housing capital expenditure (the balance of funding requirement being met by cash generated from operations). All undrawn funding is committed and is available within three days' notice.

The Group continues to maintain a diversified loan portfolio from a number of funding sources. During the period the Group extended the maturity of some of its revolving credit facilities and arranged new bank and debt capital market funding, the latter being raised utilising its Euro Medium Term Note (EMTN) debt programme. Collectively these actions have increased the debt portfolio duration and lowered the Group's average cost of funds.

As at 31 March, 37% of committed funding was from the capital markets and 63% from bi-lateral loans with eight banks and building societies.

The Group has limited re-financing risk in the next five years with almost four fifths of the Group's debt facilities maturing after this time horizon; 63% matures after 10 years. As at 31 March, the Group maintained total liquidity of £749 million, represented by £174 million of available cash (available with one day's notice) and £575 million of committed undrawn revolving credit facilities.

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 flexibility to depart from these parameters if circumstances make this more appropriate. At the year-end, the portfolio was made up of 91% fixed-rate and 9% floating-rate exposure. The Group hedges interest rate exposure predominately either by entering into fixed-rate debt or by utilising stand-alone interest rate derivatives. Broadly speaking, the arrangements supporting the latter require collateral to be provided by the Group when prevailing interest rates are lower than the fixed rate payable under the contract – so called 'mark-to-market' exposure – as is currently the case with most of the contracts. The collateral provided is almost entirely property security, by allocation of an appropriate proportion of the Group's shared security pool to the respective derivative counterparties.



The Group's capital expenditure plans (net of sales receipts) will continue to be met by the strong levels of cash generated from landlord activities, supplemented predominately by further debt funding. The level of debt funding is constrained by the Group's strong financial discipline and commitment to a financial profile consistent with a strong investment grade rating. Accordingly, through its planning activities, the Group ensures that it should have sufficiently strong debt service capacity under a broad range of adverse scenarios.

Near term forecast financial profile is one of the factors taken into consideration by the credit rating agencies who assign the Group a rating. Whilst S&P has recently changed its outlook on the Group's rating from stable to negative it has affirmed the rating at A; Moody's assign the Group a rating of A3 (stable outlook). Both are strong investment grade ratings.

The Group maintains strong investment grade ratings at A3 (Moody's) and A (Standard & Poor's)

Clarion Housing Group
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Value for Money

Clarion's mission is to provide good quality, affordable homes and neighbourhoods to people inadequately served by the market. To support this, Clarion remains committed to delivering value for money for its customers through the provision of high quality services and the provision of new homes in an efficient and effective manner

The importance of delivering value for money is well understood by our staff throughout the business. Each member of staff has a role to play and this can take many different forms including hard financial savings through cost management, efficiency gains by being more effective in the way we operate and delivering social value for money through our charitable activities.

We monitor our delivery of value for money through different mechanisms:

- Tracking of projects and initiatives which deliver savings, efficiency improvements or additional benefits;
- Targeting and delivery of improved financial performance for the organisation;
- Calculation of the social value of our activities; and
- Benchmarking against other organisations to identify areas where we can make further improvements.

Value for money initiatives

This year, value for money initiatives across the Group have resulted in savings of more than £32 million, with many of these directly benefiting our residents.

Some of our key achievements in the year include:

- £1.9 million of savings from the re-procurement of planned investment contracts;
- £1.3 million of interest cost savings from two bond issuances;
- £1.1 million of productivity gains, due to repairs jobs being completed more efficiently; and
- £0.7 million of savings from the insourcing of responsive repairs contracts in North London and Birmingham.

A key contributor to our value for money initiatives are savings generated through our procurement team. These are monitored through a savings register, which is independently verified. We consistently strive to realise savings on a year-on-year basis, delivering value for money through the tendering process, strategic delivery and contract management. Procuring long-term suppliers to deliver better core services has been a focus of our work since merger. This has involved the alignment of different legacy arrangements to deliver consistent services to all our customers. Significant procurement activity this year was dedicated to a new 20-year contract in planned investment, with other high-value initiatives relating to insurance services and several development contracts. In addition, there has been an increasing general focus on identifying new suppliers to meet the changing requirements of the Group as it continues to grow. Total efficiency savings secured in 2018/19 exceeded £23.9 million with the delivery phased over periods of up to 10 years.

Financial Performance

In order to help us to track efficiencies and drive value for money, we place particular attention on a suite of key financial performance ratios used across the sector. These include a set of key performance indicators that our regulator requires us to measure and report, along with other measures which help us gauge our performance and target further improvement. As part of this process, we benchmark ourselves against the largest London based associations – the G15.

Figure 1 shows the output of this benchmarking including Clarion's performance over the last two years and comparisons with the G15 for 2017/18 (the last publicly available data). We also rank ourselves to identify areas of potential under performance. Key observations are:

- Our level of new supply, especially social/affordable homes is low at 1.0% and ranks 10/13 in 2017/18. We have clear plans in place to improve this which will see our total delivery increase towards 5,000 units per year (of which two thirds will be affordable) over the next few years.
- Our gearing at 52.7% and EBITDA MRI interest cover at 133.9% (ranking 10/13 and 8/13 in 2017/18) demonstrates our commitment to raise external funding to support our ambitious development programme. This debt supported £541 million investment in building new homes in 2018/19. Although our EBITDA MRI interest cover is in the lower half of the sector, it is supported by strong operating margins (2017/18: social housing operating margin ranking 4/13, overall operating margin ranking 1/13) and sits comfortably above our banking covenants.

- A priority for Clarion is our investment in our residents and communities. The benchmarking supports this with Clarion investing over 4 times the G15 average and ranked first in 2017/18.
- Our occupancy at 98.6% is a key focus for the business with every empty home being a missed opportunity to house someone in need. We are working with our housing and void turnaround teams to determine how we improve this ratio going forward. In terms of ranking, we score 11/11 although with some of the benchmarking data showing 100% occupancy, we believe the data may be calculated on an inconsistent basis.

Looking forward, although our operating margins benchmark reasonably well, we are focussed on delivering significant further efficiency gains as we continue to deliver the benefits of merger and start to realise the benefits of our investment in a new ERP system. This will improve our social housing and group operating margin although gains in the latter will be partially offset by our increased market sale activity.

Cost per Unit

One of the regulator's measures is the operating cost per unit of social housing. Using available data, we can also break this down further and benchmark ourselves across the sector. The results of this are included in figure 1 with benchmarking against the 17/18 data. At a headline level, our social housing cost per unit at £4,528 (17/18: £4,520) benchmarks just above the mid-table position (5/13 in 2017/18).

This year we have achieved efficiency savings of more than £39m

We continue to reinvest every penny of our surplus back into our core business

Although detailed analysis of the sub-category breakdown is difficult due to the differing nature and activities of other housing associations and the dependency upon consistent cost allocation, it does identify areas where we can focus future action.

Key observations are:

- Management and service charge costs benchmark well with both ranked 2/13. We do however believe that further management efficiencies can be delivered as part of the merger and ERP system benefits.
- Our day to day maintenance costs at £1,591 per unit are above the G15 average of £1,280 and rank 13/13 in 2017/18. Although some of this difference could be attributable to the reallocation of management costs (which are showing as significantly higher in other associations), we are focussed on delivering a more efficient maintenance service. Recent and current actions include the consolidation of our in-house repairs service (post merger) and the in-sourcing of major maintenance contracts to our in-house teams (Midlands and North London in November 2018). These are expected to reduce our costs over the next few years at the same time as delivering improved service levels to our residents.
- Property investment (major repairs expenditure and capitalised works) at £1,280 per unit is above the 2017/18 G15 average of £960 per unit. This reflects our commitment to invest in our existing properties which includes a £60 million programme of investment in fire action works post Grenfell. Of this, £23 million was incurred in the year which equates to £212 per unit and therefore accounts for much of the variance to the 2017/18 G15 average.

For Clarion, one of the objectives at merger was to drive operating efficiencies. One of the key measures we use is our operating cost per unit. Although this differs to the above measures as it takes all operating costs (e.g. includes depreciation) and all units (e.g. includes non-social), it does give similar results. For 2018/19, our operating cost per unit was £4,441. As part of our merger and efficiency plans, we are focussed on reducing this towards a target of £4,000 per unit.

Clarion Futures and Social Value

In addition to providing affordable housing, Clarion has a much wider charitable remit focussed on helping our residents improve their lives and prospects. Much of this work is channelled through Clarion Futures, our charitable foundation. In the year, Clarion Futures invested a total of £12.4 million in our communities and residents, focussed on activities such as training, debt advice and digital inclusion. This is an increase of £1.6 million on last year and is the largest investment of this type across the sector. Using the recognised HACT social value model, the work carried out by Clarion Futures has delivered £125 million in social value, increasing from £96 million delivered last year.

In addition to the social value delivered through Clarion Futures, we have this year for the first time attempted to value the benefit of our sub-market rents. At its simplest level, this is the saving derived either by our residents or by the Government (through the benefits system) of charging rents below open market level. Our initial calculation is this has a value of £350 million per year, a sum that far outweighs our surplus. This benefit, although not quantified in our accounts, is a clear demonstration of the delivery of our core social purpose.

New homes

A key objective for the Group is delivering more affordable homes. In the year to 31 March 2019, we invested £541 million in new homes of which 1,163 were affordable tenures. This investment is a further example of how we leverage our financial strength, delivering private sector funding from both the banks and capital markets at sector leading rates.

We do however recognise that an organisation of our scale and financial capacity should be delivering greater volumes of new homes. Looking ahead, our development pipeline is in excess of 16,000 as we target growing to over 5,000 units per year with over 65% of these being for affordable tenures. This will require us to invest over £12 billion over the next ten years in new homes.

Figure 1: Clarion Housing Group – Sector Scorecard

	2018/19 Clarion	2017/18 Clarion	2017/18 G15 Average	2017/18 Clarion Ranking
Reinvestment*	6.6%	5.8%	5.8%	7/13
New supply (social housing units)*	1.0%	0.9%	1.4%	10/13
New supply (non-social housing units)*	0.1%	0.2%	0.5%	11/12
Gearing*	52.7%	50.4%	44.7%	10/13
EBITDA MRI interest cover*	133.9%	152.0%	147.6%	8/13
Headline social housing cost per unit*	£4,528	£4,520	£4,870	5/13
Operating margin (social housing lettings)*	36.6%	36.2%	34.2%	4/13
Operating margin (overall, excluding disposals)*	30.5%	33.3%	28.4%	1/13
Return on capital employed (ROCE)*	3.7%	4.0%	3.5%	4/13
New supply delivered: absolute (social and non-social)	1,226	1,263	814	3/13
Customer satisfaction	80.5%	80.0%	76.8%	5/13
Investment in communitites	£12.4m	£10.8m	£2.8m	1/13
Occupancy	98.6%	98.5%	99.5%	11/11
Rent collected	98.8%	99.8%	99.9%	8/12
Ratio of responsive repairs to planned maintenance	64.8%	63.6%	64.0%	8/13
Overheads as a percentage of adjusted turnover	10.2%	10.6%	11.4%	4/11
Total social housing units owned and / or managed at period end	108,652	108,697	39,124	1/13
Management costs per unit	£723	£752	£1,269	2/13
Service charge costs per unit	£511	£531	£687	2/13
Maintenance costs per unit	£1,591	£1,561	£1,280	13/13
Major repairs expenditure per unit	£136	£229	£119	4/7
Capitalised major repairs expenditure for period per unit	£1,144	£1,091	£841	11/13
Other costs per unit	£422	£356	£673	3/13

*Regulatory VfM Metrics: these measures are as defined by the Regulator of Social Housing and so may not agree to our own internal measures or financial covenants quoted elsewhere in this report.

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Principal risks and uncertainties

Risk management in delivering our strategic ambitions

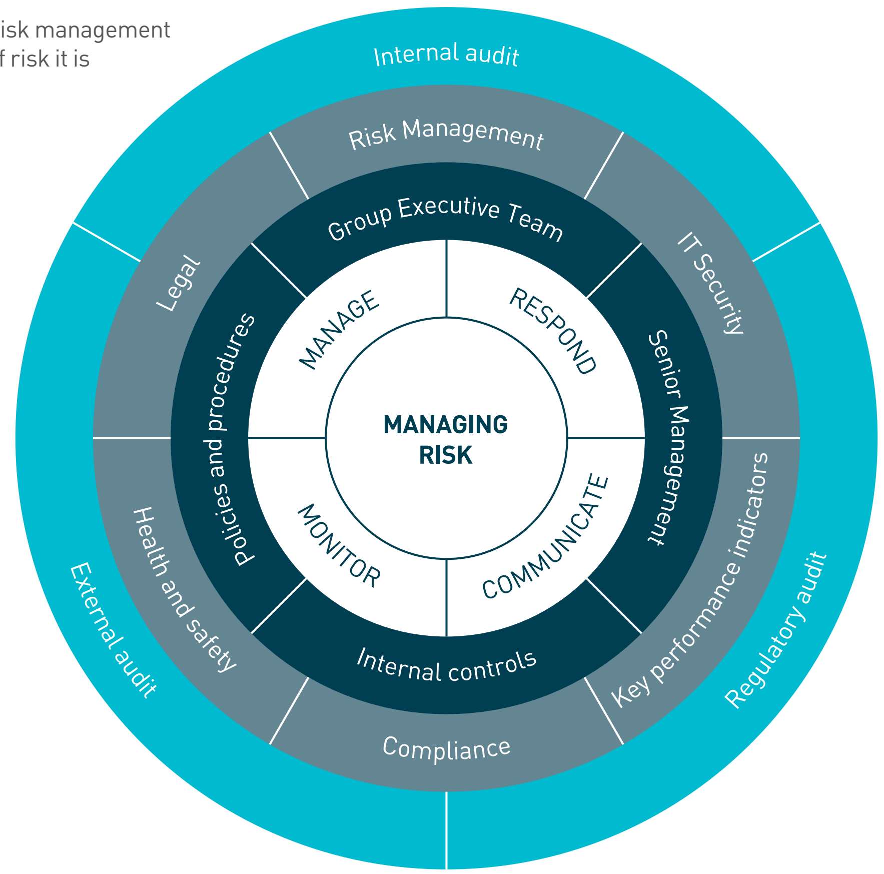
We are a business that owns and manages long-term housing assets, utilises long-term finance and maintains the majority of our properties in-house; all of which can carry significant reputational, regulatory, financial and compliance risk. Successful risk management is therefore a fundamental part of our business as we pursue our strategic objectives.

We manage the business to deliver a sustainable long-term return to enable us to fulfil our charitable objectives – helping those in housing need. We focus on those risks facing our business which may otherwise frustrate our strategic goals and threaten the Group's ability to deliver new homes and invest in our existing homes.

Risk management framework

The Group Board has overall responsibility for risk management with a particular focus on the degree and type of risk it is prepared to take in achieving its overall objectives – i.e. our risk appetite. This is set within the context of the rapidly changing external environment including regulatory, political and economic change, all of which can have significant and immediate impacts on our business. Our risk management framework is key to ensuring we achieve a suitable balance between maintaining sufficient financial and risk capacity while maximising our outputs and ambitions.

The risk management framework is built around the three lines of defence model and builds upon our core approach, which is to monitor, manage, respond and communicate. This is shown in the diagram below:



First line of defence from risk
Second line of defence from risk
Third line of defence from risk

Our key risks and uncertainties are shown in the table below along with our mitigation measures:

	Risk description	Impact	Mitigation	Change in year
1	**Failure to improve services**	• Reputational impact • Customer service fails to meet regulatory requirements • Loss of customer confidence • Impact on our regulatory standing	• Dedicated resources devoted to improving core services • Active involvement of Executive and Board in resolution • Suite of reporting metrics focused on rectification • Business continuity arrangements	Significant progress has been made in improving service levels including insourcing of further response maintenance services. The fire safety programme is progressing well with over £60 million of committed expenditure. Work continues to remediate legacy under-investment in ex-Circle properties and to enhance our digital offering in line with customer expectations.
2	**Failure to comply with health and safety regulations**	• Serious incident involving death or injury • Criminal and/or civil proceedings • Reputation impact	• Regular board reporting and oversight • Dedicated specialist personnel • Fire improvement plan • Routine compliance testing and checking	Our compliance check programme continues to show year-on-year improvement. Focus continues on fire safety actions and investment which includes actions ahead of legal requirements.
3	**Failure to deliver new homes in line with our agreed development strategy**	• Adverse operational and financial impact • Negative reputational impact	• Investment strategy agreed including move to land-led development • Pipeline in excess of 16,000 homes • Recruitment of skilled and experienced development staff	Delivery is behind original plans reflecting the challenge of moving to a land-led strategy and the competition for skilled resources. Growth now expected to quickly ramp up with 2,663 starts on site in 2018/19. Focus remains on delivering a high proportion of affordable housing tenures.
4	**Massive financial shock**	• Increased cost of funds and lack of available debt • Increased counterparty risk • Hedging arrangements ineffective • Business capacity reduced	• Market scanning and stress testing undertaken • Investor relationship management • Specialist Treasury Committee and advice for Board • Maintain high levels of committed funding	Raised £500 million of new capital market funding and renewed existing bank facilities to maintain high levels of liquidity. Brexit monitoring and actions in place (e.g. holding stock of critical components, re-assessing development hurdle rates).

Key

No change Reduced risk Increased risk

	Risk description	Impact	Mitigation	Change in year
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. Key enabler is new Enterprise Resource Planning system – first phase live in 2018 and second phase due later in 2019.
6	**Failure to achieve efficiencies**	• Increased cost base • Costs higher than competitors • Inability to deliver value for money • Reduced capacity to deliver growth ambitions	• Simplification of corporate structures • Team and corporate savings targets • Board ownership and oversight	Stable. Initial merger consolidation savings delivered. Operational efficiencies being progressed though partially offset by additional investment in fire safety compliance. Next stage to leverage new ERP system post second phase.
7	**Succession**	• Change leads to instability • Loss of skills and knowledge • Capacity of the business to absorb change • Does enable introduction of new skills/fresh ideas	• Nominations Committee oversight • Specialist advisers • Long-term planning and talent management	Following a period of change, new leadership team recruited and in place. Opportunity to review future plans/strategy for missed opportunities. Further work required on succession plans for other tiers of management.
8	**IT security and cyber attack threat**	• Loss of customer confidence • Loss of stakeholder confidence • Loss of income • Reputational risk	• Security review • Routine penetration testing • Staff training • Audit and Risk Committee oversight	Risk remains high across all markets and sectors. Significant ongoing investment in IT systems. Continue to focus on raising employee awareness.

Key

No change   Reduced risk   Increased risk

The Audit and Risk Committee oversees the effectiveness of the assurance arrangements, systems and processes adopted by the Group to manage risk with a focus on the Group's strategic risks. The Committee also provides specialist advice to the Board on any particular risks that may threaten the delivery of 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.

To be effective, risk management relies on the engagement of all parts of the business. This approach is an integral part of the way we work, with all key parts of the business owning and managing their own operational risk registers. These are regularly reviewed allowing for their escalation within the business as appropriate and potential inclusion of the Group strategic risk register.

The risk management process includes assessing each risk for its impact and probability, scored both before and after mitigating actions. A standardised risk-scoring methodology is used to ensure a consistent approach is adopted. Each risk also has a target score set in line with our risk appetite. This establishes where further focus and action is required to further reduce the level of risk the business is incurring.

Risk appetite

Our risk appetite is determined by the Board and is influenced by the capacity of the business to manage the risk if it were to materialise, the longer-term consequences of the risk and the return we achieve by taking such risks. The most significant judgements are associated with our decisions on investing in particular property schemes, our asset strategy and reinvestment priorities, our customer offer and our obligations under regulation, legislation and our financial stability. In general, 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 risk appetite for new business and opportunities for growth.

We monitor our effectiveness in managing risk through key indicators, enabling us to take swift and appropriate action arising from changes in the operating environment to ensure we remain within the appetite levels determined by the Board.

Risk focus this year

The Board considers the business is well placed to manage the risks it faces.

The last year has seen a focus on investing in our existing properties and continuing to mitigate the risks that have become apparent following the Grenfell Tower tragedy. This will continue to be a major area of investment into the foreseeable future as new legislation is introduced, although we are, where feasible, pre-empting such legislation and making early investments.

Our customer service remains a priority, and we recognise the risk of not delivering a good service to our customers, most of whom do not have alternative choices of where to live. We continue to seek customer feedback to improve our services, with our most recent focus being on improving our maintenances services and building our digital offer. Digital platforms are how many of our customers expect to engage with us, but we will always recognise there are some who will need a one-to-one personal service and we will ensure we maintain this offer.

Another key area has been managing potential risks arising from Brexit including supply chain concerns, exposure to market sales and managing risks around our funding requirements. The Group remains well positioned to deal with any Brexit scenario.

A core strategic priority is to increase our provision of new affordable homes. Building at scale, especially in uncertain economic times, carries significant risk. We understand the financial strength required to withstand this risk, and our investment appraisal methodology means we are careful about the projects we select and we are demanding of the financial return.

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.

Clarion Housing Group Board

Neil Goulden

Chairman of Group Board
First appointed: July 2010

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

In addition to his role at Clarion Housing Group, he is a Pro-Chancellor and Chairman of Governors at Nottingham Trent University. He is also Chairman of Ambitious About Autism and of Sue Ryder. In the commercial world, Neil is chairman of Jackpot Joy plc. He also sat on the Low Pay Commission for eight years until 2015.

G R

Sue Killen

Chair of Clarion Futures Board, Chair of Remuneration and Nomination Committee, Vice Chair of Group Board
First appointed: April 2012

Sue is the Chair of the Pharmaceutical Services Negotiating Committee (from 1 September 2019) and Chair of the Katie Piper Foundation. She is the former CEO of St John Ambulance and Interim CE and registrar at the Nursing and Midwifery Council. She is a former Director General in the Civil Service and worked for a number of government departments over a long career as a senior civil servant. She has held a wide variety of NED and Trustee roles over the last 20 years.

F R

David Avery

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

David has over 15 years' experience serving on housing association boards with more than six years as Chairman. He was appointed Chairman of the Clarion Housing Association Board in May 2017. Previously, David held a variety of executive and management roles. He was most recently President of European Operations for Novellus Systems, Inc., a Fortune 500 company. David has also been Governor of an independent school in West Sussex and a Non-Executive Director of an NHS Trust.

H A

Tania Brisby

Chair of Treasury Committee
First appointed: March 2011

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

In the public sector, Tania was seconded to manage a European Commission restructuring and privatisation programme in Eastern Europe in the 1990s and advised the NHS on commercial dispute resolution until April 2013 as chair of NHS Midlands and East Competition Panel and more recently was 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

Chairman of Audit and Risk Committee
First appointed: July 2017

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

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

A

David Orr CBE

First appointed: November 2018

David is the former Chief Executive of the National Housing Federation (NHF) and spent 13 years in one of the most high-profile and strategically important roles in the sector. In his time as the CEO of the NHF, David campaigned to advance the interests of housing associations at all levels of government and worked with four different Prime Ministers.

David has had a 30-year career in housing, which includes time as the Chief Executive of Newlon Housing Trust and working for Centrepoint, the homelessness charity. He is a former President of Housing Europe and was previously the Chief Executive of the Scottish Federation of Housing Associations.

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

Greg Reed

First appointed: July 2017

Following a 20-plus year international career in banking, in 2012 Greg joined HomeServe Membership, the biggest business in the HomeServe Group, as its UK Chief Marketing Officer, becoming CEO in June 2017. Greg now leads a business of over 3,000 people, including 1,000 field engineers. In 2016, HomeServe Membership was recognised as one of the three best places to work in the UK; in the same year, The Institute of Customer Service judged HomeServe to have the most improved customer satisfaction of any business in the UK services sector.

Greg's undergraduate degree was in Finance from Pennsylvania State University, and he also holds a doctorate in Law from Widener University School of Law.

H

Rupert Sebag-Montefiore

Chairman of Latimer
First appointed: July 2017

Rupert retired from Savills plc in 2017 where he was on the main board, followed by the group executive board, for 21 years. Rupert is Chairman of Prime Purchase Limited, a trustee of the Orchestra of the Age of Enlightenment, a member of the Investment Committee of Winchester College and Christ Church, Oxford, and a Director of Pigeon Land Limited.

L

Brian Stewart OBE

First appointed: July 2010

Brian is a portfolio Non-Executive Director and Consultant, following a career in local and regional government. He was the Chief Executive of two Scottish local authorities and the East of England Regional Assembly. He has experience as a Non-Executive Director of an NHS Foundation Trust, various charity trustee roles and consultancy.

His current portfolio includes chairing the Anglian Central Regional Flood and Coastal Committee, chairing the Sizewell C Community Forum, sitting on the HS2 Phase 2 Exceptional Hardship Scheme panel and acting as trustee and Vice Chairman of Orniston Families – a major regional children's charity in East Anglia. Later in July 2019, he will become Chairman of the Papworth Trust, a leading disability charity operating across most of East Anglia.

H R

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

Group Executive Team

Clare Miller

Group Chief Executive

Clare is Group Chief Executive at Clarion Housing Group. She was previously Affinity Sutton's Group Director of Governance and Compliance prior to the merger with Circle Housing to form Clarion in 2016.

Prior to this she was an Executive Director at the Tenant Services Authority, prior to which she worked for the Housing Corporation. Clare is a chartered accountant, qualifying with Coopers & Lybrand.

Richard Cook

Group Director of Development

Richard is Group Director of Development. He joined Clarion in February 2019 from Lendlease Europe, where he was Head of Residential and responsible for delivering 1,000 new homes per year of mixed tenure from open market to affordable.

Richard joined Lendlease in 2010 as Head of Delivery of the Design and Build contracts on the Olympic Village for London 2012. His extensive career in residential development includes senior roles at Mace and George Wimpey plc (now Taylor Wimpey plc).

Mark Hattersley

Chief Financial Officer

Mark is Clarion Housing Group's Chief Financial Officer, joining from Sovereign Housing Association, where he was CFO for three years. Prior to joining Sovereign, he was Director of Finance & Infrastructure/ Deputy CEO at Staffordshire University and Finance Director at Birmingham International Airport.

Catrin Jones

Group Director of Corporate Services

Pre-merger, Catrin joined Affinity Sutton as Director of Customer Services in 2013, having held a number of senior customer service roles in various sectors. After merger, Catrin was appointed Director of Business Transition, playing a vital role in the Group's transformational change programme. Catrin has responsibility for a range of corporate services including HR, Facilities, Deeds, Governance, Health & Safety, Internal Audit and Legal Services.

Rob Lane

Group Commercial Director

Rob joined Clarion at the time of the merger as Director of Commercial Finance. A qualified accountant, Rob's career has included appointments in senior finance/Director roles in the Domino's Pizza Group and Network Rail Property. Rob is responsible for Clarion's subsidiary organisations – Centra, Clarion Response and Grange – as well leading Clarion's growing private rental sector business. Rob also leads on strategic asset management, including regeneration, and the Group's approach to future mergers and acquisitions.

Michelle Reynolds

Chief Operating Officer

Michelle was formerly Clarion's Group Director for Commercial Services and has served on the Group Executive Team since Clarion was formed in 2016. Michelle has over 25 years' experience, and her previous roles include directorships at Affinity Sutton and William Sutton, and Chief Executive of Aashyana, the South West's first Asian-led housing association.

As Chief Operating Officer, Michelle leads on the transformation of the Group's customer service offer to its 360,000 residents. Michelle also has responsibility for overseeing the long-term investment plan for new homes and neighbourhoods, creating mixed communities that are desirable and fit for the future.

Caroline Romback

Group Corporate Affairs Director

Caroline is Group Corporate Affairs Director at Clarion Housing Group and is responsible for strategy, corporate communications and public affairs, as well as the Group's charitable foundation, Clarion Futures. She was previously Group PR & Marketing Director at Kier Group Plc, working with the FTSE 250 organisation through a five year period of acquisitive growth and change. With over 20 years of experience, she has held a number of in-house and agency roles, including in-house at WH Smith plc, as well as founding her own communications agency.

Ian Woosey

Chief Information Officer

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

Corporate governance

Corporate governance

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

The Group Board has nine Non-Executive Directors and 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 of overseeing the strategic direction of the Group. The Group has adopted the NHF Code of Governance, which is based on clear requirements and commitments that 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 regularly reviews its effectiveness. The Board has adopted clear terms of reference and has delegated appropriate responsibilities to a series of specialist committees.

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

The group received a G1 & V1 rating from the Regulator of Social Housing

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

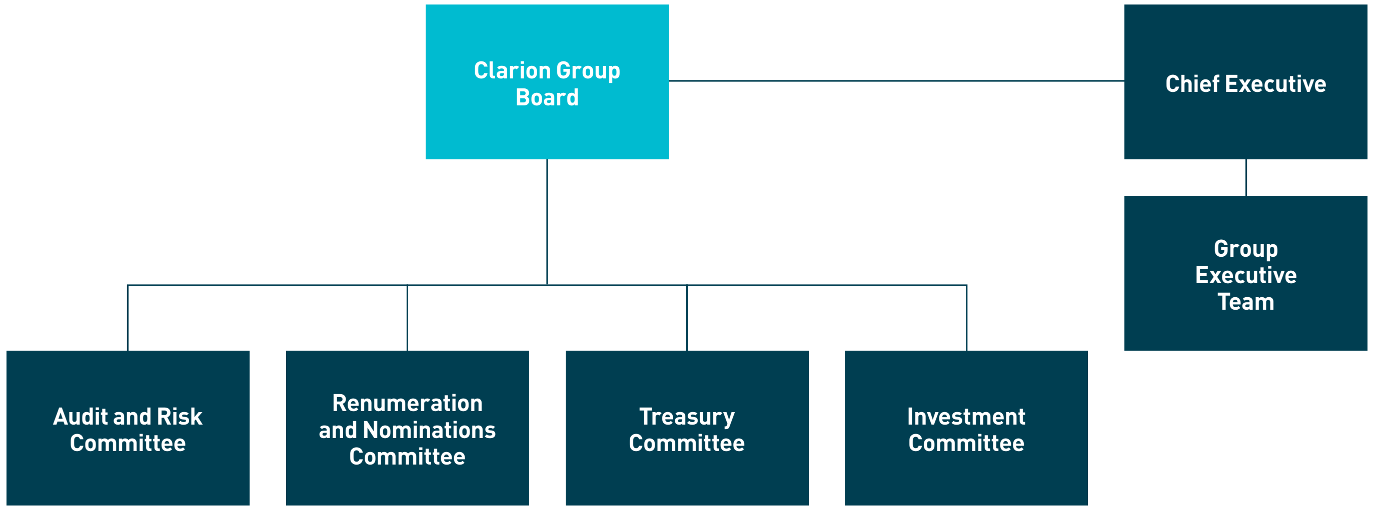
The Board continues to facilitate resident involvement as various levels in the Group. This allows residents to engage from the very local through to regional and national forums. Clarion has committed to being an early adopter of the NHF resident involvement charter that is currently being developed and that aims to strengthen the relationship between housing associations and their residents. The Board values resident input and has actively encouraged resident scrutiny and accountability measures which have added value to the business. The Board continues to keep resident involvement under review. 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 G1 and V1 rating from the Regulator of Social Housing in March 2018 following an in-depth assessment. The ratings represent the highest compliance ratings for governance and financial viability. The Board has considered its obligations under regulation and is satisfied that it complies in all material respects with the standards.

Clarion Housing Group committee structure



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.

Report of the Remuneration and Nominations Committee

Membership of the Committee – Sue Killen (Chair), Neil Goulden, Brian Stewart OBE, Helen Bailey (resigned 2 March 2019).

The Group has a combined Remuneration and Nominations Committee. The 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 attract and retain the right staff with our social purpose.

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

The Board undertook an external review of effectiveness this year conducted by Linstock. It aims to carry out such a review every three years. In other years the Board conducts its own assessment with the Chairman appraising all Board Members' performance.

The Committee approves the annual pay remit for staff and sanctions any bonus or merit 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. We publish details of the gender pay gap for the three employing entities in the group. This revealed a very small gap, 0.74%, between the pay of men and women, compared to other employers.

The Committee adopts the Group Code of Conduct.

Sue Killen
Chair of Remuneration and Nomination Committee

Report of the Audit and Risk Committee

Membership of the Committee

John Coghlan (Chairman), David Avery, Kirstin Baker, Tania Brisby and Aruna Mehta.

The Committee includes three Non-Executive Group Board Members and two independent Non-Executive members. We have met regularly during the year and our focus is to ensure there are sound and effective systems of internal control and risk management along with scrutinising the financial statements and proposing 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. The implementation of our new systems has remained a key area of focus with the first phase going live in April 2018. A number of initial teething issues did result in some operational disruption to the business, and the Committee is now focused on ensuring that the lessons learned are applied to Phase 2, which is due to go live in the later part of 2019. The Committee has also reviewed the business's preparation for Brexit including matters such as sales risk, materials and component supply issues and funding availability. In support of the accounts, the Committee has considered the accounting policies and the significant judgements and accounting estimates. It has also agreed to early adopt the revised Charities and LLP Statements of Recommended Practice (SORPs).

Internal audit

Clarion has its own internal audit and risk function, lead by the Director of Assurance. This is supplemented by the engagement of Ernst & Young as internal auditors to carry out specific internal audit reviews utilising their specialist surveying, IT and treasury skills. We believe this model gives us a suitably skilled and flexible resource for maximum coverage and benefit to the business.

The focus of the audit programme this year has been our new systems implementation in half of the organisation, where work has concentrated on IT, customer accounts, complaints and purchase ordering through to payment and gas compliance. In addition, work covering Clarion's key controls, sales compliance and fire compliance has been completed.

External audit

KPMG are the external auditor and meet with the Committee a number of times during the year.

The year ahead

The future prospects for Clarion Housing Group remain positive. We are determined to deliver the benefits of our merger to enhance our capacity and further our charitable mission. The policy environment is one of constant change, and the demand for our housing is unprecedented. We will therefore continue to maximise the delivery of our housing services and supply within our financial capacity and risk appetite. The Committee's role remains vital in overseeing the internal control and risk management environment, advising the Board and working closely with management to secure the best outcomes for those who benefit from our services.

John Coghlan
Chairman of Audit and Risk Committee

Board statement on the effectiveness of the system of internal control for the period ending 31 March 2019

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 in-house team, the Group uses the services of professional firms of auditors and other specialists as necessary. All audit reports are reviewed by the Audit and Risk Committee, which also receives updates on the implementation of agreed external and internal audit recommendations. Detailed reports on the Group's and subsidiaries' activities are also presented to senior managers so that recommendations for strengthened controls and improvement can be implemented promptly;
- A Group-wide Health and Safety function;
- Management structures providing balance and focus within the Group;
- A Group-wide risk management process, which enables management to manage risk so that residual risk, after appropriate mitigation, can be absorbed without serious permanent damage to the Group or its subsidiaries. This includes a formal risk management approach to new business and major development initiatives and action plans to mitigate the worst effects of the risks. Risk management is considered at each 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 2018/19 National Fraud Initiative, sponsored by the Cabinet Office;
- All housing investment decisions and major commitments were subject to appraisal and approval by the Investment Committee 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 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 2019 and up to the date of approval of the annual report and financial statements. The 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 2019 and up to the date of approval of the financial statements.

Statement of Board's responsibilities in respect of the Strategic Report, the Report of the Board and the financial statements

The Board is responsible for preparing the Strategic Report, the Report of the Board and the Group and Parent association 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 that law the Board has elected to prepare the financial statements in accordance with UK accounting standards, including FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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

In preparing each of the Group and the Parent association 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 have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and the Parent association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless it either intends to liquidate the Group or the Parent association or to cease operations, or has no realistic alternative but to do so.

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

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

Going Concern

After reviewing the Group's budget for 2019/20 and those of its subsidiaries, the Group's 30-year business plan, and based on normal strategic business planning and control procedures, the Board has a reasonable expectation that Clarion Housing Group Limited has adequate resources to continue in operational existence for at least twelve months from the date of approval of the financial statements.

Disclosure of Information to Auditor

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

Auditor

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

By order of the Board

Neil Goulden
Group Chairman

23 July 2019

Independent Auditor's Report to Clarion Housing Group Limited

Opinion
We have audited the financial statements of Clarion Housing Group Limited for the year ended 31 March 2019 which comprise the Group and Parent Association Statements of Comprehensive Income, the Group and Parent Association Statements of Financial Position, the Group and Parent Association Statements of Changes in Capital and Reserves, the Group Statement of Cash Flows, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:
- give a true and fair view, in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, of the state of affairs of the Group and the Parent Association as at 31 March 2019 and of the income and expenditure of the Group and the Parent Association for the year then ended; and
- comply with the requirements of the Co-operative and Community Benefit Societies Act 2014.

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

The impact of uncertainties due to the UK exiting the European Union on our audit
Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the Board, such as the useful economic lives of rental-only social housing properties, the valuation of residential investment properties, the fair value of derivative financial instruments, the valuation of defined benefit pension scheme obligations, the valuation of stock, the realisable amount of tenant arrears, the realisable value of the loan to Linden/Downland Graylingwell LLP, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the Group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a Group and this is particularly the case in relation to Brexit.

Going concern
The Board has prepared the financial statements on the going concern basis as it does not intend to liquidate the Group or the Parent Association or to cease its operations, and as it has concluded that the Group and the Parent Association's financial position means that this is realistic. It has also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Board's conclusions, we considered the inherent risks to the Group's business model, including the impact of Brexit, and analysed how those risks might affect the Group and Parent Association's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group or the Parent Association will continue in operation.

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

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

Matters on which we are required to report by exception
Under the Co-operative and Community Benefit Societies Act 2014 we are required to report to you if, in our opinion:
- the Association has not kept proper books of account; or
- the Association has not maintained a satisfactory system of control over its transactions; or
- the financial statements are not in agreement with the Association's books of account; or
- we have not received all the information and explanations we need for our audit.

We have nothing to report in these respects.

Board's responsibilities
As more fully explained in its statement set out on page 57, the Association's Board is responsible for the preparation of financial statements which give a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and the Parent Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to liquidate the Group or the Parent Association or to cease operations, or has no realistic alternative but to do so.

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

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

The purpose of our audit work and to whom we owe our responsibilities
This report is made solely to the Association in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014. 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 for our audit work, for this report or for the opinions we have formed.

Sean McCallion (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, London, E14 5GL

23 July 2019

Financial Statements
Group Statement of Comprehensive Income for the year ended 31 March 2019

	Notes	2019 £m	2018 £m
Turnover	4a	815.9	828.6
Cost of sales	4a	(85.3)	(73.4)
Operating costs	4a	(481.6)	(478.9)
Surplus on disposal of properties	4a	33.3	29.1
Operating surplus	4a	282.3	305.4
Deficit on disposal of other fixed assets	4a	(3.2)	(2.2)
Share of surplus/(deficit) of JCEAs	17	12.9	(0.6)
Gain on revaluation of investment properties	15	3.4	1.6
Interest receivable	7	4.2	3.0
Interest payable and financing costs	8	(141.0)	(147.2)
Movement in fair value of financial instruments	9	(5.1)	(2.5)
Surplus on ordinary activities before taxation	10	153.5	157.5
Tax charge on surplus on ordinary activities	11	-	(0.9)
Surplus for the year		153.5	156.6
Actuarial (losses)/gains on pension schemes	28	(4.5)	20.7
Movement in fair value of financial instruments	9	(6.8)	58.9
Gain/(loss) on transfer of SHPS	28	3.0	(26.6)
Tax charge on other comprehensive income	11	(0.1)	(0.1)
Total comprehensive income for the year		145.1	209.5

All operations are continuing.

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

Neil Goulden
Group Chairman

Mark Hattersley
Group Chief Financial Officer

Louise Hyde
Company Secretary

23 July 2019

Parent Statement of Comprehensive Income for the year ended 31 March 2019

	Notes	2019 £m	2018 £m
Turnover	4a	86.7	113.9
Cost of sales	4a	(11.6)	(11.6)
Operating costs	4a	(74.2)	(99.9)
Operating surplus	4a	0.9	2.4
Deficit on disposal of other fixed assets		-	(1.6)
Interest receivable	7	12.8	3.3
Interest payable and financing costs	8	(13.9)	(5.0)
Deficit on ordinary activities before taxation and Gift Aid	10	(0.2)	(0.9)
Gift Aid payment to subsidiary		-	(0.4)
Deficit on ordinary activities before taxation		(0.2)	(1.3)
Tax credit on deficit on ordinary activities	11	0.1	-
Deficit for the year		(0.1)	(1.3)

All operations are continuing.

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

Neil Goulden
Group Chairman

Mark Hattersley
Group Chief Financial Officer

Louise Hyde
Company Secretary

23 July 2019

Clarion Housing Group
Annual Report and Accounts 2018/19

Financial statements
Group Statement of Financial Position as at 31 March 2019

	Notes	2019 £m	2018 £m
Fixed assets			
Goodwill	12	(0.5)	4.5
Other intangible assets	13	70.5	55.1
Social housing properties	14	7,126.6	6,786.7
Investment properties	15	233.9	231.6
Non-housing fixed assets	16	48.1	51.1
Interests in JCEAs	17	106.6	85.4
Other fixed asset investments	18	13.0	13.8
		7,598.2	7,228.2
Current assets			
Stock	19	386.3	264.0
Debtors: amounts falling due within one year	20	89.0	83.9
Debtors: amounts falling due after more than one year	20	118.3	125.1
Current asset investments	21	116.3	112.5
Cash and cash equivalents		181.1	182.9
		891.0	768.4
Current liabilities			
Creditors: amounts falling due within one year	22	(424.1)	(293.4)
Net current assets		466.9	475.0
Total assets less current liabilities		8,065.1	7,703.2
Creditors: amounts falling due after more than one year	23	(6,323.2)	(6,102.2)
Provisions for liabilities and charges	27	(77.7)	(81.9)
Total net assets		1,664.2	1,519.1
Capital and reserves			
Non-equity share capital	32	-	-
Cash flow hedge reserve		(343.3)	(336.5)
Income and expenditure reserve		2,007.5	1,855.6
Total capital and reserves		1,664.2	1,519.1

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

Neil Goulden
Group Chairman

Mark Hattersley
Group Chief Financial Officer

Louise Hyde
Company Secretary

23 July 2019

Parent Statement of Financial Position as at 31 March 2019

	Notes	2019 £m	2018 £m
Fixed assets			
Other intangible assets	13	69.9	54.2
Non-housing fixed assets	16	22.5	20.3
Other fixed asset investments	18	2.0	1.3
		94.4	75.8
Current assets			
Debtors: amounts falling due within one year	20	56.1	66.8
Debtors: amounts falling due after more than one year	20	318.2	35.7
Cash and cash equivalents		173.3	120.0
		547.6	222.5
Current liabilities			
Creditors: amounts falling due within one year	22	(255.8)	(132.6)
Net current assets		291.8	89.9
Total assets less current liabilities		386.2	165.7
Creditors: amounts falling due after more than one year	23	(395.1)	(174.6)
Provisions for liabilities and charges	27	(0.9)	(0.8)
Total net liabilities		(9.8)	(9.7)
Capital and reserves			
Non-equity share capital	32	-	-
Income and expenditure reserve		(9.8)	(9.7)
Total capital and reserves		(9.8)	(9.7)

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

Neil Goulden
Group Chairman

Mark Hattersley
Group Chief Financial Officer

Louise Hyde
Company Secretary

23 July 2019

Financial statements

Statements of Changes in Capital and Reserves for the year ended 31 March 2019

Group

	Share capital £m	Cash flow hedge reserve £m	Income and expenditure reserve £m	Total capital and reserves £m
At 31 March 2017	-	(395.4)	1,705.0	1,309.6
Surplus for the year ending 31 March 2018	-	-	156.6	156.6
Other comprehensive income for the year	-	58.9	(6.0)	52.9
At 31 March 2018	-	(336.5)	1,855.6	1,519.1
Surplus for the year ending 31 March 2019	-	-	153.5	153.5
Other comprehensive income for the year	-	(6.8)	(1.6)	(8.4)
At 31 March 2019	-	(343.3)	2,007.5	1,664.2

Parent

	Share capital £m	Income and expenditure reserve £m	Total capital and reserves £m
At 31 March 2017	-	(8.5)	(8.5)
Deficit for the year ending 31 March 2018	-	(1.3)	(1.3)
Distribution-in-kind from Group undertaking	-	0.1	0.1
At 31 March 2018	-	(9.7)	(9.7)
Deficit for the year ending 31 March 2019	-	(0.1)	(0.1)
At 31 March 2019	-	(9.8)	(9.8)

Group Statement of Cash Flows for the year ended 31 March 2019

	2019 £m	£m	2018 £m	£m
Surplus for the year		153.5		156.6
Adjustment for working capital movements				
Increase in stock	(131.5)		(63.3)	
Increase in operating debtors	(7.5)		(3.6)	
Increase in operating creditors	6.2		10.5	
Pension contributions in excess of expense	(4.8)		(10.2)	
	(137.6)		(66.6)	
Adjustment for non-cash items				
Amortisation of government grants	(23.5)		(23.8)	
Deferred tax charge/(credit)	0.1		(0.1)	
Amortisation of intangible assets	9.4		4.7	
Depreciation charge	103.1		100.0	
Impairment charge	11.6		0.7	
Gain on revaluation of investment properties	(3.4)		(1.6)	
Other non-cash decrease in provisions	(2.7)		(5.4)	
	94.6		74.5	
Adjustment for financing or investment activities				
Surplus on disposal of properties	(33.3)		(29.1)	
(Surplus)/deficit on disposal of other fixed assets	(0.4)		2.2	
Share of (surplus)/deficit of JCEAs	(12.9)		0.6	
Net financing costs	141.9		146.7	
	95.3		120.4	
Net cash from operating activities		205.8		284.9
Cash flows from investing activities				
Proceeds from disposal of properties	81.5		56.0	
Proceeds from disposal of other fixed assets	0.4		1.0	
Interest received	4.2		3.0	
Purchase of subsidiary (net of cash acquired)	-		(24.3)	
Acquisition of intangible assets	(24.1)		(25.6)	
Acquisition of social housing properties	(451.7)		(392.9)	
Acquisition of non-housing fixed assets	(8.9)		(11.2)	
(Investment in)/repayment of investment by JCEAs	(10.0)		4.2	
Distributions from JCEAs	1.7		1.8	
Proceeds from disposal of other fixed asset investments	0.8		0.7	
Increase in current asset investments	(3.8)		(1.3)	
Social housing property grants received	28.5		9.5	
Net cash from investing activities		(381.4)		(379.1)
Cash flows from financing activities				
Interest paid	(159.9)		(149.5)	
Net borrowing of loans and bonds	338.5		259.4	
Capital transaction costs paid	(4.5)		(1.3)	
Payment of finance lease capital	(0.3)		-	
Net cash from financing activities		173.8		108.6
Net (decrease)/increase in cash and cash equivalents		(1.8)		14.4
Cash and cash equivalents at 1 April		182.9		168.5
Cash and cash equivalents at 31 March		181.1		182.9

See note 24 for the reconciliation of net debt.

1. Accounting policies

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

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

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

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

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

The Group, through its subsidiaries, has provided confirmation of support to Affinity Sutton Investments Limited ("ASIL"), Clarion Response Limited, Downland Regeneration Limited, Grange Management (Southern) Limited, Latimer Cocoa Works LLP, Latimer Developments Limited, Latimer Green Lanes Limited and Leamington Waterfront LLP, and some of its joint ventures. This confirmation of support is for at least twelve months after their financial statements for the year ended 31 March 2019 are signed, or until the company is struck off if earlier in the case of ASIL.

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

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

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

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

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

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

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

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

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

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

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

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

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

Other intangible assets:

ERP system	10 years
Other computer software	4 years

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

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

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

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

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

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

Non-housing fixed assets:

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

1. Accounting policies continued

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

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

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

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

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

Impairment relating to stock is included in cost of sales; impairment relating to JCEAs is included in share of surplus/deficit of JCEAs; and impairment relating to other assets is included in operating costs.

Interest receivable, interest payable and financing costs
Interest receivable is only recognised to the extent that it is probable that it will be recoverable when due.

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

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

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

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

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

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

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

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

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

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

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

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

d. Housing properties developed for sale to another Registered Provider are shown as *social stock*.

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

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

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

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

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

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

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

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

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

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

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1. Accounting policies continued

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 then it lent, the difference is offset against the amount of grant transferred, so that the Group does not incur a loss.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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.

1. Accounting policies continued

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

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

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

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

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

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

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

2. Significant judgements and accounting estimates - Group

Significant judgements
With the exception of those relating to accounting estimates and uncertainty, no significant judgements have been made in applying the Group's accounting policies.

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

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

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

Using these UELs, the accumulated depreciation at the reporting date was £960.6 million. Were each of the UELs shorter by one year, this figure would be approximately £992.1 million, reducing the NBV of social housing properties by £31.5 million.

Conversely, included in liabilities is £2,112.5 million of social housing property grants. As their amortisation rate is matched to the UEL of the structure component, a reduction of one year would have reduced the liability by £3.3 million, leading to a net reduction in assets of £28.2 million (1.7% of net assets).

2 The valuation of residential investment properties.

At the reporting date, the Group holds £172.4 million of residential investment properties, of which £149.9 million relates to market rent properties valued by Savills plc.

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

- Vacant possession values: a 10% fall in these would reduce the value of these properties by £11.5 million.
- Market rents: a 10% fall in these would reduce the value of these properties by £9.2 million.
- Discount rates: the rate used ranged between 7% and 7.25%. Increasing this range by 0.5% would reduce the value of these properties by £2.9 million.

3 The fair value of derivative financial instruments.

At the reporting date, the Group has a £328.3 million net liability in respect of interest rate swaps. These have been valued using discounted cash flow models, for which the main assumption is the interest rate yield curve used.

The curve used has been based on the government yield curve at the reporting date, plus an appropriate credit spread, giving a range of 2.09% to 6.13%. Decreasing this curve by 100 basis points would increase the net liability by £128.2 million (7.7% of net assets).

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

4 The valuation of defined benefit pension scheme obligations.

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

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

- Decreasing the discount rate by 0.1% would increase the obligation by £8.4 million;
- Increasing the pension increase assumption by 0.1% would increase the obligation by £8.2 million; and
- Increasing the assumed life expectancy by 1 year would increase the obligation by £13.6 million.

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

5 The valuation of stock

At the reporting date, the Group holds £141.5 million of social stock. Based on the sales margins in the year, this would generate £195.2 million of sales. Therefore, it is estimated that for this stock to be materially impaired, sales values would need to drop by around 35% in the following year.

At the reporting date, the Group holds £244.8 million of non-social stock. Based on forecast sales margins, it is estimated that for this stock to be materially impaired, sales values would need to drop by around 18% in the following year.

2. Significant judgements and accounting estimates - Group continued

Accounting estimates continued

6 The realisable amount of tenant arrears.

The arrears of current tenants are provided at between 35% and 56%, and former tenants at between 91% and 93%, with the exception of leaseholders where only specific provisions are made where required.

No provision is made against cash-in-transit (payments made but not yet received by the Group) or for Housing Benefit owed by Local Authorities.

A 10% movement in the overall provision rate would change the provision by £5.6 million.

7 The realisable value of the loan to Linden/Downland Graylingwell LLP ("Graylingwell").

At the reporting date, the net present value (''NPV'') of the loan to Graylingwell is £31.7 million. This is based on the cashflows in the March 2019 business plan, discounted by 6%.

- Changing the discount rate by 5% would change the NPV by around £4.3 million;
- Delaying each month's cashflows by 3 years would reduce the NBV by £5.1 million; and
- Changing the expected cash flows by 25% would change the NPV by £7.9 million.

3. Units under management - Group

	At 1 April 2018	Adjustment	Handed over	Net conversion from affordable	Other movements	At 31 March 2019
Social housing						
Social rent	77,141	334	40	38	(351)	77,202
Affordable rent	11,895	(272)	599	(38)	1	12,185
General needs	89,036	62	639	-	(350)	89,387
Supported	1,634	(288)	-	-	(71)	1,275
Housing for Older People	7,349	37	-	-	(40)	7,346
Shared ownership	7,520	23	524	-	(192)	7,875
Intermediate rent	779	-	-	-	(42)	737
Keyworker	750	(1)	-	-	-	749
Social leaseholders	9,809	(50)	-	-	110	9,869
Staff accommodation	143	(3)	-	-	-	140
Social homes under management	**117,020**	**(220)**	**1,163**	**-**	**(585)**	**117,378**
Non-social housing						
Market rent	844	37	-	-	62	943
Non-social leaseholders	5,924	(35)	-	-	123	6,012
Homes under management	**123,788**	**(218)**	**1,163**	**-**	**(400)**	**124,333**
Non-housing						
Garages and car parking spaces	10,715	153	-	-	(151)	10,717
Commercial leaseholders	297	19	-	-	26	342
Community centres	74	(9)	-	-	-	65
Units under management	**134,874**	**(55)**	**1,163**	**-**	**(525)**	**135,457**
Units owned but not managed	**2,090**	**(326)**	**-**	**-**	**(216)**	**1,548**

Other movements primarily relate to disposals, including 265 social rent and 41 Housing for Older People units which were transferred to another housing association in March 2019.

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

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

Group

	Turnover £m	Cost of sales £m	Operating costs £m	Surplus/(deficit) on disposal £m	2019 Operating surplus/(deficit) £m	Turnover £m	2018 Operating surplus/(deficit) £m
Social housing activities							
Social housing lettings (note 4b)	671.3	-	(425.8)	-	245.5	681.7	246.7
Shared ownership first tranche sales	57.1	(41.4)	-	-	15.7	54.9	16.5
Other social housing activities							
Care and support services	16.1	-	(17.4)	-	(1.3)	17.3	1.6
Development for other landlords	5.7	(5.7)	-	-	-	7.0	-
Development costs not capitalised	-	-	(13.0)	-	(13.0)	-	(6.3)
Community investment	2.3	-	(12.4)	-	(10.1)	1.0	(9.8)
Other	3.6	-	(2.7)	-	0.9	4.5	0.5
Total	27.7	(5.7)	(45.5)	-	(23.5)	29.8	(14.0)
Surplus on disposal of social housing properties	-	-	-	33.3	33.3	-	29.2
Total social housing activities	756.1	(47.1)	(471.3)	33.3	271.0	766.4	278.4
Non-social housing activities							
Open market sales	37.1	(38.2)	(2.3)	-	(3.4)	42.3	12.5
Other non-social housing activities							
Market rent lettings	9.8	-	(2.5)	-	7.3	9.7	7.3
Garage lettings	3.2	-	(1.7)	-	1.5	2.9	1.7
Commercial lettings	3.2	-	(1.7)	-	1.5	3.4	2.4
Other	6.5	-	(2.1)	-	4.4	3.9	3.2
Total	22.7	-	(8.0)	-	14.7	19.9	14.6
Deficit on disposal of investment properties	-	-	-	-	-	-	(0.1)
Total non-social housing activities	59.8	(38.2)	(10.3)	-	11.3	62.2	27.0
Total social and non-social housing	815.9	(85.3)	(481.6)	33.3	282.3	828.6	305.4
Analysis of disposals							
Social housing properties	*81.1*	*(47.6)*	*(0.2)*	33.3	33.3	*60.8*	29.2
Investment properties	-	-	-	-	-	-	(0.1)
Other fixed assets	*0.5*	*(3.7)*	-	(3.2)	(3.2)	*0.3*	(2.2)

Parent

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

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

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

Group

	General needs housing £m	Supported housing/ housing for older people £m	Shared ownership accommodation £m	Other £m	Total 2019 £m	Total 2018 £m
Income						
Rent receivable net of identifiable service charges	517.8	43.4	28.2	12.2	601.6	605.8
Service charge income	16.6	12.9	6.8	9.2	45.5	51.5
Amortisation of government grants	20.0	1.7	1.3	0.5	23.5	23.8
Other revenue grants/income	0.5	0.1	0.1	-	0.7	0.6
Turnover from social housing lettings	554.9	58.1	36.4	21.9	671.3	681.7
Expenditure						
Management	(59.8)	(13.8)	(1.4)	(3.6)	(78.6)	(81.7)
Service charge costs	(20.3)	(15.8)	(8.2)	(11.2)	(55.5)	(57.7)
Routine maintenance	(110.4)	(9.2)	(0.3)	(2.8)	(122.7)	(121.8)
Planned maintenance	(48.3)	(1.4)	(0.3)	(0.2)	(50.2)	(47.9)
Major works expensed	(13.8)	(0.8)	(0.1)	(0.1)	(14.8)	(24.9)
Bad debts	(8.7)	(0.5)	(0.4)	0.9	(8.7)	(5.2)
Depreciation of housing properties	(87.6)	(6.1)	-	(1.2)	(94.9)	(93.2)
Impairment of housing properties	-	-	-	-	-	(0.7)
Other costs	(0.1)	-	-	(0.3)	(0.4)	(1.9)
Operating costs on social housing lettings	(349.0)	(47.6)	(10.7)	(18.5)	(425.8)	(435.0)
Operating surplus on social housing lettings	205.9	10.5	25.7	3.4	245.5	246.7
Void losses	5.7	2.7	0.2	1.5	10.1	9.8

Other includes intermediate rent, keyworker, and social leaseholders.

£0.1 million (2018: £nil) 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 Group Executive Team, was as follows:

	Group 2019 Number	Group 2018 Number	Parent 2019 Number	Parent 2018 Number
FTEs	**3,662**	3,527	**-**	742

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

	Group 2019 £m	Group 2018 £m	Parent 2019 £m	Parent 2018 £m
Staff costs				
Wages and salaries	**139.2**	128.0	**-**	28.1
Compensation for loss of office	**1.3**	1.7	**-**	0.3
Social security costs	**14.0**	12.8	**-**	3.0
Pension costs	**8.4**	9.4	**-**	1.6
	162.9	151.9	**-**	33.0

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

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

	Group 2019 Number	Group 2018 Number
£60,000 to £69,999	**91**	57
£70,000 to £79,999	**40**	42
£80,000 to £89,999	**57**	48
£90,000 to £99,999	**23**	16
£100,000 to £109,999	**14**	5
£110,000 to £119,999	**10**	3
£120,000 to £129,999	**8**	8
£130,000 to £139,999	**4**	4
£140,000 to £149,999	**2**	5
£150,000 to £159,999	**3**	1
£160,000 to £169,999	**1**	-
£170,000 to £179,999	**-**	1
£190,000 to £199,999	**1**	2
£200,000 to £209,999	**1**	1
£220,000 to £229,999	**1**	1
£250,000 to £259,999	**-**	1
£260,000 to £269,999	**1**	1
£290,000 to £299,999	**1**	-
£340,000 to £349,999	**1**	-
£390,000 to £399,999	**-**	1
Total	**259**	197

6. Key management personnel

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

	2019 £'000	2018 £'000
Non-Executive Directors	273	313
Executive Directors		
Salary and other benefits	1,741	1,819
Compensation for loss of office	297	229
Pension contributions, or pay in lieu thereof, in respect of services as directors	76	160
	2,114	2,208
	2,387	2,521

	2019 £	2018 £
The remuneration of current Non-Executive Directors is as follows:		
Neil Goulden	45,000	45,000
Sue Killen	34,000	34,000
David Avery	34,000	33,457
Tania Brisby	23,000	23,000
John Coghlan	22,500	16,558
David Orr CBE	7,500	-
Greg Reed	18,000	13,246
Rupert Sebag-Montefiore	45,000	33,115
Brian Stewart OBE	23,000	23,000

	2019 £	2018 £
Remuneration of highest paid Director (excluding pension contributions, or pay in lieu thereof but including benefits in kind)	343,885	397,576
Pension contributions, or pay in lieu thereof, in respect of the highest paid Director	9,180	16,908

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

7. Interest receivable

	Group 2019 £m	Group 2018 £m	Parent 2019 £m	Parent 2018 £m
Interest receivable on bank deposits	1.8	1.1	0.7	0.3
Interest receivable from Group undertakings	-	-	12.1	3.0
Interest receivable from JCEAs	2.4	1.9	-	-
Other interest receivable	-	-	-	-
	4.2	3.0	12.8	3.3

8. Interest payable and financing costs

	Group 2019 £m	Group 2018 £m	Parent 2019 £m	Parent 2018 £m
Interest payable on loans	35.8	35.6	-	-
Interest payable on bonds and similar instruments	82.5	73.2	-	-
Interest payable on derivatives	38.8	44.2	-	-
Interest payable on finance leases	0.5	0.5	-	-
Interest payable to Group undertakings	-	-	13.6	4.7
Interest payable relating to pensions (see note 28)	1.7	2.1	-	-
Other interest payable	0.1	-	-	-
Loan breakage costs	-	-	-	-
Other charges	3.3	3.3	0.3	0.3
	162.7	158.9	13.9	5.0
Interest payable capitalised	(21.7)	(11.7)	-	-
	141.0	147.2	13.9	5.0

The Group's weighted average interest rate for general borrowings was 4.22% (2018: 3.84%).

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9. Movement in fair value of financial instruments - Group

	2019 £m	2018 £m
Included in income and expenditure		
Fair value gains on		
Borrowings treated as fair value hedging item	-	2.3
Derivatives treated as fair value hedging instruments	2.3	-
Derivatives treated as cash flow hedging instruments - ineffective	-	0.3
	2.3	2.6
Fair value losses on		
Borrowings treated as fair value hedging item	(4.2)	-
Derivatives treated as fair value hedging instruments	-	(3.3)
Derivatives treated as cash flow hedging instruments - due to changes in credit risk	(2.4)	-
Derivatives not in hedging relationships	(0.1)	(1.1)
Amortisation of cash flow hedge reserve relating to a prematured derivative	(0.7)	(0.7)
	(7.4)	(5.1)
	(5.1)	(2.5)

	2019 £m	2018 £m
Included in other comprehensive income		
Fair value gains on		
Derivatives treated as cash flow hedging instruments - effective	-	58.2
Amortisation of cash flow hedge reserve relating to a prematured derivative	0.7	0.7
	0.7	58.9
Fair value losses on		
Derivatives treated as cash flow hedging instruments - effective	(7.5)	-
	(6.8)	58.9

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

10. Surplus/deficit on ordinary activities before taxation

	Group 2019 £m	Group 2018 £m	Parent 2019 £m	Parent 2018 £m
Surplus/deficit on ordinary activities before taxation is stated after charging:				
Amortisation				
Goodwill	1.3	1.4	-	-
Other intangible assets	8.1	3.3	7.6	2.9
	9.4	4.7	7.6	2.9
Depreciation				
Social housing properties	95.0	93.2	-	-
Non-housing fixed assets	8.1	6.8	6.4	5.2
	103.1	100.0	6.4	5.2
Impairment				
Goodwill	3.7	-	-	-
Social housing properties	-	0.7	-	-
Non- housing fixed assets	3.6	-	-	-
Stock	4.3	-	-	-
	11.6	0.7	-	-
Operating lease rentals	9.5	7.2	6.7	5.5

	2019 £m	2018 £m	2019 £m	2018 £m
Auditor's remuneration (exclusive of VAT)				
- for statutory audit services	0.4	0.4	0.2	0.1
- for other services	0.1	0.1	-	-
	0.5	0.5	0.2	0.1

11. Taxation

	Group 2019 £m	2018 £m	Parent 2019 £m	2018 £m
Analysis of charge/(credit) in period				
Current tax				
Current tax on income for the period	0.3	1.0	-	-
Adjustment in respect of prior periods	-	-	(0.1)	-
	0.3	1.0	(0.1)	-
Deferred tax				
Origination and reversal of timing differences	(0.2)	-	-	-
	0.1	1.0	(0.1)	-
Recognised in income and expenditure	-	0.9	(0.1)	-
Recognised in other comprehensive income	0.1	0.1	-	-
	0.1	1.0	(0.1)	-

The tax charge for the Group for the period is less than 19% (2018: less than 19%), the rate of corporation tax in the UK. The tax credit for the Parent for the period is greater than 19% (2018: less than 19%), the rate of corporation tax in the UK. The differences are explained below:

	Group 2019 £m	2018 £m	Parent 2019 £m	2018 £m
Reconciliation of tax recognised in income and expenditure				
Surplus/(deficit) on ordinary activities before taxation	153.5	157.5	(0.2)	(1.3)
Tax charge/(credit) at 19% (2018: 19%)	29.2	29.9	-	(0.2)
Effects of				
Charitable surpluses not taxed	(29.2)	(29.0)	-	0.2
Adjustment in respect of prior periods	-	-	(0.1)	-
	-	0.9	(0.1)	-

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

	Group 2019 £m	2018 £m	Parent 2019 £m	2018 £m
Deferred tax				
Deferred tax assets				
Employee benefits (including pensions)	0.2	0.3	-	-
Other	0.1	0.1	-	-
	0.3	0.4	-	-
Deferred tax liabilities				
Unrealised gains on revaluation of investment properties	(1.1)	(1.0)	-	-
	(0.8)	(0.6)	-	-

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 and Your Lifespace Limited, as these subsidiaries do not have charitable status and so the disposal of these properties will give rise to a tax charge based on the historic cost. The amount of deferred tax which will reverse in the following year depends on the future movement in the valuation and the properties disposed, neither for which a reliable estimate can be made.

12. Goodwill - Group

	£m
At 1 April 2018	4.5
Amortisation	(1.3)
Impairment	(3.7)
At 31 March 2019	(0.5)

Goodwill relates to the acquisitions of Leamington Waterfront LLP ("Leamington") and Latimer Green Lanes Limited ("LGL"), and is being amortised over the life of the development schemes as properties are sold. During the year, the remaining goodwill relating to Leamington was impaired, leaving £0.5 million of negative goodwill relating to LGL.

13. Other intangible assets

Group

	Enterprise resource planning system £m	Other computer software £m	**Total £m**
Cost			
At 1 April 2018	47.9	20.6	**68.5**
Additions	20.4	3.1	**23.5**
At 31 March 2019	**68.3**	**23.7**	**92.0**
Amortisation			
At 1 April 2018	-	(13.4)	**(13.4)**
Amortisation charge for the year	(5.6)	(2.5)	**(8.1)**
At 31 March 2019	**(5.6)**	**(15.9)**	**(21.5)**
Net book value			
At 31 March 2019	**62.7**	**7.8**	**70.5**
Net book value			
At 31 March 2018	47.9	7.2	55.1

Parent

	Enterprise resource planning system £m	Other computer software £m	**Total £m**
Cost			
At 1 April 2018	47.9	15.1	**63.0**
Additions	20.4	2.9	**23.3**
At 31 March 2019	**68.3**	**18.0**	**86.3**
Amortisation			
At 1 April 2018	-	(8.8)	**(8.8)**
Amortisation charge for the year	(5.6)	(2.0)	**(7.6)**
At 31 March 2019	**(5.6)**	**(10.8)**	**(16.4)**
Net book value			
At 31 March 2019	**62.7**	**7.2**	**69.9**
Net book value			
At 31 March 2018	47.9	6.3	54.2

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 2018	6,712.5	658.8	200.8	107.0	**7,679.1**
Construction/redevelopment of properties	-	-	167.9	163.4	**331.3**
Major repairs to completed properties	124.3	-	-	-	**124.3**
Other additions	12.0	-	-	-	**12.0**
Completed construction	126.1	61.6	(126.1)	(61.6)	**-**
Reclassification between tenures	-	-	(37.2)	37.2	**-**
Transfer from investment properties	1.1	-	-	-	**1.1**
Transfer from stock	-	13.5	-	-	**13.5**
Components replaced	(8.6)	-	-	-	**(8.6)**
Other disposals/write-offs	(20.0)	(19.6)	(7.1)	(5.6)	**(52.3)**
At 31 March 2019	**6,947.4**	**714.3**	**198.3**	**240.4**	**8,100.4**
Depreciation and impairment					
At 1 April 2018	(879.2)	(13.2)	-	-	**(892.4)**
Depreciation charge for the year	(95.0)	-	-	-	**(95.0)**
Eliminated on components replaced	8.6	-	-	-	**8.6**
Eliminated on other disposals/write-offs	5.0	-	-	-	**5.0**
At 31 March 2019	**(960.6)**	**(13.2)**	**-**	**-**	**(973.8)**
Net book value					
At 31 March 2019	**5,986.8**	**701.1**	**198.3**	**240.4**	**7,126.6**
Net book value					
At 31 March 2018	5,833.3	645.6	200.8	107.0	6,786.7

Completed properties with a combined net book value of £4,219.9 million (2018: £3,900.3 million) are held as security against debt and derivatives (see notes 24 and 26), £14.2 million (2018: £12.9 million) of which relates to assets held under finance leases.

15. Investment properties - Group

	Residential properties £m	Non-residential properties £m	Freeholds £m	**Total £m**
At 1 April 2018	170.5	56.3	4.8	**231.6**
Transfer to social housing properties	(1.1)	-	-	**(1.1)**
Revaluation	3.0	0.6	(0.2)	**3.4**
At 31 March 2019	**172.4**	**56.9**	**4.6**	**233.9**

All residential properties, the majority of the non-residential properties, and all freeholds were valued as at 31 March 2019 by either Jones Lang LaSalle or Savills, Chartered Surveyors. These valuations were prepared in accordance with the current RICS Valuation – Global Standards 2017, effective from July 2017, and the RICS Valuation – Global Standards 2017 – UK National Supplement, effective from January 2019 (together, the "RICS Red Book").

The value of the remaining commercial properties has been estimated internally, using Jones Lang LaSalle's valuation results as a guide, as £2.2 million (2018: £2.2 million).

Investment properties with a combined fair value of £147.2 million (2018: £145.4 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 2018	42.1	22.1	21.2	**85.4**
Additions	-	5.3	3.4	**8.7**
Disposals	-	(2.2)	(0.5)	**(2.7)**
At 31 March 2019	**42.1**	**25.2**	**24.1**	**91.4**
Depreciation and impairment				
At 1 April 2018	(12.0)	(9.6)	(12.7)	**(34.3)**
Depreciation charge for the year	(1.2)	(3.5)	(3.4)	**(8.1)**
Impairment charge for the year	(3.6)	-	-	**(3.6)**
Eliminated on disposals	-	2.2	0.5	**2.7**
At 31 March 2019	**(16.8)**	**(10.9)**	**(15.6)**	**(43.3)**
Net book value				
At 31 March 2019	**25.3**	**14.3**	**8.5**	**48.1**
Net book value				
At 31 March 2018	30.1	12.5	8.5	51.1

Parent

	Freehold and leasehold offices £m	Office furniture, fixtures and fittings £m	Computer hardware £m	**Total £m**
Cost				
At 1 April 2018	2.6	14.0	18.2	**34.8**
Additions	-	5.2	3.4	**8.6**
At 31 March 2019	**2.6**	**19.2**	**21.6**	**43.4**
Depreciation				
At 1 April 2018	(1.4)	(3.0)	(10.1)	**(14.5)**
Depreciation charge for the year	(0.2)	(2.9)	(3.3)	**(6.4)**
At 31 March 2019	**(1.6)**	**(5.9)**	**(13.4)**	**(20.9)**
Net book value				
At 31 March 2019	**1.0**	**13.3**	**8.2**	**22.5**
Net book value				
At 31 March 2018	1.2	11.0	8.1	20.3

17. Interests in JCEs and associates - Group

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

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

	2019 £m	2018 £m
Turnover	18.8	21.1
Cost of sales	(19.1)	(21.0)
Operating (deficit)/surplus	(0.3)	0.1
Interest payable	(1.3)	(0.7)
Reversal of impairment	14.5	-
Surplus/(deficit) for the year	12.9	(0.6)
Assets	152.1	128.5
Liabilities	(166.0)	(133.8)
Net liabilities	(13.9)	(5.3)
Investment in JCEs and associates	120.5	90.7
Interest in JCEs and associates	106.6	85.4

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

Included in 'Investment in JCEs and associates' are loans from the Group totalling £119.6 million (2018: £89.9 million).

These loans include £31.7 million (2018: £33.9 million) for amounts lent to Linden/Downland Graylingwell LLP ("Graylingwell"), on which interest is currently charged at LIBOR plus 3.5%. Historically, in addition to the impairment losses arising on the loan, the loan amount has also been reduced by the equity accounted losses of £14.5m arising on Graylingwell. Given that the loan impairment had already been recognised by the Group, the equity accounted losses have been reversed in the current year. This reversal has resulted in a £14.5m credit to income.

Development agreements for the construction of residential property are in place between the Group and some of its JCEs and associates. The amount of construction works provided in the year was £5.7 million (2018: £3.2 million) and £nil is included in creditors at the reporting date (2018: £0.1 million).

During the year, the Group received profit distributions of £1.7 million from its JCEs and associates (2018: £1.8 million).

18. Other fixed asset investments

Group

	2019 £m	2018 £m
Equity loans including HomeBuy	13.0	13.6
Other investments	-	0.2
	13.0	13.8

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

Parent

	2019 £m	2018 £m
Circle Anglia Social Housing PLC	0.1	0.1
Clarion Housing Association Limited	0.8	0.8
Igloo Insurance PCC Limited (Cell ASG2)	1.1	0.4
	2.0	1.3

19. Stock - Group

	Under construction		Completed properties		
	Social £m	Non-social £m	Social £m	Non-social £m	Total £m
At 1 April 2018	53.3	164.0	15.0	31.7	264.0
Additions	106.4	102.8	-	-	209.2
Impairment reversal/(charge)	0.4	(2.5)	-	(2.2)	(4.3)
Properties completed	(42.2)	(31.1)	42.2	31.1	-
Reclassification between tenures	-	-	18.0	(18.0)	-
Transfer to social housing properties	-	-	(13.5)	-	(13.5)
Properties sold	-	-	(38.1)	(31.0)	(69.1)
At 31 March 2019	117.9	233.2	23.6	11.6	386.3

20. Debtors

	Group 2019 £m	2018 £m	Parent 2019 £m	2018 £m
Amounts falling due within one year				
Rents and service charges debtors	70.8	60.9	-	-
Impairment	(33.3)	(24.2)	-	-
	37.5	36.7	-	-
Amounts due from Group undertakings: loans and cash pooling	-	-	4.8	51.7
Local authority housing transfers	10.8	14.2	-	-
Prepayments and accrued income	26.3	21.8	7.0	8.2
Amounts due from Group undertakings: trading	-	-	43.0	6.5
Other debtors	14.4	11.2	1.3	0.4
	89.0	83.9	56.1	66.8
Amounts falling due after one year				
Amounts due from Group undertakings: loans	-	-	318.1	35.6
Local authority housing transfers	108.6	116.1	-	-
Derivative financial assets (see note 26)	9.1	7.3	-	-
Deferred tax assets (see note 11)	0.3	0.4	-	-
Other debtors	0.3	1.3	0.1	0.1
	118.3	125.1	318.2	35.7

21. Current asset investments - Group

	2019 £m	2018 £m
Collateral deposits	111.8	111.2
Cash held on deposit	4.5	1.3
	116.3	112.5

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, £4.5 million (2018: £1.3 million) is invested in various Certificates of Deposit, which mature over the course of the following year.

22. Creditors: amounts falling due within one year

	Group 2019 £m	2018 £m	Parent 2019 £m	2018 £m
Debt (see note 24)				
Bank loans and bonds	184.2	68.5	-	-
Obligations under finance leases	0.1	0.1	-	-
Amounts due to Group undertakings: loans and cash pooling	-	-	224.9	107.7
	184.3	68.6	224.9	107.7
Capital grants (see note 25)				
Social housing property grants	22.9	23.1	-	-
Recycled Capital Grant Fund	9.8	7.8	-	-
Disposal Proceeds Fund	3.8	2.2	-	-
	36.5	33.1	-	-
Other creditors				
Trade creditors	15.3	11.9	2.0	2.0
Local authority housing transfers	10.8	14.2	-	-
Derivative financial liabilities (see note 26)	1.1	-	-	-
Rents and service charges received in advance	27.1	24.0	-	-
Other accruals and deferred income	128.1	122.3	14.7	16.3
Corporation tax	-	1.1	-	-
Other taxation and social security	0.6	0.6	2.2	0.2
Amounts due to Group undertakings: trading	-	-	5.4	1.7
Other creditors	20.3	17.6	6.6	4.7
	203.3	191.7	30.9	24.9
	424.1	293.4	255.8	132.6

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 2019 £m	Group 2018 £m	Parent 2019 £m	Parent 2018 £m
Debt (see note 24)				
Bank loans and bonds	3,745.5	3,528.2	-	-
Obligations under finance leases	6.2	6.5	-	-
Amounts due to Group undertakings: loans	-	-	395.1	174.6
	3,751.7	3,534.7	395.1	174.6
Capital grants (see note 25)				
Social housing property grants	2,089.6	2,084.3	-	-
HomeBuy grants	11.2	11.8	-	-
Recycled Capital Grant Fund	14.3	13.4	-	-
Disposal Proceeds Fund	-	3.1	-	-
	2,115.1	2,112.6	-	-
Other creditors				
Local authority housing transfers	108.6	116.1	-	-
Derivative financial liabilities (see note 26)	336.3	327.6	-	-
Other creditors	11.5	11.2	-	-
	456.4	454.9	-	-
	6,323.2	6,102.2	395.1	174.6

24. Debt analysis - Group

	2019 £m	2018 £m
Debt is repayable as follows		
Due within one year	184.3	68.6
Due between one and two years	200.1	173.2
Due between two and five years	224.5	372.7
Due after more than five years	3,327.1	2,988.8
	3,936.0	3,603.3

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

	2019 £m	2018 £m
Notional amounts drawn		
Clarion Treasury Limited		
- Loans	2,042.6	2,201.7
Circle Anglia Social Housing PLC		
- Bond issuance	635.0	635.0
Affinity Sutton Capital Markets PLC		
- Bond issuance	500.0	500.0
Clarion Funding PLC		
- Note issuance	500.0	-
Circle Anglia Social Housing 2 PLC		
- Private placement	150.0	150.0
Clarion Housing Association Limited		
- Bonds and loans	53.0	55.4
- Finance leases	5.9	5.9
	3,886.5	3,548.0
Accounting adjustments		
Fair value adjustment due to		
- Acquisitions of Mercian Housing Association Limited and Russet Homes Limited	15.3	16.4
- Hedging of private placement	14.8	10.6
Effective interest rate adjustment	19.4	28.3
	49.5	55.3
	3,936.0	3,603.3

The fair value adjustment relating to acquisitions is amortised over the life of the related loans and £1.1 million has been released in this period (2018: £2.3 million).

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24. Debt analysis - Group continued

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

	Within one year £m	Between one and two years £m	Between two and five years £m	After five years £m	Total £m
Maturity of notional amounts drawn					
Term	168.5	147.9	130.2	1,216.3	**1,662.9**
Revolver	10.3	46.7	77.5	245.2	**379.7**
Bond	0.9	1.0	3.4	1,665.3	**1,670.6**
Private placement	-	-	-	150.0	**150.0**
Finance lease	0.1	0.1	0.4	5.3	**5.9**
Other	1.7	1.8	6.0	7.9	**17.4**
At 31 March 2019	**181.5**	**197.5**	**217.5**	**3,290.0**	**3,886.5**
At 31 March 2018	66.8	170.3	366.6	2,944.3	3,548.0

	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 (notional amounts)					
Term	168.5	147.9	130.2	1,216.3	**1,662.9**
Revolver	10.5	46.9	478.5	418.6	**954.5**
Bond	0.9	1.0	3.4	1,665.3	**1,670.6**
Private placement	-	-	-	150.0	**150.0**
Finance lease	0.1	0.1	0.4	5.3	**5.9**
Other	1.7	1.8	6.0	7.9	**17.4**
At 31 March 2019	**181.7**	**197.7**	**618.5**	**3,463.4**	**4,461.3**
At 31 March 2018	78.7	182.0	742.4	3,012.1	4,015.2

	At 1 April 2018 £m	Cash flows £m	Changes in fair value £m	Other non-cash changes £m	At 31 March 2019 £m
Analysis of changes in net debt					
Cash and cash equivalents	182.9	(1.8)	-	-	**181.1**
Debt	(3,603.3)	(333.7)	(4.2)	5.2	**(3,936.0)**
Derivatives	(320.3)	-	(7.7)	(0.3)	**(328.3)**
Net debt	**(3,740.7)**	**(335.5)**	**(11.9)**	**4.9**	**(4,083.2)**

	Fixed rate £m	Floating rate £m	Total £m
Analysis of financial instruments by type of interest			
Term	1,414.5	248.4	**1,662.9**
Revolver	185.1	194.6	**379.7**
Bond	1,670.6	-	**1,670.6**
Private placement	-	150.0	**150.0**
Finance lease	5.9	-	**5.9**
Other	16.7	0.7	**17.4**
Borrowings at 31 March 2019	**3,292.8**	**593.7**	**3,886.5**
Cash and cash equivalents	(3.6)	(177.5)	**(181.1)**
Collateral and other deposits	(4.5)	(111.8)	**(116.3)**
Cash and deposits at 31 March 2019	**(8.1)**	**(289.3)**	**(297.4)**
Net borrowings at 31 March 2019	**3,284.7**	**304.4**	**3,589.1**
Net borrowings at 31 March 2018	2,773.8	478.8	3,252.6

The Group's debt has a weighted average maturity of 14 years (2018: 15 years) and a weighted average cost of 4.20% (2018: 4.23%). In order to minimise the Group's exposure to variable interest rate risk, 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 interest rates (2018: 85%).

25. Capital grants - Group

	HomeBuy grants £m	Social housing property grants £m
At 1 April 2018	11.8	2,107.4
New grant recognised	-	28.5
RCGF/DPF utilised	-	6.5
Amortisation	-	(23.5)
Recycled on disposals	(0.6)	(6.4)
At 31 March 2019	**11.2**	**2,112.5**
Amounts falling due within one year	-	22.9
Amounts falling due after more than one year	11.2	2,089.6
	11.2	**2,112.5**

	HE £m	GLA £m	Total £m
Recycled Capital Grant Fund			
At 1 April 2018	12.3	8.9	**21.2**
Additions to fund due to disposals	4.2	3.7	**7.9**
Utilised against new properties	(2.8)	(2.2)	**(5.0)**
At 31 March 2019	**13.7**	**10.4**	**24.1**
Amounts falling due within one year			9.8
Amounts falling due after more than one year			14.3
			24.1
Amounts three years old or older which may need to be repaid	3.0	-	**3.0**

	HE £m	GLA £m	Total £m
Disposal Proceeds Fund			
At 1 April 2018	3.6	1.7	**5.3**
Utilised against new properties	(1.4)	(0.1)	**(1.5)**
At 31 March 2019	**2.2**	**1.6**	**3.8**
Amounts falling due within one year			**3.8**
Amounts three years old or older which may need to be repaid	0.8	-	**0.8**

26. Financial instruments - Group

The following financial derivative contracts are in place:

	Active £m	Forward starting £m	2019 Total £m	Active £m	Forward starting £m	2018 Total £m
Notional						
Interest-rate swaps - option	-	-	-	160.0	-	160.0
Interest-rate swaps - pay fixed	1,354.0	100.0	1,454.0	1,355.1	100.0	1,455.1
Interest-rate swaps - receive fixed	100.0	-	100.0	100.0	-	100.0
	1,454.0	**100.0**	**1,554.0**	1,615.1	100.0	1,715.1
Fair value						
Interest-rate swaps - option	-	-	-	0.5	-	0.5
Interest-rate swaps - pay fixed	(326.3)	(11.1)	(337.4)	(319.5)	(8.1)	(327.6)
Interest-rate swaps - receive fixed	9.1	-	9.1	6.8	-	6.8
	(317.2)	**(11.1)**	**(328.3)**	(312.2)	(8.1)	(320.3)

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

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

	2019 £m	2018 £m
Due within one year	**36.6**	40.7
Due between one and two years	**29.2**	36.9
Due between two and five years	**65.6**	79.3
Due after more than five years	**225.3**	248.6
	356.7	405.5

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

All of the Group's derivatives at the reporting date are Level 2 (2018: all are Level 2).

27. Provisions for liabilities and charges

	Group 2019 £m	Group 2018 £m	Parent 2019 £m	Parent 2018 £m
Net pension liabilities	**69.3**	70.9	**-**	-
Deferred tax liabilities	**1.1**	1.0	**-**	-
Other	**7.3**	10.0	**0.9**	0.8
	77.7	81.9	**0.9**	0.8

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

Group

	Deferred tax liabilities £m	Other £m	Total £m
Deferred tax liabilities and other provisions			
At 1 April 2018	1.0	10.0	**11.0**
Additions	0.1	1.2	**1.3**
Amounts utilised	-	(2.8)	**(2.8)**
Unused amounts reversed	-	(1.1)	**(1.1)**
At 31 March 2019	**1.1**	**7.3**	**8.4**

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

Up until 31 March 2017, the Group had an agreement with Thames Water to pay the water and sewage charges for some 17,000 of its housing properties, as part of which the Group billed those properties' tenants. As part of this agreement, the Group received a credit from Thames Water as an administration fee as well as to account for credit risk and some properties being void. A High Court judgement in March 2016 against Southwark Council – which had a similar arrangement with Thames Water - decided that the council should have passed on this credit to its residents. The Group was not party to this case, and whatever course of action Southwark Council has chosen to take, subsequent to the ruling, applies only to its own tenants. The Group, along with other housing associations and local authorities, is considering its position with regard to its own tenants, as part of which it has recognised a provision for £4.1 million (2018: £5.0 million).

Other provisions also includes, amongst other amounts, £0.8 million (2018: £3.4 million) for remedial structural works required at Queen Mary Gate, South Woodford and £0.9 million (2018: £0.7 million) for dilapidations at leased offices that the Group has decided to vacate.

Parent

	Other £m
Other provisions	
At 1 April 2018	0.8
Additions	0.2
Amounts utilised	(0.1)
At 31 March 2019	**0.9**

Other provisions includes, amongst other amounts, £0.9 million (2018: £0.7 million) for dilapidations at leased offices that the Parent has decided to vacate.

28. Pensions

Social Housing Pension Scheme (defined benefit section)

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

The Group previously recognised a provision for its share of these deficit funding payments. On 30 September 2017, the Group exited the defined benefit section of SHPS, transferring its share of assets and liabilities to the William Sutton Housing Association Final Salary Scheme (now known as the Clarion Housing Group Pension Scheme), a defined benefit scheme which the Group also accounts for as such. This transfer triggered a change in accounting treatment of that specific part of the Group's pension scheme portfolio and the £26.6 million shortfall between the Group's £14.9 million provision at the date of the transfer and the £41.5 million net defined benefit liability recognised was included in Other Comprehensive Income. During the current year, the value of the assets received from SHPS was confirmed as being £3.0 million more than estimated and this has been recognised as a gain in Other Comprehensive Income.

Following the transfer, the Parent continues to pay contributions in respect of its active employees, and accounts for these on a defined contribution basis.

Other defined benefit schemes

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

Scheme	Date of the most recent comprehensive actuarial valuation
Cambridgeshire County Council Pension Fund	31 March 2016
Clarion Housing Group Pension Scheme	30 September 2018
Downland Housing Group Pension & Assurance Scheme	31 March 2015
Kent County Council Pension Fund	31 March 2016
London Borough of Bromley Pension Fund	31 March 2016
London Borough of Merton Pension Fund	31 March 2016
London Pensions Fund Authority Pension Fund	31 March 2016
Norfolk County Council Superannuation Fund	31 March 2016
Surrey County Council Pension Fund	31 March 2016

28. Pensions continued

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

Reconciliation of opening and closing pension assets and liabilities:

	Group 2019 £m	2018 £m
Fair value of scheme assets		
At the beginning of the year	357.9	276.8
Interest income	9.2	7.8
Actual return on scheme assets less interest income	13.7	7.0
Contributions by employer	11.2	14.7
Contributions by members	0.7	0.5
Benefits paid	(11.2)	(10.7)
Transfer in of SHPS assets	3.0	81.9
Cessation of schemes	-	(20.1)
At the end of the year	384.5	357.9
Defined benefit obligation		
At the beginning of the year	428.8	334.0
Current service cost	6.2	3.8
Past service cost, curtailments and settlements	0.2	0.3
Interest expense	10.9	9.7
Actuarial (gains)/losses in respect of liabilities	18.2	(13.7)
Contributions by members	0.7	0.5
Benefits paid	(11.2)	(10.7)
Transfer in of SHPS liabilities	-	123.4
Cessation of schemes	-	(18.5)
At the end of the year	453.8	428.8
Net pension liabilities	(69.3)	(70.9)

In addition to the assets and liabilities shown above, one of the pension schemes holds an amount of £2.0 million in relation to matching annuities with an insurance company (2018 : £2.0 million).

Amounts credited/(charged) to the Income Statement:

	Group 2019 £m	2018 £m
Operating costs		
Current service cost	(6.2)	**(3.8)**
Past service cost, curtailments and settlements	(0.2)	**(0.3)**
Cessation of schemes	-	**(1.6)**
	(6.4)	**(5.7)**
Interest payable relating to pensions		
Interest income	9.2	**7.8**
Interest expense	(10.9)	**(9.7)**
	(1.7)	**(1.9)**
	(8.1)	**(7.6)**

Gains/(losses) recognised in other comprehensive income:

	Group 2019 £m	2018 £m
Actuarial gains/(losses)		
Actual return on scheme assets less interest income	13.7	7.0
Actuarial gains/(losses) in respect of liabilities	(18.2)	13.7
	(4.5)	20.7
Gain/(loss) on transfer of SHPS	3.0	(26.6)
	(1.5)	(5.9)

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

	Group 2019 £m	2018 £m
Equities	185.2	166.0
Gilts and other bonds	122.2	71.1
Property	26.1	20.7
Cash	4.7	4.4
Target return portfolio	5.2	4.1
Other	41.1	91.6
	384.5	357.9
Actual return	22.9	14.8

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

	Group 2019	2018
Inflation	2.3%-3.5%	2.3%-3.4%
Future salary increases	2.8%-4.3%	2.7%-4.2%
Future pension increases	2.4%-3.5%	2.3%-3.3%
Discount rate	2.4%-2.5%	2.5%-2.7%
Retiring today - male	21.0-23.5	21.8-24.5
Retiring today - female	23.0-26.2	23.7-26.1
Retiring in twenty years - male	22.7-26.2	22.8-26.8
Retiring in twenty years - female	24.3-28.5	24.9-28.4

During the prior year, the Group exited the Hertfordshire County Council Pension Fund and part-exited the Cambridgeshire County Council Pension Fund; as the funds were sufficiently in surplus, no cessation payments were required.

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, £338.3 million of grant has been credited to reserves to date through amortisation (2018: £314.9 million). The timing of any future repayment, if any, is uncertain.

The Group has a contingent liability in relation to defects found at 530 other properties (2018: 284 properties). For 47 of these properties, a formal liability assessment has been made, totalling £0.4 million (2018: 34 properties, £0.5 million).

Parent
The Parent has no contingent assets/liabilities.

30. Capital commitments

Group

	2019 £m	2018 £m
Contracted for but not provided for in the financial statements	1,013.1	649.4
Authorised by the Board but not contracted for	2,976.8	2,673.2
	3,989.9	3,322.6

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

The figures above include £700.0 million (2018: £458.0 million) for the Group's share of the capital commitments of its JCEs and associates.

At the reporting date the Group had £181.1 million of cash and cash equivalents and £574.8 million of undrawn funding. The remaining £3,234.0 million is expected to be funded by future surpluses and debt funding, sourced from banks and the debt capital markets. The Group considers this to be a reasonable expectation given its previous success in these markets and its strong investment grade credit rating. The first £500 million of the Group's £3 billion European Medium Term Note programme was issued during the year ended 31 March 2019.

Parent

	2019 £m	2018 £m
Contracted for but not provided for in the financial statements	9.9	7.7

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 2019 £m	Group 2018 £m	Parent 2019 £m	Parent 2018 £m
Within the next year	7.1	6.6	5.0	4.3
Between one and five years' time	21.8	16.8	17.4	11.2
Later than five years' time	12.5	11.6	11.9	10.6
	41.4	35.0	34.3	26.1

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

	Group 2019 £m	Group 2018 £m	Parent 2019 £m	Parent 2018 £m
Within the next year	0.6	0.6	-	-
Between one and five years' time	2.5	2.5	-	-
Later than five years' time	10.2	10.5	-	-
	13.3	13.6	-	-

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

	Group 2019 £m	Group 2018 £m	Parent 2019 £m	Parent 2018 £m
Obligations under finance leases				
Amounts falling due within one year	0.1	0.1	-	-
Amounts falling due after more than one year	6.2	6.5	-	-
	6.3	6.6	-	-
Interest payable to be recognised in future periods	7.0	7.0	-	-
	13.3	13.6	-	-

32. Non-equity share capital

	2019 £	2018 £
Shares of £1 issued and fully paid		
At the beginning of the year	17	22
Movements during the year	(2)	(5)
At the end of the year	15	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 Regulator of Social Housing.

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 which it owns 62% of:

Full name	Company	FCA Registered Society	Charity Commission	Regulator of Social Housing
Registered Provider (Public Benefit Entity)				
Clarion Housing Association Limited	-	7686	-	4865
Property maintenance or management				
Anglia Maintenance Services Limited	03300038	-	-	-
Clarion Response Limited	04129615	-	-	-
Grange Management (Southern) Limited	08351375	-	-	-
Registered charities (Public Benefit Entities)				
Circle Anglia Foundation Limited	01832817	-	326681	-
Circle Care and Support Limited	03307684	-	1107432	-
Clarion Futures	07156509	-	1135056	-
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	-	-	-
Clarion Funding PLC	10922187	-	-	-
Clarion Treasury Limited	06133979	-	-	-
Property development				
Affinity Sutton Investments Limited	07466271	-	-	-
Affinity Sutton Professional Services Limited	07068999	-	-	-
Broomleigh Regeneration Limited	06494492	-	-	-
Circle Housing Asset Design Limited	08822471	-	-	-
Downland Regeneration Limited	06456605	-	-	-
Latimer 90-92 Blackfriars Road Limited	11909078	-	-	-
Latimer Cocoa Works LLP	OC419999	-	-	-
Latimer Developments Limited	05452017	-	-	-
Latimer Green Lanes Limited	012398V	-	-	-
Latimer Otford West Limited	11775770	-	-	-
Latimer Sherwood Close Limited	11850531	-	-	-
Latimer Storrington Limited	11894235	-	-	-
Latimer Weyburn Works Limited	11474914	-	-	-
Leamington Waterfront LLP	OC318351	-	-	-
Merton Developments Limited	09042606	-	-	-
Your Lifespace Limited	02998648	-	-	-
Zenith Development Partnership Limited	04565189	-	-	-

Full name	Company	FCA Registered Society	Charity Commission	Regulator of Social Housing
Property investment				
Landericus Limited	48291	-	-	-
Property management				
Avon View & Swan House Management Company Limited	06371295	-	-	-
Maple Grove (Hackbridge) Management Limited	11148693			
Thackeray Mews Limited	02666421	-	-	-
Waterfront (Warwick) Management Company Limited	06371938	-	-	-
Willow View and Bridge House Management Company Limited	06371331	-	-	-
Other				
Circle Living Limited	05737166	-	-	-
Invicta Telecare Limited	04133585	-	-	-
Old Ford Homes Limited	04625160	-	-	-
Rent with Clarity Limited	11504941			

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	Regulator of Social Housing
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	Regulator of Social Housing
Property development				
72 Farm Lane Developments LLP	OC379893	-	-	-
261 City Road Developments LLP	OC360210	-	-	-
Bonner Road LLP	OC401099	-	-	-
Bovis Latimer (Sherford) LLP	OC423820	-	-	-
Circle Hill LLP	OC397177	-	-	-
Countryside Clarion (Eastern Quarry) LLP	OC420693	-	-	-
Countryside Clarion (North Leigh) LLP	OC423377	-	-	-
Latimer Hill LLP	OC415952	-	-	-
Linden (York Road) LLP	OC392756	-	-	-
Linden/Downland Graylingwell LLP	OC333712	-	-	-
Mayfield Market Towns Limited	08161672	-	-	-
Ramsden Regeneration LLP	OC352417	-	-	-
Wilmington Regeneration LLP	OC352419	-	-	-

34. Subsidiaries, JCEs and associates continued

Full name	Company	FCA Registered Society	Charity Commission	Regulator of Social Housing
261 City Road Developments LLP has the following 100% subsidiary:				
City Road (Lexicon) Limited	30048	-	-	-
Mayfield Market Towns Limited has the following 100% subsidiary:				
Mayflower Residential Limited	11193327	-	-	-
The Group is a member of the following associates (ownership in brackets):				
Social investment				
Community Impact Partnership CIC (25%)	11275198	-	-	-

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

35. Related party disclosures and intra-group transparency

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

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

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

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

The recharges were as follows:	2019 £m	2018 £m
Affinity Sutton Professional Services Limited	**1.5**	1.0
Circle Care and Support Limited	**0.5**	0.5
Circle Housing Asset Design Limited	**-**	0.2
Clarion Futures	**2.6**	3.0
Clarion Housing Association Limited	**78.5**	104.9
Clarion Response Limited	**0.8**	1.1
Grange Management (Southern) Limited	**0.1**	0.2
Invicta Telecare Limited	**0.5**	0.4
Latimer Developments Limited	**1.1**	1.2
Leamington Waterfront LLP	**0.1**	0.3
Your Lifespace Limited	**-**	0.7
	85.7	113.5

The decrease in the recharge for Clarion Housing Association Limited is due to the intra-group transfer of employees (see note 5), partially offset by an increase in other operating costs.

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

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

36. Events after the end of the reporting period

On 16 July 2019, Clarion Funding plc priced a further £100 million of bonds to add to its original £250 million issuance (due in 2048), at an all-in effective rate of 2.708%. Following settlement on 23 July 2019, proceeds will be on-lent to Clarion Housing Association Limited via Clarion Treasury Limited.

Read more at:
Clarionhg.com

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