



# REPORT OF THE BOARD AND FINANCIAL STATEMENTS

2010/11

HELPING PEOPLE  
PUT DOWN ROOTS

**IN A WORD...**



# COMMITMENT

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**"My early impressions of Affinity Sutton as a strong organisation, ready to face a challenging future, were reinforced as I met staff and residents across the country."**

# STRENGTH

**As the new chairman my early impressions of Affinity Sutton as a strong organisation, ready to face a challenging future, were reinforced as I met staff and residents across the country.**

As a national organisation we are able to deliver more consistent and improved services as well as generate cost savings that we can reinvest in new and existing homes and in improving the quality of life in our communities.

Our operational and financial strength is combined with a tangible focus on local delivery, driven by the views of our residents. This commitment to being sensitive to local issues is supported by our local partnership work, with a range of organisations, aimed at improving services and opening up opportunities for residents.

We have created new ways for residents to influence the way we manage and deliver services. At a local level we now have 14 Resident Area Panels working with our staff to deliver service improvements. We also plan to establish three Regional Scrutiny Boards to enable residents to look at our performance on a regional basis and recommend areas for improvement to the board.

I am delighted by our Group's strong financial standing, a position reflected by Moody's Aa2 investor rating for the fourth consecutive year. This high rating recognises our clear commitment to maintaining a strong financial base which

is essential if we are to maintain our vital work in meeting housing need.

This strength will enable us to manage the risks we face with increased pressures on costs and income, especially those coming from changes to the welfare benefits regime, the new investment model, and uncontrollable additional costs from inflation, higher pension contributions and the new 20 per cent rate of VAT.

The far reaching changes to our operating environment, arising from the economic climate and the policies of the new coalition government, make it more important than ever that we seek out every opportunity to maximise the positive impact that we continue to have within the communities that we serve. Affinity Sutton is already a good organisation and my focus in the year ahead will be to work with my board colleagues to support the Group Executive Team to become even better in everything we do.

A key part of this will be making sure that both our governance and organisational structures are strong, effective and efficient. We have recently refreshed our board with new members and are looking to simplify our structures so that we can prosper in the future and focus on what matters most – investing in our communities, providing more homes and maximising opportunities for our residents.

**Neil Goulden, Chairman**

**The political and economic upheaval brought by the recession and the determination of the new Government to tackle it will continue to have a major impact on our residents and how we do business. The reduced housing budget (hit harder than any other area of public spending), radical changes to tenure, rents, welfare and benefits all require us to re-examine our future operations.**

With new house building at its lowest level since 1923 and demand at an all time high, the poor and vulnerable need our help more than ever. This year we invested £147 million in new homes, despite budgetary pressures. For the next four years, we are facing a reduction in overall government grant funding of almost 70 per cent. Even though this means an increase in our debt levels and more challenges from the declining affordability of our new homes, we will do our best to provide many more affordable homes for those who need them.

The proposal to pay housing benefit directly to tenants brings more risk. The potential for increased rent arrears may impact badly on housing associations and local authorities and we will continue to monitor these risks and ensure we retain a robust financial profile.

Inevitably, public spending cuts will lead to the withdrawal of some local authority services making life even tougher for many of our residents. We can't fill the gaps this will leave but we will do what we can to support the most vulnerable, especially those in need of help to sustain their tenancies.

These significant changes make strong performance ever more important. Our operating results and surplus in 2010/11 and strong position going forward, enable us to face the future with confidence.

It is vital that we generate substantial surpluses so that we have the capacity to invest in new homes and to continue improving existing properties. It also means that we can increase our investment

**“These significant changes make strong performance ever more important. Our operating results and surplus in 2010/11 and strong position going forward, enable us to face the future with confidence.”**

# CHALLENGE

To provide a wide range of housing, including homes for working families who cannot afford to buy, we need the freedom to deliver sustainable homes at rents which enable our residents to have a realistic prospect of work. The new funding regime will fundamentally change how we provide new homes and re-let existing ones. We welcome the flexibility to set some rents at more realistic levels but there will be many locations where 80 per cent or even 60 per cent of the market rent is too high, especially for families. The Government's proposals to cap benefits through its welfare reforms will leave many struggling to pay their rents, especially families in London.

We support welfare reform and already do much to help our residents move off benefits and into training and work, but there will always be those who cannot find employment through their age or ill health. We are keen that welfare system changes should provide proper protection for the most vulnerable and incentivise those able to work to do so.

in our communities. Our Community Foundation has been endowed with £53 million and the returns from investing this will support this work.

Affinity Sutton is a people business – we are focussed on helping people put down roots. Many of our staff have tough, demanding jobs but their hard work and enthusiasm are the root of our success. In 2011 we won the Investors in People Gold Award, held by less than one per cent of employers in the country. Staff feedback to the assessors spoke volumes about their commitment and I am immensely proud of the difference they make to the lives of our residents and their communities.

**Keith Exford, Chief Executive**



# BOARD, EXECUTIVE DIRECTORS AND ADVISERS

## Board

Neil Goulden, Chairman (appointed 31 July 2010)  
Pat Berry, Vice Chairman  
Joyce Batten  
Desmond Begley  
Peter Berry (appointed 1 May 2010)  
Alan Forbes  
Mark Haysom CBE (appointed 1 December 2010)  
Michael Herring  
Jonathan Paine (appointed 1 December 2010)  
Peter Reynolds  
Colin Sturgeon (appointed 18 May 2010)  
Keith Exford (Group Chief Executive)  
Kerry Kyriacou (Group Development Director)  
Mark Washer (Group Finance Director)

John Farrant (resigned 29 July 2010)  
Alan Kilburn OBE (Chairman, resigned 29 July 2010)  
Niku Mawby (resigned 29 July 2010)  
Simon Randall CBE (resigned 30 April 2010)  
David Shrimpton (resigned 29 July 2010)

## Principal Solicitors

Allen & Overy LLP  
40 Bank Street  
London  
E14 5DU

Trowers & Hamlins  
Sceptre Court  
40 Tower Hill  
London  
EC3N 4DX

Winckworth Sherwood  
Minerva House  
5 Montague Close  
London  
SE1 9BB

## Executive Directors

Keith Exford  
Jonathan Cawthra  
Nick Dudman  
Kerry Kyriacou  
Neil McCall  
Clare Miller (appointed 28 June 2010)  
Mark Perry  
Mark Washer

## Company Secretary

Clare Miller (appointed 1 August 2010)  
Mark Washer (resigned 1 August 2010)

## Bankers

NatWest Bank plc  
143 High Street  
Bromley  
Kent  
BR1 1JH

## Auditors

KPMG LLP  
1 Forest Gate  
Brighton Road  
Crawley  
West Sussex  
RH11 9PT

## Registered Office

Level 6  
6 More London Place  
London  
SE1 2DA

# REPORT OF THE BOARD

## OPERATING AND FINANCIAL REVIEW

### Group Structure

Affinity Sutton Group Limited is the parent company of three main asset-owning housing associations and a number of smaller operating companies. More detail on the Group's structure and its activities is set out in Note 29 of the Financial Statements.

There have been no significant changes to the Group's structure during the financial year. However the Group board is considering plans to simplify and streamline the structure and will be consulting shareholders later this year.

The following table summarises the roles of the main operating companies in the Group.

Company	Activity
<b>Parent</b>	
Affinity Sutton Group Limited	Group parent: provides strategic direction and ultimate control to its subsidiaries. Provides corporate and operational services to the Group.
<b>Registered Providers</b>	
Broomleigh Housing Association	Operating in London and the Thames Gateway
Downland Housing Association	Operating mainly in the South East of England
William Sutton Homes	Operating nationally across England
Aashyana Housing Association	Small Asian housing association operating in Bristol
Brighton Housing Trust ("BHT")	Operating in East and West Sussex.
<b>Registered Charities</b>	
Affinity Sutton Community Foundation	Community investment and other charitable activity.
<b>Property Services Companies</b>	
Grange Management (Southern) Limited	Property management company specialising in management of retirement freehold blocks and estates
Community Building Services (CBS) Limited	Residential property maintenance company providing services mainly to Group companies
Affinity Sutton Professional Services Limited	Company providing development services for the construction of residential property.
<b>Funding Companies</b>	
Affinity Sutton Funding Limited	Group borrowing vehicle, providing funding to Broomleigh, Downland and William Sutton
Affinity Sutton Capital Markets plc	Issuer of a public bond used to finance the activities of the Group.

On 1 April 2011 BHT left the Affinity Sutton Group. BHT joined the Group in 2006. As a member of the wider Affinity Sutton Group BHT has improved its financial position and has been successful in growing the business to a position where the board of BHT has now decided that to pursue an independent existence outside of the group. Affinity Sutton will maintain links with the independent BHT and will continue to support their innovative work in Brighton.

## The external environment

**During the year the poor economic landscape of the last few years continued to provide a challenging backdrop for the housing sector. But it was perhaps the scale of the public funding gap, and the coalition government's response to the deficit, that has had the greatest impact on housing associations over the past year.**

As the economy maintained its shaky recovery and the housing market remained stable with interest rates remaining low, some of the biggest risks and challenges for the sector have come from public policy developments. Whilst each of the risks that we have been focussed on over the past three years remains an issue, new challenges have emerged as well.

At the start of the year the Government's June budget targeted public spending savings of £120 billion over five years. An increase in VAT to 20% will cost the Group up to £4 million annually; plans for a universal benefit system were announced, and it became clear that the sector should expect significant reductions in capital grant levels.

More detail was provided in the government's October 2010 Spending Review. A new investment model was described which has the potential to change the profile of the sector in a fundamental way. In addition, planned changes to the benefit system may pose a threat to the stability and certainty of our core rental income.

## Risks and uncertainties

### We have focussed during the year on our response to the following chief risks:

- A material weakening of our strong financial position as a result of exposure to the new investment model;
- Breaches of funders' covenants through unexpected movements in our financial position, such as charges caused by impairment and losses arising from our exposure to the property market;
- A continuing tightening of the credit markets leading to funding shortfalls and potential re-pricing of existing loan facilities;
- Higher arrears and bad debts caused by the introduction of the new Universal Benefit system, the benefit cap, and the possible ending of "benefit direct" for housing associations;
- The potential for further negative movements in the property market or a protracted period of minimal economic growth;
- The potential for failure among our key suppliers, in particular, house builders, developers and maintenance contractors;
- Properties reaching the end of their useful lives, and requiring either total re-development or significant levels of expenditure to increase their useful lives and bring them up to a lettable standard.

Of these the newest risks are those associated with the government's policy announcements on the new investment model, and the potential for changes to benefits. There remain a number of uncertainties. We will not know precisely the impact the new model will have on Affinity Sutton until negotiations with the Homes and Communities Agency (HCA) complete later in the summer of 2011, and benefit reform changes are unlikely to emerge until 2013.

However, the broad shape of the challenges we are likely to face is clear and we have responded to these and more immediate risks through a risk mitigation framework which details a range of actions. These include:

- A bid to the HCA which takes account of the risks inherent in the new model;
- A detailed assessment of the assumptions we use for business planning to ensure that they properly reflect the new environment. For instance, we have sought to reflect the risk of increased arrears and bad debts by adopting updated assumptions in this area;
- Reviewing our financial golden rules in the light of the new investment model;
- Completing a ground breaking arrangement with Santander to provide liquidity for low cost home ownership mortgages;
- Reviewing and improving our investment appraisal methodology for development for sale investments;
- Undertaking a thorough review of our asset management strategy to ensure it pays due regard to economic principles;
- Increasing provision in our financial plans for estate redevelopment;
- Retaining our cautious approach to market sales risk;
- Continuing to mitigate risk by working in joint venture partnerships with commercial developers;
- Continuing to develop strategies to maintain good levels of property sales during the year;
- Reviewing our funding arrangements and treasury strategy to ensure we have medium term security of funding lines;
- Working towards developing a more optimal corporate structure with a simplification process underway.

## Financial performance

**Affinity Sutton has a reputation for robust financial management and the Group's strong financial performance continued in 2010/11 with a surplus of £55 million (2010: £44 million), on a turnover of £268 million (2010: £274 million). This is ahead of the budget for the year and last year's performance, and is the result of lower interest rates, a change in the basis of pension provision from RPI to CPI, and efficiencies derived from its operating activities.**

The Group's surplus is fully invested in furthering its social and charitable objectives. Our bid to the Homes and Community Agency for grant to develop new affordable housing was for 3,000 new homes to be developed at an average grant rate of 12%. If successful, the development will be supported by over £100 million of our own internal resources.

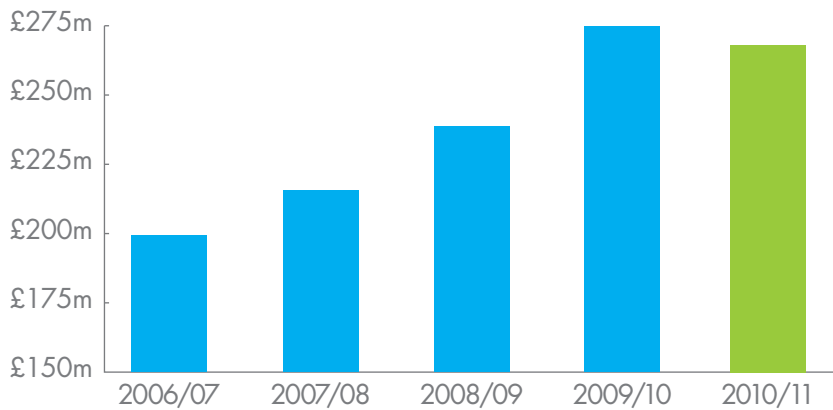
## Surplus

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

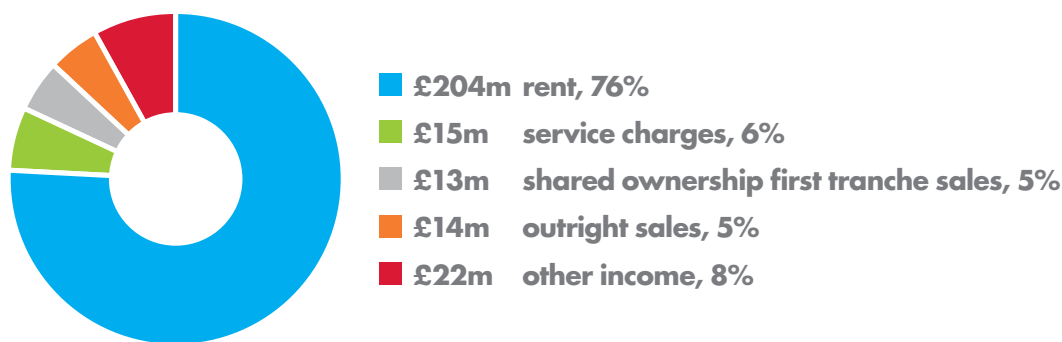
	2010/11 £m	2009/10 £m	2008/09 £m	2007/08 £m	2006/07 £m
<b>Turnover</b>	<b>268</b>	<b>274</b>	<b>238</b>	<b>215</b>	<b>199</b>
Cost of sales	(23)	(33)	(19)	(10)	-
Operating costs	(154)	(154)	(145)	(140)	(137)
Exceptional items	5	-	(13)	-	-
<b>Operating surplus</b>	<b>96</b>	<b>87</b>	<b>61</b>	<b>65</b>	<b>62</b>
Surplus on disposal of properties	2	1	2	4	5
Interest (net borrowing costs)	(42)	(43)	(43)	(43)	(40)
Other finance income/(costs)	(1)	(1)	-	1	-
<b>Surplus for the year</b>	<b>55</b>	<b>44</b>	<b>20</b>	<b>27</b>	<b>27</b>

Turnover is lower than in the previous year due to a smaller development for sale programme. Some of the pension schemes the Group participates in have now linked future pension increases to CPI, having previously used RPI. This has caused a one-off credit in operating costs of £5.4 million. Excluding this, the operating surplus has improved slightly to £90 million, with operating costs down in real terms on 2009/10. Overall, surpluses from the sale of residential property have reduced.

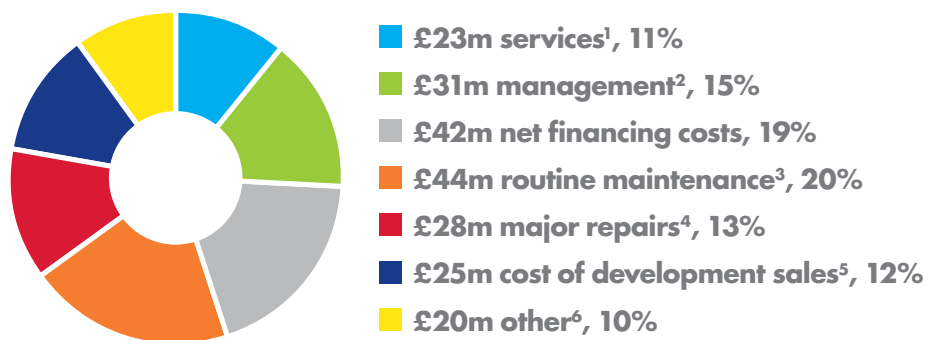
## Turnover



## Analysis of turnover 10/11



## Analysis of expenditure 10/11



<sup>1</sup> A wide range of services including maintenance of communal areas and grounds, heating and hot water and our income team.

<sup>2</sup> Management includes dealing with tenancy issues, arrears, antisocial behaviour and legal costs.

<sup>3</sup> Routine maintenance includes day-to-day repairs and annual service contracts.

<sup>4</sup> Major repairs include kitchens, boilers, bathrooms and aids and adaptations.

<sup>5</sup> Outright sales are a combination of shared ownership first tranche sales and outright sales on the open market.

<sup>6</sup> Other expenditure includes community investment £3 million, Supporting People £3 million, depreciation £3 million, expensed development £3 million, and rent losses from bad debts £1 million.

## Balance Sheet

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

As at 31 March	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Tangible fixed assets	2,421	2,208	2,153	2,026	1,834
Net current assets/(liabilities)	155	77	110	12	(7)
<b>Total assets less current liabilities</b>	<b>2,576</b>	<b>2,285</b>	<b>2,263</b>	<b>2,038</b>	<b>1,827</b>
Creditors due in over one year	1,120	979	994	822	709
Income and expenditure account	371	304	275	270	235
Revaluation and other reserves	1,052	944	966	938	861
Other	33	58	28	8	22
	<b>2,576</b>	<b>2,285</b>	<b>2,263</b>	<b>2,038</b>	<b>1,827</b>

Tangible fixed assets total £2.4 billion (2010: £2.2 billion), up due to an increase in the annual property valuation and the addition of nearly 1,000 new properties in the year. Net current assets have risen to £155 million (2010: £77 million), £147 million (2010: £63 million) of which is cash at bank. The investment in housing properties and increased current assets is funded by the surplus in the year, increases in borrowings and the revaluation reserve.

## Operating company performance

Summary financial performance for each of the large housing associations is set out in the table below. Turnover and surplus levels have increased and are better than last year's performance and ahead of budget expectations.

	Broomleigh £m	Downland £m	William Sutton £m
Turnover	80	69	94
Operating surplus	32	27	32
Net surplus (before additional donation towards Affinity Sutton Community Foundation's expendable endowment)	18	16	22
Fixed assets	725	722	945
Loans outstanding	330	369	422
Income and expenditure account	138	67	112
Interest cover	211%	196%	203%

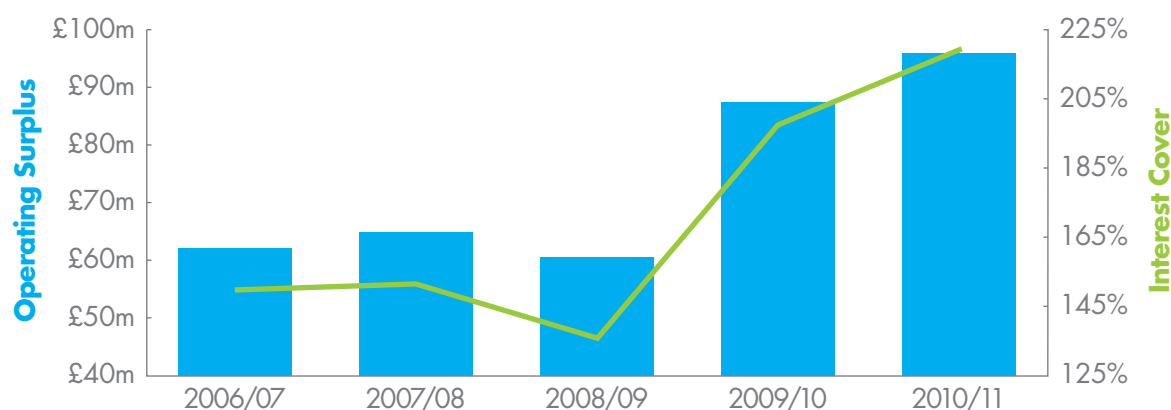
## Key Group financial indicators

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

	Actual	Target/Budget	2009/10 Actual
Operating margin	35.8%	30.4%	31.8%
Interest cover	218.7%	165.2%	197.0%
Operating cost per unit (excluding pension one-off)	£2,754	£2,819	£2,786
Adjusted cash generation from operations	£33.0m	£14.0m	£24.7m
Net margin	20.6%	12.9%	16.2%
Gearing	41.4%	43.0%	45.8%
Net debt per unit	£20,374	£22,014	£19,539
Debt:Turnover	4.2	4.1	3.6
Ratio of committed development spend covered by cash and available loans	1.6	1.0	3.1

Each measure is equal to or better than the forecast figure or the Group's target.

## Operating Surplus and Interest Cover



## Operational performance

	BHA	DHA	WSH	ASG	Target for Group
Current Arrears as % of Rent Debit (General Needs)	<b>3.3%</b>	<b>5.1%</b>	<b>6.5%</b>	<b>5.1%</b>	<b>4.0%</b>
2010	2.4%	4.8%	5.0%	4.1%	4.0%
% of Rent Loss due to Voids	<b>2.2%</b>	<b>1.4%</b>	<b>1.9%</b>	<b>1.9%</b>	<b>2.1%</b>
2010	2.2%	1.1%	2.3%	2.0%	1.9%
Average Days to Re-let (General Needs)	<b>27.1</b>	<b>21.2</b>	<b>24.8</b>	<b>24.6</b>	<b>32.0</b>
2010	42.4	32.4	30.2	34.2	31.0
% of Routine Repairs responded to within target	<b>97.1%</b>	<b>94.7%</b>	<b>97.4%</b>	<b>96.6%</b>	<b>97.0%</b>
2010	93.4%	89.5%	98.4%	94.8%	97.0%
% of Customers Satisfied with Overall Service				<b>80.4%</b>	<b>80.0%</b>
2010				79.1%	-
% Properties meeting Decent Homes Standards	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
2010	92.3%	98.0%	96.1%	95.4%	95.0%

**Rent arrears:** During the year the Group's information systems were consolidated to bring each of the main operating companies on to the same platform. This organisational change, together with the general economic downturn, caused rent arrears to increase. We have increased the budget and staff resources in this area and believe that this, together with the new information system, will enable us to reduce arrears levels over the coming year.

Since the year end the level of arrears relative to 2010 has improved significantly, with the May figure exceeding 2010 by just 0.2%, compared with 1% at the year end.

We expect that the continuing economic conditions will make this a challenging area for the next 12 months.

**Rent loss due to voids:** Performance improved compared to 2010 and is better than targeted, largely due to improved re-let times.

**Re-let times:** Re-let times improved substantially during the year and are now close to the Tenant Services Authority (TSA) Top Quartile. The centralised voids and letting team implemented lessons learned from benchmarking with top quartile performers and improved internal processes. They handled over 3,100 lettings during the year.

**Repairs performance:** Contractor's repairs performance is monitored on a continuous basis via a suite of agreed performance indicators linked to service level agreements, including an independent monthly satisfaction survey. During the year 12,000 emergency, nearly 20,000 urgent and about 85,000 routine repairs were carried out. Customer satisfaction with our repairs service improved from 83.4% in March 2010 to 86.1% in March 2011.

**Customer Satisfaction:** Each quarter an independent customer satisfaction survey is carried out by The Leadership Factor a leading company in this field. The latest results available are those for March 2011 which at 80% show an improvement from the 79.1% in March 2010. During the year the call centre answered 415,523 calls (an average of 1,642 per day), of which 81% (target 80%) were answered within 30 seconds.

**Decent Homes:** The Group was fully compliant with the Decent Homes Standard by December 2010, the TSA deadline.

## Value for money and benchmarking

### Our commitment to VfM

Affinity Sutton Group has long been committed to providing excellent services whilst looking for ways to reduce costs and improve efficiency. Against this strong background the Group set up a VfM steering group in 2009 to ensure that the Group's focus on VfM and efficiency is properly understood throughout the business, and that we are effectively engaging residents in VfM. The steering group is made up of senior staff from across the business and is chaired by the Group Finance Director.

### How we deliver on VfM

Chief among the ways in which we seek to improve efficiency and deliver VfM is growth through merger. Two significant mergers have generated major savings in operating costs which are probably unprecedented in the sector. About £5.7 million merger savings per annum have been generated over that period. In parallel we have adopted cost reduction plans which have seen consistent year-on-year decreases in operating costs, and we recently completed a major restructuring programme of frontline services ("Transition") which is yielding further material savings. In total since 2003 ongoing costs of some £17 million per annum have been removed from the business at the same time as resident satisfaction has increased.

The Group relies on an embedded programme of resident satisfaction surveys to measure progress with satisfaction. On stock condition, it has met and plans to go beyond the Decent Homes Standard. Rents continue to be limited by the formulaic target levels, and we are on target to meet these levels across the Group. The Group believes that this balance of quality, price control and a focus on surplus levels is the best way to ensure that efficiency continues to improve.

We place particular attention on a number of key financial ratios which form a set of financial golden rules. Amongst other measures, these target year on year decreases in operating costs as a key indicator of efficiency. The Group's operating costs, key financial indicators and operational performance, are regularly benchmarked against a peer group made up of the largest national and London associations.

From the perspective of public funds being invested into the development of new homes, we also believe that we deliver good value for money. During the year our investment in new homes of £147 million was financed largely by private debt and internal resources, with less than 50% met from Social Housing Grant.

In addition VfM achievements in the year include:

- annual savings of £5.5 million from tendering exercises across a range of our activities;
- bringing our financial services function back in house after 10 years under an outsourcing contract. As well as enabling us to improve the service delivery we are on target to achieve annual savings;
- against unprecedented conditions in 2010 we have materially increased investment in major works, regeneration and community activity, at a time when many associations are reducing expenditure in such areas;
- involved residents in service task teams which look at a range of housing service functions across the Group, in the specification of new grounds maintenance contracts;
- we have re-subscribed to HouseMark, the sector's main benchmarking company.

We introduced a wide ranging programme of VfM Confidence Assessments using a toolkit designed to help us understand whether our services provide good value for money, and a 'risk profile' to provide managers with a profile of each service area.

## Benchmarking

We believe that comparing our performance with that of our peers can provide an important benchmark across a range of outputs. For a number of years we have therefore compared both our financial and operating performance with a peer group comprised of the large London housing associations (the G15 group) and five of the largest national housing associations<sup>1</sup>.

The following table shows Affinity Sutton's performance for 2011 and 2010, and provides a comparison of our 2011 performance with that of the peer group for 2010, using published data. National average and top quartile data is also shown where available and relevant.

	Affinity Sutton 2011	Affinity Sutton 2010	Peer group 2010 Average	Affinity Sutton peer group ranking	National average 2010 (where available)
<b>Financial VfM analysis</b>					
Management cost per home £	544	543	1,014	3	884
Repairs and maintenance cost per home £	1,763	1,723	1,776	11	1,949
Rent void losses per home (general needs only) £	64	78	64	11	n/a
Social housing lettings operating margin %	40.0%	39.1%	26.6%	1	18.1%
Operating cost per home £	2,754	2,786	4,729	1	3,590
Chief Executive pay per home £	4.8	4.8	6.0	10	n/a
Ratio of Chief Executive emoluments to average staff pay (excluding employer pension contributions)	8.7	8.2	7.0	16	n/a
Board and Executive pay per home £	29.0	29.1	34.8	10	n/a
<b>Housing management VfM analysis</b>					
					<b>National top quartile 2010</b>
Current rent arrears %	5.1%	4.1%	5.5%	10	4.4%
Re-let times in days – general needs properties	24.6	34.2	46.0	1	37.0
Residents satisfaction overall %	80.0%	79.1%	75.4%*	6	82.3%*
Residents satisfaction with repairs %	86.0%	79.4%	66.0%*	1	77.1%*

(\*The Residents satisfaction measures for the Group are based on an independent survey by The Leadership Factor. The peer group and national comparator is based on a different methodology.)

The Group compares well against its peer group average. Many of the Group's financial key performance indicators are in the top quartile and only one below the mid-point. Operational performance is also good when compared to our peer group.

<sup>1</sup> Sanctuary, Places for People, Guinness, Home and Riverside.

### Financial VfM analysis

Management cost per home £	Management cost per home is calculated based on the detail in Note 2b to the accounts (or equivalent). ASG has one of the lowest costs per unit, ranking third lowest at £544 (2011) compared with a peer group range from £421 to £1,653 (2010).
Repairs and maintenance cost per home £	ASG's investment in its homes is in the top 50% of the peer group in terms of day-to-day and major works. The range is from £779 to £4,389, with ASG at £1,763. Fifty five percent of the ASG figures represents planned and major works.
Rent void losses per home (general needs only) £	ASG is identified as a mid quartile performer on void losses, with losses per home at £64 in a peer group range from £35 to £167.
Social housing letting operating margin %	Calculated as Operating Margin divided by Turnover, the figure of 40% reflects ASG's focus on efficiency and surplus generation to provide resources for investment in our social activities and places it at the top of the peer group. It compares well with the national 2010 average of 18.1%
Operating cost per home £	None of the peer group has a lower operating cost per home than ASG. Based on the operating costs figure from the Income & Expenditure Account, at £2,754 the figure is lower than any of the 2010 benchmark group, the highest of which is £7,010.
Chief Executive pay per home £	The ranking here is in the middle of the peer group rankings, where the range is from £3.20 to £11.58 per unit.
Ratio of Chief Executive emoluments to average staff pay (excluding employer pensions contributions)	We have moved towards the proposals set out in the Hutton Review of Fair Pay in the Public Sector by comparing the emoluments of the Chief Executive with the average pay of the Group's staff. This is based on average staff pay at ASG of £31,169 per annum.
Board and Executive pay per home £	ASG ranks in the middle of the comparator group which ranges from £7.50 to £66.90.

### Housing Management VfM analysis

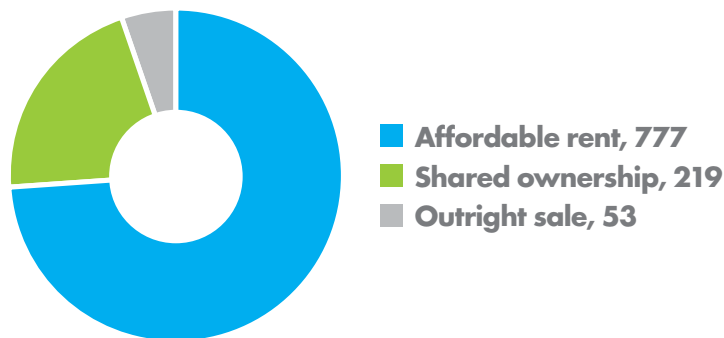
Current rent arrears %	Affinity Sutton's performance in this area worsened in the year but has since picked up. This has moved the Group from being a top quartile performer in 2010 to a middle ranking position in 2011.
Re-let times in days – general needs properties	The Group is the best performer here, ranking first in a range up to 74 days.
Residents' satisfaction overall %	ASG ranks in the top third in terms of residents' satisfaction.
Residents' satisfaction with repairs %	ASG's residents' satisfaction with repairs at 86% is at the top of the peer group.

## Property development and sales

**We have continued to maintain a strong development programme over the past year, outperforming against both our own internal targets and those set by the Homes and Communities Agency (HCA).**

During the year we completed nearly 1,000 new affordable homes, of which 777 were for rent and 219 were for low cost home ownership. In addition, we started construction on 1,290 new affordable homes, of which 995 are for rent and 295 for shared ownership. Grant income for 2010/11 was £71 million, which provided 48% of the construction costs. The balance (52%) was provided by £76 million of private loans and funding from internal resources.

### Homes built in 2010/11



As in recent years, the new homes developed in 2010/11 have been mainly in London and the South East, with 80% of the rented completions and 93% of the shared ownership completions. This reflects higher levels of demand in these areas compared with the other regions where we operate.

At the year end over 3,500 new affordable homes were either already in development or had been approved by the Board to proceed.

Sales performance for 2010/11 has been strong with 229 sales generating revenue of £3.4 million in excess of budget. Sales rates remained strong, with properties selling in an average of 5.6 weeks compared with our 12 week target.

The year also saw the completion of our three-year National Affordable Housing Programme. In total we completed nearly 3,000 new affordable homes, utilising £200 million of HCA grant funding and £293 million of private loans and internal funding. These homes were developed on over 280 sites across England.

### How the Group funded its activities on a 3-year rolling basis: 08/09 to 10/11

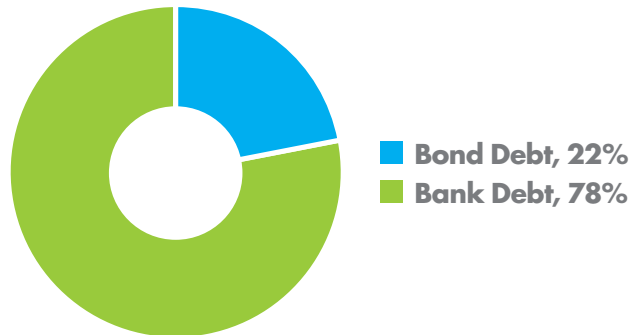


After the year end we submitted proposals to the HCA to deliver homes under the Government's new Affordable Rent and Affordable Home Ownership programme. We expect negotiations with the HCA to complete during Summer 2011.

## Treasury management

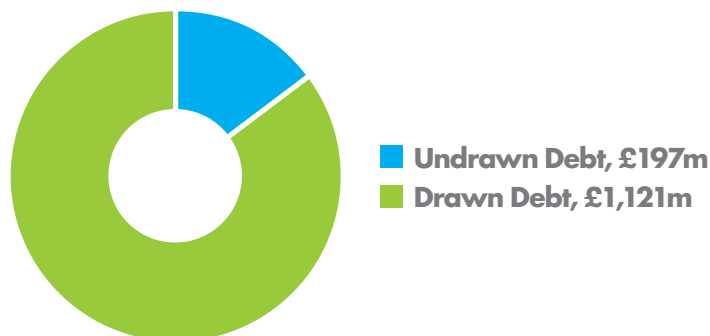
As at 31 March 2011, the Group had £1.32 billion of committed debt funding, with drawn funding totalling £1.12 billion, up from £979 million in 2010. The Group seeks to maintain diversification in its funding sources, with 22% of committed funding coming from the capital markets and 78% coming from five banks and building societies.

### Bank VS Bond Debt

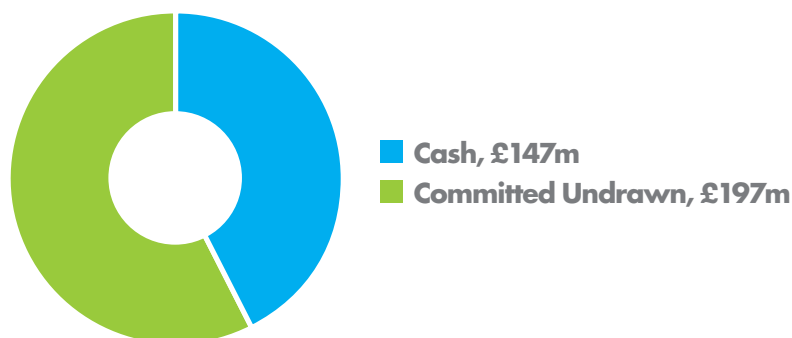


During the financial turbulence of the last three years, Affinity Sutton has consistently maintained one of the strongest liquidity profiles in the sector, and 2010/11 was no exception. As at 31 March, the Group maintained £197 million of committed undrawn facilities available for immediate drawing and £147 million of cash in hand, representing total available liquidity of £344 million. In line with the Group's prudent policies on liquidity management, these resources are more than sufficient to meet all of the Group's contractual development commitments in the coming years.

### Total Committed Funding



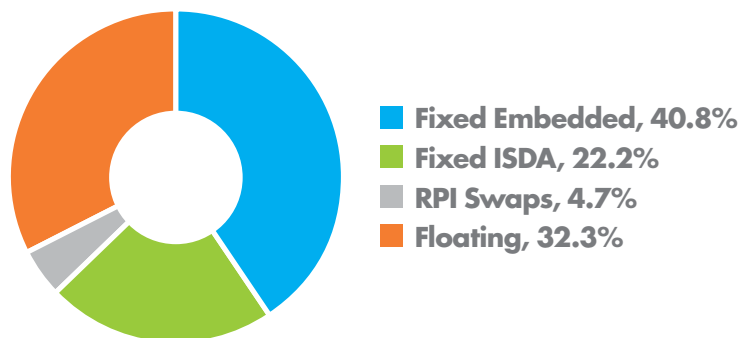
### Available Liquidity



The Group continues to be risk averse in its approach to interest rate management. Borrowing related to cash in hand is held at floating rates of interest, which is consistent with the interest profile of the Group's cash investments. For other debt, the Group targets a policy of hedging 65% to 85% of its debt with predominantly fixed rate instruments and a small proportion of index linked instruments, with flexibility to depart from these parameters if circumstances make this more appropriate. At the year end, this policy resulted in a portfolio that was 63% fixed rate, 32% floating rate, and 5% index linked. The Group does not have any non-Sterling interest rate or exchange rate exposures.

The Group maintains its desired interest rate profile through a mixture of embedded instruments (including fixed rate bank loans and bonds) and stand alone swaps (including fixed and index linked derivatives with bank counterparties). As at year end, 60% of the Group's hedging activities were undertaken through embedded instruments and 40% through stand alone swaps. The Group has now arranged for all swap transactions to allow social housing assets to be used as collateral to cover mark to market positions.

### Hedging Activity %



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

## 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 comprises eleven Non Executive Directors and three co-opted Executive Directors. The Group has adopted and seeks to comply with the requirements of the National Housing Federation Code of Governance. As a result board members are now eligible to serve a maximum of nine years. The Board has undergone substantial change in its membership during the year as several members have retired upon completion of their maximum service and new members were appointed. Next year a further four members of the Group Board will also retire.

Following careful consideration of a number of options, the Board has this year decided to review its corporate structure and to simplify decision making processes. In July 2011 shareholders will be recommended to support proposals which would amalgamate the three large housing associations in the Group into a single landlord owning and managing all the social housing.

The Group has also given careful thought as to how best to encourage and foster greater resident involvement in decision making structures. In particular the Board is keen to ensure that residents have the ability to scrutinise performance and hold the group to account for delivery of its social purpose. To this end we have created structures which allow residents to be involved in their local neighbourhoods, in specifying and overseeing services in their locality and region, and at a national level through a newly created National Residents' Council. The Board's proposals were developed with the help of residents' representatives and have enjoyed considerable support amongst residents more generally when they were consulted in the spring.

The key responsibilities of the Group Board are to lead, control and monitor the overall performance of the Group. Landlord services are delivered through the operating companies. The Group Board approves the budgets and business plans for each operating company and retains control through the ability to appoint and remove subsidiary board members. It delegates specific responsibilities to Group Committees under approved terms of reference. These committees are:

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

## Pay and Reward

The Remuneration and Nominations Committee sets the pay of the Executive Directors at a level to attract and retain the talent required to lead the Group. In doing this it takes into account comparable evidence and benchmarking data from a range of sources both within and outside our sector. Our aim is not to pay the highest salaries in the market but instead to offer a competitive package of salary plus other pay and non-pay benefits. During the year pay rates increased by 3% for all Directors and staff, reflecting prevailing conditions in the wider market.

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

In the light of the Hutton Report on Fair Pay in the Public Sector the Committee has decided to adopt the proposed Fair Pay Code and this will be implemented in line with recommended timescales. In advance of full implementation we have reported on the ratio of the Chief Executive's earnings to the average earnings of the Group's whole workforce in 2010/11 in the section on Benchmarking above, as well as the number of employees earning £100,000 or above in note 4 of the financial statements.

The emoluments of the board members of Affinity Sutton Group Limited serving in the year was as follows:

<b>Director</b>	<b>Salary £</b>	<b>Other benefits £</b>	<b>Fees £</b>	<b>Total 2010/11 £</b>	<b>Total 2009/10 £</b>
<b>Non Executive Directors</b>					
Neil Goulden <sup>1</sup>	-	-	-	-	-
Pat Berry	-	-	10,830	10,830	10,333
Joyce Batten	-	-	9,355	9,355	7,833
Desmond Begley	-	-	10,500	10,500	10,333
Peter Berry <sup>2</sup>	-	-	13,083	13,083	7,667
Alan Forbes	-	-	13,500	13,500	13,167
Mark Haysom CBE <sup>3</sup>	-	-	2,666	2,666	-
Mike Herring	-	-	13,500	13,500	13,167
Jonathan Paine <sup>3</sup>	-	-	2,666	2,666	-
Peter Reynolds	-	-	9,833	9,833	13,167
Colin Sturgeon <sup>4</sup>	-	-	9,827	9,827	5,167
John Farrant <sup>5</sup>	-	-	2,666	2,666	7,833
Alan Kilburn OBE <sup>5</sup>	-	-	7,166	7,166	21,000
Niku Mawby <sup>5</sup>	-	-	2,666	2,666	7,833
Simon Randall CBE <sup>6</sup>	-	-	1,125	1,125	13,167
David Shrimpton <sup>5</sup>	-	-	4,500	4,500	13,167
<b>Executive Directors</b>					
Keith Exford	226,600	44,320	-	270,920	263,831
Kerry Kyriacou	144,200	37,630	-	181,830	173,679
Mark Washer	154,500	40,274	-	194,774	191,725

<sup>1</sup> Remuneration not drawn.

<sup>2</sup> 11 months only following appointment in May 2010.

<sup>3</sup> 4 months only following appointment in December 2010.

<sup>4</sup> 10.5 months only following appointment in May 2010. Prior to this he was an independent non executive director on the board of Affinity Sutton Funding Limited.

<sup>5</sup> 4 months only until resignation in July 2010.

<sup>6</sup> 1 month only until resignation in April 2010.

## STATEMENT OF THE BOARD'S RESPONSIBILITIES IN RESPECT OF THE REPORT OF THE BOARD AND THE FINANCIAL STATEMENTS

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

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

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

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

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

The Board is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and the Association and enable them to ensure that its financial statements comply with the Industrial & Provident Societies Acts 1965 to 2003, the Housing and Regeneration Act 2008 and the Accounting Requirements for Registered Social Landlords General Determination 2006. The Board has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the Association and to prevent and detect fraud and other irregularities.

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

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

## THE GROUP'S SYSTEM OF INTERNAL CONTROLS

### Responsibility

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

The Board is responsible for ensuring that sound systems of internal control exist across the Group which focus on the significant risks that threaten the Group's ability to meet its objectives, and provide reasonable assurance for the safeguarding of assets. The key means of identifying, evaluating and managing the systems of internal control are:

- Corporate governance arrangements;
- Written Group-wide financial regulations and delegated authorities, which were subject to review during the year;
- Policies and procedures for all key areas of the business. These are reviewed periodically to ensure their continued appropriateness. The Group also operates a quality review framework that encourages continuous improvement which, at Group level, is monitored internally;
- A Group-wide Internal Audit function, structured to deliver the Audit Committee's three-year risk-based strategic audit plan, quality assurance and value for money. As well as having an in-house team, the Group uses the services of professional firms of auditors and other specialists as necessary. All audit reports are reviewed by the Audit Committee, which also receives updates on the implementation of agreed external and internal audit recommendations. Detailed reports on the Group's and operating companies' 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: each of the large housing association operating companies within the Group holds Royal Society for the Prevention of Accidents (RoSPA) Gold Awards for their management of Health and Safety;
- Management structures providing balance and focus within the Group;
- A Group-wide risk management function, which seeks to manage risk so that residual risk, after appropriate mitigation, can be absorbed without serious permanent damage to the Group or its operating companies. This includes a formal risk management approach to new business and major development initiatives and action plans to mitigate the worst effects of the risks;
- The Group and its operating companies have annual budgets and long-term business plans. Throughout the year, Boards and managers regularly monitored performance against budgets and other indicators. An important tool in this process has been the Balanced Scorecard which identifies performance against key performance indicators;
- Regulatory requirements and service objectives and ensuring that variances are investigated and acted upon;
- An anti-fraud culture which is supported by a policy and procedure for dealing with suspected fraud and whistleblowing. The Group is participating in the 2010/11 National Fraud Initiative sponsored by the Audit Commission;
- All housing investment decisions and major commitments were subject to appraisal and approval by the Group Project Approval Committee and, when appropriate Group Executive Team and the relevant Board, in accordance with the Group's financial regulations; and
- A Group-wide treasury management function reporting three times a year to the Group Treasury Committee.

The Group Chief Executive and senior operating company 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 2011 and up to the date of approval of the Annual Report and the Financial Statements. The Group Audit Committee, on behalf of the Group Board, has expressed its satisfaction with these arrangements.

## Status

No weaknesses were found in internal controls which resulted in material losses, contingencies or uncertainties that require disclosure in the financial accounts.

## Going Concern

After reviewing the Group's budget for 2011/12 and those of its operating companies, and based on normal strategic business planning and control procedures, the Board has a reasonable expectation that Affinity Sutton Group Limited has adequate resources to continue in operational existence for the foreseeable future.

## Auditors

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

Neil Goulden  
Group Chairman  
14 July 2011

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

We have audited the financial statements of Affinity Sutton Group Limited for the year ended 31 March 2011 which comprise the Group and Association Income and Expenditure Accounts, the Group Statement of Total Recognised Surpluses and Deficits, the Group Note of Historical Cost Surpluses and Deficits, the Group and Association Balance Sheets, the Group Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

## Respective responsibilities of the Board and auditor

As more fully explained in the Statement of Board's Responsibilities set out on page 23, the Association's Board is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## Scope of the audit of the financial statements

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

## Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the Group and the Association as at 31 March 2011 and of the Group and Association surplus for the year then ended; and
- have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2003 and the Industrial and Provident Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Requirements for Registered Social Landlords General Determination 2006.

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

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

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

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

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

18 July 2011

# GROUP AND ASSOCIATION INCOME AND EXPENDITURE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2011

	Notes	2011			2010
		Group excluding Interests in Joint Ventures £'000	Interests in Joint Ventures £'000	Group £'000	Group £'000
Turnover	2(a)	<b>264,599</b>	<b>2,912</b>	<b>267,511</b>	274,293
Cost of sales	2(a)	<b>(19,731)</b>	<b>(2,866)</b>	<b>(22,597)</b>	(33,371)
Operating costs	2(a)	<b>(154,522)</b>	-	<b>(154,522)</b>	(153,674)
Exceptional item	2(a)	<b>5,407</b>	-	<b>5,407</b>	-
<b>Operating surplus</b>	2(a)	<b>95,753</b>	<b>46</b>	<b>95,799</b>	87,248
Surplus on disposal of properties	2(a)	<b>2,151</b>	-	<b>2,151</b>	967
Interest receivable and similar income		<b>2,685</b>	-	<b>2,685</b>	2,276
Interest payable and similar charges	5	<b>(44,780)</b>	-	<b>(44,780)</b>	(44,665)
Other finance cost	27	<b>(687)</b>	-	<b>(687)</b>	(1,326)
<b>Surplus on ordinary activities before taxation</b>	6	<b>55,122</b>	<b>46</b>	<b>55,168</b>	44,500
Tax on surplus on ordinary activities	7	<b>(116)</b>	-	<b>(116)</b>	(159)
<b>Surplus for the year</b>	21	<b>55,006</b>	<b>46</b>	<b>55,052</b>	44,341

All operations are continuing.

	Notes	Association	
		2011 £'000	2010 £'000
Turnover	2(a)	<b>59,588</b>	27,929
Operating costs	2(a)	<b>(59,444)</b>	(27,740)
<b>Operating surplus</b>	2(a)	<b>144</b>	189
Interest receivable and similar income		<b>7</b>	2
Interest payable and similar charges	5	<b>(71)</b>	(51)
<b>Surplus on ordinary activities before taxation</b>	6	<b>80</b>	140
Tax on surplus on ordinary activities	7	<b>(80)</b>	(140)
<b>Surplus for the year</b>	21	<b>-</b>	-

All operations are continuing.

## GROUP STATEMENT OF TOTAL RECOGNISED SURPLUSES AND DEFICITS FOR THE YEAR ENDED 31 MARCH 2011

	Notes	Group	
		2011 £'000	2010 £'000
Surplus for the financial year		<b>55,052</b>	44,341
Actuarial gains/(losses) on pension schemes	27	<b>10,521</b>	(18,743)
Unrealised surplus/(deficit) on revaluation of properties	9, 10, 21	<b>109,208</b>	(21,294)
<b>Total recognised surplus for the year</b>		<b>174,781</b>	4,304

## GROUP NOTE OF HISTORICAL COST SURPLUSES AND DEFICITS FOR THE YEAR ENDED 31 MARCH 2011

	Notes	Group	
		2011 £'000	2010 £'000
Reported surplus on ordinary activities before taxation		<b>55,168</b>	44,500
Realisation of property revaluation surpluses of previous years	21	<b>92</b>	1,101
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	21	<b>1,763</b>	1,542
<b>Historical cost surplus on ordinary activities before taxation</b>		<b>57,023</b>	47,143
Tax on surplus on ordinary activities	7	<b>(116)</b>	(159)
<b>Historical cost surplus for the year after taxation</b>		<b>56,907</b>	46,984

# GROUP AND ASSOCIATION BALANCE SHEETS AS AT 31 MARCH 2011

	Notes	Group		Association	
		2011 £'000	2010 £'000	2011 £'000	2010 £'000
<b>Goodwill</b>	8	-	82	-	-
<b>Tangible fixed assets</b>					
Housing property	9	<b>2,357,312</b>	2,150,135	-	-
Non housing fixed assets	10	<b>39,660</b>	40,658	<b>4,168</b>	3,692
<b>Investments</b>	11	<b>23,092</b>	16,991	-	-
Investment in Joint Ventures					
– share of gross assets	12	<b>61,335</b>	57,091	-	-
– share of gross liabilities	12	<b>(60,458)</b>	(57,091)	-	-
<b>Total tangible fixed assets</b>		<b>2,420,941</b>	2,207,784	<b>4,168</b>	3,692
<b>Current assets</b>					
Stock	13	<b>15,886</b>	18,077	-	-
Debtors – due within one year	14	<b>50,293</b>	30,928	<b>4,467</b>	1,663
– amounts falling due after more than one year	14	<b>6,264</b>	14,359	-	-
Investments	15	-	13,134	-	-
Cash at bank and in hand		<b>147,388</b>	62,810	<b>1,052</b>	971
		<b>219,831</b>	139,308	<b>5,519</b>	2,634
<b>Current Liabilities</b>					
Creditors: amounts falling due within one year	16	<b>(51,593)</b>	(52,309)	<b>(8,362)</b>	(5,001)
Provisions for liabilities and charges	19	<b>(13,650)</b>	(9,689)	-	-
<b>Net current assets/(liabilities)</b>		<b>154,588</b>	77,310	<b>(2,843)</b>	(2,367)
<b>Total assets less current liabilities</b>		<b>2,575,529</b>	2,285,176	<b>1,325</b>	1,325
Creditors amounts falling due after more than one year	17	<b>1,120,014</b>	979,360	<b>1,500</b>	1,500
<b>Provisions for liabilities and charges</b>					
Pension liability	19	<b>26,404</b>	43,287	-	-
Refurbishment liability	19	<b>6,264</b>	14,359	-	-
<b>Capital and reserves</b>					
Share capital	20	-	-	-	-
Revaluation reserve	21	<b>1,041,685</b>	934,332	-	-
Restricted reserve	21	<b>96</b>	104	-	-
Income and expenditure account	21	<b>371,013</b>	303,577	<b>(175)</b>	(175)
Negative goodwill	22	<b>10,053</b>	10,157	-	-
		<b>2,575,529</b>	2,285,176	<b>1,325</b>	1,325

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

Neil Goulden  
Chairman

Mark Washer  
Group Finance Director

Clare Miller  
Company Secretary

14 July 2011

# GROUP CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2011

	Notes	2011		2010	
		£'000	£'000	£'000	£'000
<b>Net cash flow from operating activities</b>	26(i)		<b>97,398</b>		102,903
<b>Returns on investments and servicing of finance</b>					
Interest received and similar income		<b>2,685</b>		2,276	
Interest paid and similar charges		<b>(48,383)</b>		(48,737)	
<b>Net cash outflow</b>			<b>(45,698)</b>		(46,461)
<b>Taxation</b>					
Corporation tax paid		<b>(117)</b>		(158)	
<b>Net cash outflow</b>			<b>(117)</b>		(158)
<b>Capital expenditure and financial investments</b>					
Payments to acquire and develop housing properties		<b>(171,998)</b>		(160,696)	
Social housing grant received		<b>55,314</b>		101,767	
Payments to acquire other fixed assets		<b>(4,023)</b>		(4,175)	
Other fixed assets grants received		<b>532</b>		41	
Sale of housing properties		<b>5,917</b>		8,693	
Investments		<b>(6,101)</b>		(3,665)	
<b>Net cash outflow</b>			<b>(120,359)</b>		(58,035)
<b>Acquisitions</b>					
Payments to acquire trades or businesses		-		(86)	
Net cash acquired with trade and businesses		-		86	
<b>Net cash outflow</b>			<b>-</b>		-
<b>Net cash outflow before management of liquid resources and financing</b>			<b>(68,776)</b>		(1,751)
<b>Management of liquid resources</b>					
Reduction in amount held on deposit		<b>13,134</b>		36,626	
<b>Net cash inflow</b>			<b>13,134</b>		36,626
<b>Financing</b>					
Housing loans drawn/(repaid)	26(ii)	<b>141,249</b>		(12,120)	
Repayment of finance leases	26(ii)	<b>(259)</b>		(263)	
<b>Net cash inflow/(outflow)</b>			<b>140,990</b>		(12,383)
<b>Increase in cash</b>	26(ii)		<b>85,348</b>		22,492

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

## 1. Accounting policies

### Basis of Accounting

The financial statements have been prepared on a going concern basis in accordance with applicable Accounting Standards in the United Kingdom and in accordance with the Statement of Recommended Practice "Accounting by Registered Social Landlords Update 2008" and the Accounting Requirements for Registered Social Landlords General Determination 2006.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

### Basis of Preparation

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

### Going concern

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

### Basis of Consolidation

The consolidated statements incorporate the financial statements of all members of the Group as at 31 March 2011 using merger and acquisition accounting where appropriate. The Group's share of its joint ventures is included using the gross equity method.

### Turnover

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

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

### Housing Properties

Completed housing properties are shown on the Balance Sheet at valuation. Full revaluations are carried out annually. The aggregate surplus or deficit on the property revaluation is transferred to the Revaluation Reserve. On the disposal of properties held at valuation, the amount relating to the revaluation is realised by the transfer of the amount to the Income and Expenditure Account from the Revaluation Reserve Account.

The cost of properties is their purchase price, together with incidental costs of acquisition and capitalised repairs and improvements.

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

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

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

### Goodwill

Goodwill arising on business combinations in respect of acquisitions represents the difference between the consideration given and the fair value of the net assets of the acquired entity. Goodwill is amortised over its useful economic life.

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (continued)

## 1. Accounting policies (continued)

### Depreciation

Housing properties are depreciated on a straight line basis over their expected useful economic life at an annual rate of 1% on valuation. Freehold land is not depreciated. No depreciation is provided on housing properties in the course of construction.

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

Freehold offices	Between 2% and 2.5%
Leasehold office properties	Over the period of the lease
Office furniture and equipment	Between 5% and 25%
Computer equipment and software	Between 10% and 33%
Motor vehicles owned	Between 25% and 33%
Motor vehicles leased	Over the period of the lease

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

### Impairment

For assets with a remaining economic life greater than 40 years, an impairment review is carried out on an annual basis in accordance with FRS 11. For those with a lower economic life, an impairment review is undertaken when there is an indication the asset may be impaired. An impairment charge is taken to the Income and Expenditure Account when it is assessed that the holding value of a fixed asset is higher than the net realisable value or the value in use, in which case the higher of these two values is taken.

### Investment properties

The Group has an interest in the freeholds of certain properties. These are treated under SSAP 19 as investment properties. The freeholds are deemed investment properties because they are held for the purpose of:

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

In accordance with SSAP 19 investment properties are revalued annually and the aggregate surplus or deficit is transferred to the Revaluation Reserve.

### Social Housing Grant

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

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

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

### Recycled Capital Grant Fund

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

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (continued)

## 1. Accounting policies (continued)

### Disposal Proceeds Fund

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

### Other Grants

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

### Fixed Asset Investments

Fixed asset Investments are recognised at the lower of the investment made and the net realisable amount. Investments are assessed by reference to forecasts to ensure their recoverability. Where investments attract interest, the interest receivable in a period is also recognised to the extent that there is a reasonable expectation that it will be recoverable when due. An impairment review is carried out as described under "Impairment" above, and charges are recognised in the same way as set out there.

### Leased Assets

Where the Group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a "finance lease". The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the Income and Expenditure Account, and the capital element which reduces the outstanding obligation for future instalments.

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

### Stock

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

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

### Development Partnerships

The Group acts in partnership with other Registered Providers in developing certain new properties. It is normally responsible for both development of the scheme and its financing. Following completion, the agreed number of units are either sold to the partner at cost or transferred under a long lease. Rechargeable work undertaken in the year is included in turnover. Rechargeable work in progress at the year end is included in current assets.

### Major Repairs

Major repairs are capitalised to the extent that they are improvements to the property, which reduce future repair costs, extend its useful economic life or result in an improvement in the revenue streams through increased rental income. Major repairs are charged to the Income and Expenditure Account as incurred in any other circumstances.

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

### Taxation

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

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (continued)

## 1. Accounting policies (continued)

### Deferred Tax

Full provision is made for timing differences which have arisen at the balance sheet date where material. Amounts recognised in respect of deferred tax are discounted. As at 31 March 2011, discounted deferred tax assets/liabilities are not material and hence no provision is made.

### Value Added Tax

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

### Pension Costs

The Group participates in a number of either defined benefit or defined contribution pension schemes.

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

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

### Housing Loans and other Financial Instruments

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

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

### Restricted and Designated Reserves

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

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

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (continued)

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

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

Group	2011			Restated <sup>1</sup> 2010		
	Turnover £'000	Cost of sales £'000	Operating costs £'000	Operating surplus £'000	Turnover £'000	Operating surplus £'000
<b>Social housing activities</b>						
Income and expenditure from social housing lettings	219,701	–	(131,882)	<b>87,819</b>	214,919	84,132
Other income and expenditure	3,025	–	(4,975)	<b>(1,950)</b>	1,548	(1,526)
<b>Total social housing</b>	<b>222,726</b>	<b>–</b>	<b>(136,857)</b>	<b>85,869</b>	216,467	82,606
<b>Other social housing activities</b>						
Supporting people contract income	3,076	–	(2,994)	<b>82</b>	2,813	119
Other services	3,431	–	(3,011)	<b>420</b>	4,824	(917)
Development costs not capitalised	1,253	–	(2,836)	<b>(1,583)</b>	1,529	(1,962)
<b>Total</b>	<b>7,760</b>	<b>–</b>	<b>(8,841)</b>	<b>(1,081)</b>	9,166	(2,760)
<b>Development for sale</b>						
Shared ownership first tranche sales	12,764	(12,444)	(313)	<b>7</b>	20,247	2,333
Outright sales on the open market	11,008	(8,818)	(96)	<b>2,094</b>	19,356	3,899
Outright sales on the open market – joint ventures	2,912	(2,866)	–	<b>46</b>	–	–
Impairment (charge)/write back	–	1,531	–	<b>1,531</b>	–	(365)
<b>Total</b>	<b>26,684</b>	<b>(22,597)</b>	<b>(409)</b>	<b>3,678</b>	39,603	5,867
<b>Total social and other housing activities</b>	<b>257,170</b>	<b>(22,597)</b>	<b>(146,107)</b>	<b>88,466</b>	265,236	85,713
<b>Non social housing activities</b>						
Income and expenditure from lettings	940	–	(321)	<b>619</b>	813	761
Income relating to commercial tenancies	1,911	–	(577)	<b>1,334</b>	1,822	516
Other	7,490	–	(7,517)	<b>(27)</b>	6,422	258
Exceptional item: Effect of linking pension increases to CPI <sup>2</sup>	–	–	5,407	<b>5,407</b>	–	–
<b>Total social and non social housing</b>	<b>267,511</b>	<b>(22,597)</b>	<b>(149,115)</b>	<b>95,799</b>	274,293	87,248
Surplus on disposal of properties	5,917	(3,024)	(742)	<b>2,151</b>	9,921	967
Interest receivable				<b>2,685</b>		2,276
Interest payable				<b>(44,780)</b>		(44,665)
Other finance cost				<b>(687)</b>		(1,326)
<b>Surplus on ordinary activities before taxation</b>				<b>55,168</b>		44,500

<sup>1</sup> Development costs not capitalised, and the 2% of Social Housing Grant recognised as revenue, are now shown above, having been previously included in note 2(b).

<sup>2</sup> In the UK Budget statement on 22 June 2010, the Chancellor announced that with effect from 1 April 2011 public service pensions would be up-rated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). This has the effect of reducing the Group's liabilities in the London Borough of Bromley Pension Fund by £1,679,000, the London Pensions Fund Authority Pension Fund by £1,909,000, and The Hertfordshire County Council Pension Fund by £1,819,000, and has been recognised as a past service gain in accordance with guidance set down in UITF Abstract 48, since the change is considered to be a change in benefit entitlement.

#### Association

The Association's turnover includes corporate recharges to operating companies and income for information management and development services.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (continued)

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

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

Group	General Needs Housing £'000	Supported Housing/ Housing for older people £'000	Shared Ownership Accommo- dation £'000	Leasehold £'000	Key Workers £'000	Total 2011 £'000	Restated Total 2010 £'000
Rent	173,775	18,186	4,240	24	3,384	199,609	195,520
Charges for support services	65	3,797	-	-	-	3,862	4,190
Service charges	7,964	4,524	780	1,182	201	14,651	13,573
Garage rents	1,203	2	-	-	-	1,205	982
<b>Net rents receivable</b>	<b>183,007</b>	<b>26,509</b>	<b>5,020</b>	<b>1,206</b>	<b>3,585</b>	<b>219,327</b>	214,265
Revenue grants from local authorities	285	89	-	-	-	374	392
Other income	-	-	-	-	-	-	262
<b>Total income from social housing lettings</b>	<b>183,292</b>	<b>26,598</b>	<b>5,020</b>	<b>1,206</b>	<b>3,585</b>	<b>219,701</b>	214,919
<b>Expenditure on social housing lettings</b>							
Services	(15,154)	(5,985)	(400)	(987)	(888)	(23,414)	(22,597)
Management	(23,349)	(5,150)	(427)	(1,226)	(371)	(30,523)	(29,956)
Routine maintenance (including cyclical)	(40,039)	(3,681)	(58)	(18)	(680)	(44,476)	(42,532)
Rent losses from bad debts	(1,189)	(202)	-	(29)	(22)	(1,442)	(2,057)
Major repairs expenditure	(25,776)	(1,571)	(1)	-	(354)	(27,702)	(28,624)
Depreciation on housing properties	(3,140)	(171)	(165)	-	-	(3,476)	(3,142)
Impairment of housing properties: (charge)/write back	261	-	(49)	-	-	212	(988)
Rent paid	(952)	(109)	-	-	-	(1,061)	(850)
Other costs	-	-	-	-	-	-	(41)
<b>Total expenditure on social housing lettings</b>	<b>(109,338)</b>	<b>(16,869)</b>	<b>(1,100)</b>	<b>(2,260)</b>	<b>(2,315)</b>	<b>(131,882)</b>	(130,787)
<b>Operating surplus/(deficit) on social housing lettings</b>	<b>73,954</b>	<b>9,729</b>	<b>3,920</b>	<b>(1,054)</b>	<b>1,270</b>	<b>87,819</b>	84,132
<b>Void losses</b>	<b>2,574</b>	<b>985</b>	<b>107</b>	<b>-</b>	<b>196</b>	<b>3,862</b>	4,091

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (continued)

## 3. Directors' emoluments

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

The emoluments were as follows:

	<b>2011</b>	2010
	<b>£'000</b>	£'000
Non executive directors	<b>114</b>	150
Executive directors	<b>1,344</b>	1,302
Pension contributions – in respect of services as directors	<b>168</b>	151
	<b>1,626</b>	1,603
	<b>2011</b>	2010
	<b>£</b>	£
Highest paid director	<b>270,920</b>	263,831
Pension contributions of the highest paid director	<b>33,990</b>	31,020
	<b>£'000</b>	£'000
Expenses reimbursed to directors not chargeable to United Kingdom income tax	<b>13</b>	14

In line with all other employees, the executive directors received a 3% cost of living increase on 1 April 2010 and a 2% cost of living increase on 1 April 2011.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (continued)

## 4. Employee information

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

	Group		Association	
	2011 Number	2010 Number	2011 Number	2010 Number
Full time equivalent	<b>1,434</b>	1,348	<b>1,061</b>	274
<b>Staff Costs:</b>	<b>£'000</b>	£'000	<b>£'000</b>	£'000
Wages and salaries	<b>44,696</b>	43,521	<b>33,363</b>	11,893
Social security costs	<b>3,905</b>	3,914	<b>2,887</b>	1,155
Pension costs	<b>5,321</b>	4,498	<b>4,608</b>	1,336
	<b>53,922</b>	51,933	<b>40,858</b>	14,384

On 1 April 2010, the employment contracts of most employees in the Group were transferred to the Association.

The staff figure for the year includes 14 FTEs (2010: 1) as a result of the Group's participation in the Future Jobs Fund (FJF), a Department for Work and Pensions initiative which contributed financially to the creation of new jobs, primarily for young people aged 18-24 and who have been out of work for over six months.

In addition, 31 FTEs joined the Group from Capita plc on 1 December 2010, as the Financial Services function was brought in-house.

The number of persons including executive directors whose total remuneration (excluding employer pension contributions) exceeds £100,000 per annum is as follows:

	2011 Number	2010 Number
£270,000 to £279,999	<b>1</b>	–
£260,000 to £269,999	–	1
£190,000 to £199,999	<b>1</b>	1
£180,000 to £189,999	<b>1</b>	–
£170,000 to £179,999	–	1
£160,000 to £169,999	<b>1</b>	–
£150,000 to £159,999	<b>1</b>	1
£130,000 to £139,999	<b>2</b>	1
£120,000 to £129,999	<b>1</b>	3
£110,000 to £119,999	–	1
£100,000 to £109,999	<b>5</b>	2
	<b>13</b>	11

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (continued)

## 5. Interest payable and similar charges

	Group		Association	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Interest on loans and overdrafts	<b>47,428</b>	48,223	<b>1</b>	3
Interest on intercompany loans	-	-	<b>66</b>	48
Interest payable on finance leases	<b>337</b>	388	-	-
Other charges	<b>618</b>	126	<b>4</b>	-
	<b>48,383</b>	48,737	<b>71</b>	51
Less: interest capitalised	<b>(3,603)</b>	(4,072)	-	-
	<b>44,780</b>	44,665	<b>71</b>	51

Interest is capitalised by the Housing Associations in the Group on properties under construction, using their own weighted average interest rate for borrowing. These rates were between 4.25% and 4.85% (2010: 4.69% to 5.31%).

## 6. Surplus on ordinary activities before taxation

	Group		Association	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Surplus on ordinary activities before taxation is stated after charging/(crediting):				
Depreciation	<b>7,333</b>	6,479	<b>1,689</b>	1,409
Impairment of housing properties	<b>(1,743)</b>	1,353	-	-
Impairment of goodwill	<b>62</b>	-	-	-
Charitable donations	<b>6</b>	150	<b>145</b>	-
Operating lease rentals	<b>4,265</b>	4,965	<b>1,437</b>	983
Amortisation of negative goodwill	<b>(104)</b>	(82)	-	-
Loss on disposal of non-housing fixed assets	<b>1</b>	16	-	-
	<b>2011 £'000</b>	2010 £'000	<b>2011 £'000</b>	2010 £'000
Auditors remuneration (including VAT)				
- in capacity as auditors	<b>176</b>	224	<b>26</b>	59
- in respect of other services	<b>73</b>	120	<b>67</b>	49
	<b>249</b>	344	<b>93</b>	108

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (continued)

## 7. Taxation

### Analysis of charge in period

	Group		Association	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
<b>UK Corporation Tax</b>				
Current charge on income tax for the period	24	56	-	39
Adjustment in respect of prior periods	92	103	80	101
<b>Total tax charge</b>	<b>116</b>	<b>159</b>	<b>80</b>	<b>140</b>

Factors affecting the tax charge for the period:

The current tax charge for the Group is lower (2010: lower) for the period than the 28% (2010: 28%) main rate of corporation tax in the UK. The current tax charge for the Association is higher (2010: higher) for the period than the 28% (2010: 28%) main rate of corporation tax in the UK. The differences are explained below.

### Current tax reconciliation

	Group		Association	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Surplus on ordinary activities before tax	55,122	44,500	80	140
Current tax at 28%	15,434	12,460	22	39
<b>Effects of:</b>				
Adjustment in respect of prior period	92	103	80	101
Charitable surpluses not taxed	(15,452)	(12,388)	-	-
Expenses not deductible for tax purposes	24	8	-	-
Capital allowances for the period in excess of depreciation	(39)	(19)	(22)	-
Utilisation of tax losses	-	(5)	-	-
Unrealised tax losses arising in period	57	-	-	-
<b>Total current tax charge (see above)</b>	<b>116</b>	<b>159</b>	<b>80</b>	<b>140</b>

Factors that may affect future tax charges:

The main rate of UK corporation tax that was enacted at the balance sheet date was 28%. In the March 2011 Budget, the UK government announced that the main rate will reduce from 28% to 26% on 1 April 2011. It is expected that the main rate will further decrease to 23% over the following three years. There are no other factors that may significantly affect future tax charges.

## 8. Goodwill – Group

	2011 £'000	2010 £'000
At the beginning of the year	82	-
Recognised on acquisition	-	82
Amortisation	(20)	-
Impairment	(62)	-
	-	82

Goodwill relates to the acquisition on 1 January 2010 of the ethical and green PR consultancy Blue Rocket by BHT Enterprises Limited ("BHTE"), a member of the Group. This was being amortised over five years, but following a review of trading performance the remaining carrying value was written off during the year.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (continued)

## 9. Tangible fixed assets – Housing Property – Group

	Housing Properties £'000	Shared Ownership Properties £'000	Housing Properties in the course of construction £'000	Shared Ownership in the course of construction £'000	Commercial properties £'000	Total £'000
<b>Cost/Valuation</b>						
At 1 April 2010	2,659,572	123,691	154,663	22,389	17,480	<b>2,977,795</b>
Additions	26,754	–	125,714	20,887	6	<b>173,361</b>
Schemes completed	132,720	24,421	(132,720)	(24,421)	–	<b>–</b>
Transfer to current assets	–	(399)	–	–	–	<b>(399)</b>
Transfer from other fixed assets	500	–	–	–	–	<b>500</b>
Disposals	(1,373)	(943)	–	–	–	<b>(2,316)</b>
Revaluation	105,309	(996)	–	–	1,724	<b>106,037</b>
<b>At 31 March 2011</b>	<b>2,923,482</b>	<b>145,774</b>	<b>147,657</b>	<b>18,855</b>	<b>19,210</b>	<b>3,254,978</b>
<b>Social Housing Grant</b>						
At 1 April 2010	(665,213)	(26,208)	(81,468)	(5,851)	–	<b>(778,740)</b>
Received in year	–	–	(55,939)	(7,665)	–	<b>(63,604)</b>
Grant capitalised	(59,451)	(7,230)	59,451	7,230	–	<b>–</b>
Eliminated on disposal	594	284	–	–	–	<b>878</b>
<b>At 31 March 2011</b>	<b>(724,070)</b>	<b>(33,154)</b>	<b>(77,956)</b>	<b>(6,286)</b>	<b>–</b>	<b>(841,466)</b>
<b>Other grants</b>						
At 1 April 2010	(32,108)	(429)	(13,116)	(42)	–	<b>(45,695)</b>
Received in year	–	–	(6,974)	(344)	–	<b>(7,318)</b>
Grant capitalised	(4,810)	(219)	4,810	219	–	<b>–</b>
<b>At 31 March 2011</b>	<b>(36,918)</b>	<b>(648)</b>	<b>(15,280)</b>	<b>(167)</b>	<b>–</b>	<b>(53,013)</b>
<b>Depreciation and impairment</b>						
At 1 April 2010	(242)	(1,539)	(1,444)	–	–	<b>(3,225)</b>
Charge for year	(3,311)	(165)	–	–	(29)	<b>(3,505)</b>
Revaluation	3,261	41	–	–	29	<b>3,331</b>
Impairment	–	(49)	261	–	–	<b>212</b>
<b>At 31 March 2011</b>	<b>(292)</b>	<b>(1,712)</b>	<b>(1,183)</b>	<b>–</b>	<b>–</b>	<b>(3,187)</b>
<b>Net book value</b>						
<b>At 31 March 2011</b>	<b>2,162,202</b>	<b>110,260</b>	<b>53,238</b>	<b>12,402</b>	<b>19,210</b>	<b>2,357,312</b>
Net book value At 31 March 2010	1,962,009	95,515	58,635	16,496	17,480	2,150,135

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (continued)

## 9. Tangible fixed assets – Housing Property – Group (continued)

Net book value of housing assets at 31 March 2011 is represented by:

	Housing Properties £'000	Shared Ownership Properties £'000	Housing Properties in the course of construction £'000	Shared Ownership in the course of construction £'000	Commercial properties £'000	Total £'000
Historic cost	1,908,339	144,441	147,657	18,855	686	<b>2,219,978</b>
Social Housing Grant	(724,070)	(33,154)	(77,956)	(6,286)	–	<b>(841,466)</b>
Other grants	(36,918)	(648)	(15,280)	(167)	–	<b>(53,013)</b>
Revaluation surplus	1,015,143	1,333	–	–	18,524	<b>1,035,000</b>
Impairment	(292)	(1,712)	(1,183)	–	–	<b>(3,187)</b>
	<b>2,162,202</b>	<b>110,260</b>	<b>53,238</b>	<b>12,402</b>	<b>19,210</b>	<b>2,357,312</b>

	2011 £'000	2010 £'000
<b>Housing Properties comprise</b>		
Freeholds	<b>2,297,411</b>	2,090,298
Long leaseholds	<b>59,751</b>	59,637
Short Leaseholds	<b>150</b>	200
	<b>2,357,312</b>	2,150,135

Development and major works additions and improvements to housing properties during the year include capitalised interest of £3.6 million (2010: £4.1 million) and capitalised administration costs of £3.7 million (2010: £2.8 million).

The historic cost of completed properties at the end of the year was £2.05 billion (2010: £1.87 billion).

Total expenditure in 2011 on works to existing properties was £54.5 million (2010: £52.8 million) of which £26.8 million (2010: £23.9 million) has been capitalised.

A full valuation was carried out as at 31 March 2011 by King Sturge LLP, the Group's professional external valuer. The valuation has been prepared in accordance with "RICS Valuation Standards – Global & UK – Seventh Edition". The valuation method discounts the cashflow from rental income less management and repairs expenditure to their present value using a discount rate. The discount rates applied to rental income range from 5.25% to 9.25%, depending on the level of risk involved in each cashflow, but on average a rate of 5.75% has been applied to the core rental stock. The rental income growth assumption is in line with the Group's rent plan to meet target rents by 2012 under the rent restructuring regime and thereafter assumes growth of +0.5% above inflation per annum. No account has been taken of the potential for higher rent under the government's new investment model.

King Sturge LLP has also reviewed and reported on an appropriate residual land value for the Group's housing stock, which in turn determines the annual housing property depreciation charge. The specific residual land value is estimated at 85% by King Sturge LLP (2010: 85%).

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (continued)

## 10. Non housing fixed assets

Group	Freehold Offices £'000	Leasehold Offices £'000	Office Equipment & Motor Vehicles £'000	Investment Properties £'000	Total £'000
<b>Cost</b>					
At 1 April 2010	26,147	1,460	34,936	8,991	<b>71,534</b>
Additions	604	2	3,417	–	<b>4,023</b>
Transfer to housing properties	(878)	–	–	–	<b>(878)</b>
Disposal	–	–	(60)	–	<b>(60)</b>
Revaluation	–	–	–	(160)	<b>(160)</b>
<b>At 31 March 2011</b>	<b>25,873</b>	<b>1,462</b>	<b>38,293</b>	<b>8,831</b>	<b>74,459</b>
<b>Acquisition grants</b>					
At 1 April 2010	(67)	–	(5)	–	<b>(72)</b>
Additions	(532)	–	–	–	<b>(532)</b>
<b>At 31 March 2011</b>	<b>(599)</b>	<b>–</b>	<b>(5)</b>	<b>–</b>	<b>(604)</b>
<b>Depreciation</b>					
At 1 April 2010	(4,616)	(659)	(25,529)	–	<b>(30,804)</b>
Charge for year	(726)	(134)	(2,968)	–	<b>(3,828)</b>
Transfer to housing properties	378	–	–	–	<b>378</b>
Eliminated on disposal	–	–	59	–	<b>59</b>
<b>At 31 March 2011</b>	<b>(4,964)</b>	<b>(793)</b>	<b>(28,438)</b>	<b>–</b>	<b>(34,195)</b>
<b>Net book value</b>					
<b>At 31 March 2011</b>	<b>20,310</b>	<b>669</b>	<b>9,850</b>	<b>8,831</b>	<b>39,660</b>
Net book value At 31 March 2010	21,464	801	9,402	8,991	40,658

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

	2011 £'000	2010 £'000
<b>Net book value</b>		
Motor vehicles	–	10
<b>Depreciation charge for the year</b>		
Motor vehicles	10	34

The historic cost of investment properties at the end of the year was £2,209,000 (2010: £2,209,000).

The properties were valued as at 31 March 2011 by King Sturge LLP, Chartered Surveyors, on an open market value basis for commercial properties, as defined in "RICS Valuation Standards – Global & UK – Seventh Edition".

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

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (continued)

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

### Association

	<b>Office Equipment &amp; Motor Vehicles £'000</b>
<b>Cost</b>	
As at 1 April 2010	8,255
Additions	2,165
<b>At 31 March 2011</b>	<b>10,420</b>
<b>Depreciation</b>	
At 1 April 2010	(4,563)
Charge for year	(1,689)
<b>At 31 March 2011</b>	<b>(6,252)</b>
<b>Net book value as at 31 March 2011</b>	<b>4,168</b>
Net book value as at 31 March 2010	3,692

## 11. Fixed Asset Investments – Group

	<b>2011 £'000</b>	2010 £'000
Linden/Downland Graylingwell LLP	<b>19,861</b>	15,452
Wilmington Regeneration LLP	<b>185</b>	–
Ramsden Regeneration LLP	<b>989</b>	–
Durand Close Equity Loans	<b>374</b>	153
Wilmington Way Equity Loans	<b>1,683</b>	1,386
	<b>23,092</b>	16,991
	<b>2011 £'000</b>	2010 £'000
<b>Linden/Downland Graylingwell LLP</b>		
At the beginning of the year	<b>15,452</b>	11,940
Additions	<b>2,264</b>	1,683
Interest receivable	<b>2,145</b>	1,829
<b>At the end of the year</b>	<b>19,861</b>	15,452

Funds have been advanced by the Group to Linden/Downland Graylingwell LLP ("the LLP"), a joint venture with Linden Homes Limited. Linden Homes is a subsidiary of Galliford Try plc. The LLP was created during the 2007/08 financial year to undertake the development of a Homes and Communities Agency site in Chichester, West Sussex. The investment was made by way of a subordinated loan attracting interest at 9%. Payment of the interest is deferred until completion of the project. Interest receivable is accrued to the extent that there is a reasonable expectation that it can be received in line with the terms of the loan, which dictate that loan interest is payable before loan principal. The Group has considered the recoverability of the capital and interest and have reached the conclusion (based on current forecasts of the property market) that no adjustment for impairment is required this year (2010: £nil).

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (continued)

## 11. Fixed Asset Investments – Group (continued)

	2011 £'000	2010 £'000
<b>Wilmington Regeneration LLP</b>		
Additions	2,210	–
Disposals	(2,100)	–
Interest receivable	75	–
<b>At the end of the year</b>	<b>185</b>	<b>–</b>

Funds have been advanced by the Group to Wilmington Regeneration LLP ("the LLP"), a joint venture with Linden Homes Limited. The LLP was created during the 2009/10 financial year to undertake the development of an existing Group site in Haywards Heath, West Sussex. The investment was made by way of a subordinated loan attracting interest at 7.2%. Payment of the interest is deferred until completion of the project. Interest receivable is accrued to the extent that there is a reasonable expectation that it can be received in line with the terms of the loan, which dictate that loan interest is payable before loan principal. The Group has considered the recoverability of the capital and interest and have reached the conclusion (based on current forecasts of the property market) that no adjustment for impairment is required this year (2010: £nil).

	2011 £'000	2010 £'000
<b>Ramsden Regeneration LLP</b>		
Additions	960	–
Interest receivable	29	–
<b>At the end of the year</b>	<b>989</b>	<b>–</b>

Funds have been advanced by the Group to Ramsden Regeneration LLP ("the LLP"), a joint venture with Linden Homes Limited. Linden Homes is a subsidiary of Galliford Try plc. The LLP was created during the 2007/08 financial year to undertake the development of an existing Group site in Orpington, Kent. The investment was made by way of a subordinated loan attracting interest at 7.2%. Payment of the interest is deferred until completion of the project. Interest receivable is accrued to the extent that there is a reasonable expectation that it can be received in line with the terms of the loan, which dictate that loan interest is payable before loan principal. The Group has considered the recoverability of the capital and interest and have reached the conclusion (based on current forecasts of the property market) that no adjustment for impairment is required this year (2010: £nil).

### Durand Close Equity Loans

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

### Wilmington Way Equity Loans

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

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (continued)

## 12. Investment in Joint Venture – Group

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

Joint venture	Country of incorporation	Principal Activity	Class and % of shares held
Linden/Downland Graylingwell LLP	United Kingdom	Development	Ordinary, 50%
Wilmington Regeneration LLP	United Kingdom	Development	Ordinary, 50%
Ramsden Regeneration LLP	United Kingdom	Development	Ordinary, 50%

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

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

	Ramsden Regeneration LLP £'000	2010 Linden/ Downland Graylingwell LLP £'000	Wilmington Regeneration LLP £'000	Total £'000
Share of:				
Current assets	–	57,091	–	57,091
Liabilities due within one year	–	(57,091)	–	(57,091)
Liabilities due after one year	–	–	–	–
<b>Net assets</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

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

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (continued)

## 13. Stock – Group

	<b>2011</b>	2010
	<b>£'000</b>	£'000
<b>Stock</b>		
Properties in construction	<b>6,521</b>	11,280
Completed properties	<b>9,365</b>	6,797
	<b>15,886</b>	18,077

## 14. Debtors

	<b>Group</b>		<b>Association</b>	
	<b>2011</b>	2010	<b>2011</b>	2010
	<b>£'000</b>	£'000	<b>£'000</b>	£'000
<b>Amounts falling due within one year</b>				
Rents and service charge	<b>16,401</b>	15,904	-	-
Provision for bad debt	<b>(5,659)</b>	(7,165)	-	-
	<b>10,742</b>	8,739	-	-
Social Housing Grant receivable	<b>15,501</b>	-	-	-
Amounts receivable from Group undertakings	-	-	<b>2,406</b>	505
Other debtors and prepayments	<b>24,050</b>	22,189	<b>2,061</b>	1,158
	<b>50,293</b>	30,928	<b>4,467</b>	1,663
	<b>2011</b>	2010	<b>2011</b>	2010
	<b>£'000</b>	£'000	<b>£'000</b>	£'000
<b>Amounts falling due after one year</b>				
Other debtors and prepayments	<b>6,264</b>	14,359	-	-

In prior years, stock transfers have taken place from the London Borough of Lewisham to the Group. The Group has contracted with the Council to refurbish the properties to an agreed level. The Council in turn has a commitment to the Group to have the properties refurbished. An amount of £19.9 million (2010: £24.0 million) has been recognised in other debtors and prepayments, of which £13.7 million falls due within one year (2010: £9.7 million). A corresponding provision for refurbishment liability has been recognised (note 19).

## 15. Investments – Group

	<b>2011</b>	2010
	<b>£'000</b>	£'000
Amounts held on deposits in respect of derivative transactions	-	13,134

Due to movements in long term interest rates the Group's standalone derivative transactions, which hedge interest rate exposure, were subject to collateral calls from various counterparties to offset their exposure to the Group. In prior years, these calls were met by cash transferred to a counter party by the Group; they are now met by additional charges on the properties owned by the Group.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (continued)

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

	Group		Association	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Bank Overdraft	<b>336</b>	1,106	<b>336</b>	1,106
Obligations under finance leases (note 18)	<b>308</b>	259	-	-
Trade creditors	<b>2,619</b>	339	<b>579</b>	-
Recycled Capital Grant Fund (note 18)	<b>24</b>	-	-	-
Disposal Proceeds Fund (note 18)	<b>120</b>	1,261	-	-
Amount payable to Group undertakings	-	-	<b>3,328</b>	267
Other taxation & social security	<b>159</b>	1,391	-	-
Accruals and deferred income	<b>39,783</b>	41,211	<b>4,069</b>	3,444
Other creditors	<b>7,041</b>	5,618	<b>50</b>	184
Corporation tax	<b>2</b>	3	-	-
Housing loans (note 17)	<b>1,201</b>	1,121	-	-
	<b>51,593</b>	52,309	<b>8,362</b>	5,001

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (continued)

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

	Group		Association	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Housing loans	<b>869,741</b>	728,335	-	-
Loan set up costs	<b>(3,967)</b>	(3,975)	-	-
Net housing loans	<b>865,774</b>	724,360	-	-
Bond	<b>250,000</b>	250,000	-	-
Bond set up costs	<b>(1,571)</b>	(1,593)	-	-
Net bond	<b>248,429</b>	248,407	-	-
Obligation under finance leases (note 18)	<b>4,769</b>	5,077	-	-
Recycled Capital Grant Fund (note 18)	<b>873</b>	126	-	-
Disposal Proceeds Fund (note 18)	<b>24</b>	207	-	-
Other creditors	<b>145</b>	1,183	-	-
Amounts payable to Group undertakings	-	-	<b>1,500</b>	1,500
	<b>1,120,014</b>	979,360	<b>1,500</b>	1,500

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

Included in net housing loans and net bond is a total amount of £5.5 million (2010 £5.6 million) of capitalised and amortised set up costs.

	Group	
	2011 £'000	2010 £'000
<b>Housing Loans</b>		
Repayable, otherwise than by instalments as follows:		
Between one and two years	<b>5,744</b>	1,201
Between two and five years	<b>33,602</b>	17,071
In five years or more	<b>830,395</b>	710,063
	<b>869,741</b>	728,335

The final installments fall to be repaid in the period 2016 to 2052.

Affinity Sutton Group Limited has £1.32 billion loan facilities. Loans bear fixed rates of interest ranging from 5.10% to 13.38% or variable rates based on a margin above LIBOR. Drawn funding bears interest, after taking into account hedging activity, as follows:

	Group	
	2011 £'000	2010 £'000
Fixed rate	<b>505,348</b>	536,968
Index-linked	<b>2,325</b>	2,304
Floating rate	<b>363,269</b>	190,184
<b>Total Housing Loans (including amounts falling due within one year)</b>	<b>870,942</b>	729,456

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

The fair value of the Group's long term borrowing is £1.20 billion (2010: £1.03 billion.).

At 31 March 2011, the Affinity Sutton Group has £1.32 billion of loan facilities available, of which £197 million is undrawn.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (continued)

## 18. Creditors: Analysis of obligations under finance leases and movement on funds – Group

	<b>2011</b>	2010
	<b>£'000</b>	£'000
<b>Obligations under finance leases</b>		
Due in less than one year	<b>308</b>	259
Due between one and two years	<b>212</b>	189
Due between two and five years	<b>731</b>	654
In five years or more	<b>3,826</b>	4,234
<b>At 31 March 2011</b>	<b>5,077</b>	5,336
<b>Recycled Capital Grant Fund</b>		
At 1 April 2010	<b>126</b>	392
Grants recycled	<b>878</b>	454
Interest accrued	<b>1</b>	1
Utilisation of fund	<b>(108)</b>	(721)
<b>At 31 March 2011</b>	<b>897</b>	126
<b>Disposal Proceeds Fund</b>		
At 1 April 2010	<b>1,468</b>	7,953
Additions	<b>37</b>	–
Interest accrued	<b>3</b>	36
Utilisation of fund	<b>(1,364)</b>	(6,521)
<b>At 31 March 2011</b>	<b>144</b>	1,468

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (continued)

## 19. Provision for Liabilities and Charges – Group

	<b>2011</b>	2010
	<b>£'000</b>	£'000
<b>Pension liability</b>		
London Borough of Bromley Pension Fund	<b>3,304</b>	5,430
Downland Housing Group Pension & Assurance Scheme	<b>1,224</b>	2,449
London Pensions Fund Authority Pension Fund	<b>3,836</b>	7,203
William Sutton Trust Final Salary Scheme	<b>14,900</b>	21,800
Hertfordshire County Council Pension Fund	<b>3,140</b>	6,405
	<b>26,404</b>	43,287

In accordance with FRS 17 'Retirement Benefits' the Group has recognised the above pension fund liabilities (see note 27).

	<b>2011</b>	2010
	<b>£'000</b>	£'000
<b>Refurbishment liability – Lewisham estate transfers</b>		
At the beginning of the year	<b>24,048</b>	3,155
Additional/(reduction in) work to be carried out	<b>(655)</b>	23,334
Work completed	<b>(3,479)</b>	(2,441)
<b>At the end of the year</b>	<b>19,914</b>	24,048

In prior years, stock transfers have taken place from the London Borough of Lewisham to the Group. The Group has contracted with the Council to refurbish the properties to an agreed level. The Council in turn has a commitment to the Group to have the properties refurbished. This has been recognised as the above provision and a corresponding debtor included in other debtors and prepayments (note 14).

Based on the expected timing of the work, £13.7 million of the provision is treated as a current liability (2010: £9.7 million) and £6.3 million is treated as a long-term liability (2010: £14.4 million).

## 20. Share Capital

	<b>2011</b>	2010
	<b>£</b>	£
<b>Shares of £1 allotted, issued and fully paid</b>		
At beginning of year	<b>30</b>	22
Net movement during the year	<b>-</b>	8
<b>At the end of the year</b>	<b>30</b>	30

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

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (continued)

## 21. Reserves

Group	Revaluation reserve £'000	Restricted reserve £'000	Income and expenditure account £'000	Total £'000
At 1 April 2010	934,332	104	303,577	<b>1,238,013</b>
Transfer at start of year	–	34	(34)	–
Surplus for the year – Group	–	–	55,006	<b>55,006</b>
Surplus for the year – interests in joint ventures	–	–	46	<b>46</b>
Transfer of restricted funding	–	(42)	42	–
Stock revaluation at 31 March 2011	109,368	–	–	<b>109,368</b>
Investment properties revaluation at 31 March 2011	(160)	–	–	<b>(160)</b>
Transfer on disposal of properties	(92)	–	92	–
Transfer for depreciation relating to revaluation	(1,763)	–	1,763	–
Actuarial gain on pension scheme liability	–	–	10,521	<b>10,521</b>
<b>At 31 March 2011</b>	<b>1,041,685</b>	<b>96</b>	<b>371,013</b>	<b>1,412,794</b>

The income and expenditure account includes designated reserves of £168,000 (2010: £168,000).

### Restricted funding:

	Funding received		Unspent funds	
	2011 £	2010 £	2011 £	2010 £
<b>Big Lottery</b>				
Activate London Programme	<b>72,663</b>	47,660	–	–
Reaching Communities	<b>72,960</b>	68,060	<b>2,825</b>	744
Advice Plus	<b>123,043</b>	128,232	<b>20,406</b>	11,681
Firm Foundations	<b>107,561</b>	81,825	<b>34,614</b>	21,470
The Academy	<b>78,168</b>	–	<b>5,816</b>	–
	<b>454,395</b>	325,777	<b>63,661</b>	33,895
<b>London Councils</b>				
Pathways 4 Cray	<b>64,900</b>	52,975	–	–
Stepping Up	<b>45,351</b>	164,835	–	103,675
Stepping Up 2	<b>72,245</b>	–	<b>7,172</b>	–
Affinity Futures	<b>80,135</b>	–	<b>24,869</b>	–
	<b>262,631</b>	217,810	<b>32,041</b>	103,675
	<b>717,026</b>	543,587	<b>95,702</b>	137,570

### Association

	Income and Expenditure account £'000
At 1 April 2010	(175)
Surplus for the year	–
<b>At 31 March 2011</b>	<b>(175)</b>

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (continued)

## 22. Negative Goodwill – Group

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

	At 31 March 2010 £'000	Amortised in the year £'000	At 31 March 2011 £'000
Brighton Housing Trust	7,219	(74)	<b>7,145</b>
Merrimac Housing Association	383	(4)	<b>379</b>
Hastings Community Housing Association	2,555	(26)	<b>2,529</b>
	10,157	(104)	<b>10,053</b>

## 23. Capital Commitments – Group

	2011 £'000	2010 £'000
Capital expenditure contracted for but not provided for in the financial statements	<b>220,256</b>	131,331
Capital expenditure authorised by the board not contracted for	<b>110,647</b>	259,969

## 24. Commitments under operating leases

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

Group	Land and buildings		Other assets	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Expiry date:				
Within one year	<b>560</b>	412	<b>95</b>	13
Between two and five years	<b>1,050</b>	624	<b>402</b>	470
After five years	<b>1,954</b>	2,162	–	–
	<b>3,564</b>	3,198	<b>497</b>	483

Association	Land and buildings	
	2011 £'000	2010 £'000
Expiry date:		
Within one year	<b>18</b>	–
Between two and five years	<b>707</b>	–
After five years	<b>575</b>	–
	<b>1,300</b>	–

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (continued)

## 25. Accommodation in management – Group

	Market rent	Supported	General Needs Housing	Shared Ownership	Leasehold	Keyworker	Student	Total
<b>Number of units</b>								
At 1 April 2010	15	4,915	39,658	1,698	8,192	625	54	<b>55,157</b>
Movement in year	115	(234)	672	186	207	–	–	<b>946</b>
<b>At 31 March 2011</b>	<b>130</b>	<b>4,681</b>	<b>40,330</b>	<b>1,884</b>	<b>8,399</b>	<b>625</b>	<b>54</b>	<b>56,103</b>
							<b>2011</b>	2010
							<b>Units</b>	Units
Owned and managed							<b>53,723</b>	52,423
Managed on behalf of others							<b>2,380</b>	2,734
Managed by others							<b>702</b>	395

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (continued)

## 26. Notes to the cash flow statement

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

	2011 £'000	2010 £'000
Operating surplus	95,799	87,248
<i>Non cash flow items:</i>		
Interests in joint ventures – surplus included	(46)	–
Depreciation	7,333	6,479
Amortisation and impairment of goodwill	82	–
Amortisation of negative goodwill	(104)	(82)
Amortisation of loan costs	267	173
Impairment of properties: charge/(write back)	(1,681)	1,353
Decrease in stock	4,059	16,580
(Increase)/decrease in debtors	4,231	(20,419)
Increase/(decrease) in creditors	(5,493)	12,828
FRS 17 adjustment	(7,049)	(1,257)
<b>Net cash flow from operating activities</b>	<b>97,398</b>	<b>102,903</b>

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

	2011 £'000	2010 £'000
Increase in net cash in period	85,348	22,492
Cash outflow/(inflow) from net decrease/(increase) in debt	(141,249)	12,120
Acquisition of Hastings Community Housing Association	–	(763)
Repayment of finance lease	259	263
Cash inflow from change in liquid resources	(13,134)	(36,626)
Cash outflow from investments	6,101	3,665
Change in net debt resulting from cash flows	(62,675)	1,151
Amortisation of loan costs	(267)	(173)
Net debt at the beginning of the year	(887,395)	(888,373)
<b>Net debt at the end of the year</b>	<b>(950,337)</b>	<b>(887,395)</b>

### (iii) Reconciliation of net debt

	Net cash and overdraft £'000	Current asset investments £'000	Fixed asset investments £'000	Finance leases £'000	Housing loan and bond £'000	Net debt £'000
As at 1 April 2010	61,704	13,134	16,991	(5,336)	(973,888)	(887,395)
Net cash flow	85,348	(13,134)	6,101	259	(141,249)	(62,675)
Other non cash changes	–	–	–	–	(267)	(267)
<b>As at 31 March 2011</b>	<b>147,052</b>	<b>–</b>	<b>23,092</b>	<b>(5,077)</b>	<b>(1,115,404)</b>	<b>(950,337)</b>

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (continued)

## 27. Pensions – Group

During the year the Group participated in nine pension schemes. Six are defined benefit final salary pension schemes: the London Pensions Fund Authority Pension Fund, the Downland Housing Group Pension & Assurance Scheme, the London Borough of Bromley Pension Fund, the Social Housing Pension Scheme (“SHPS”), the William Sutton Trust Pension Scheme, and the Hertfordshire County Council Pension Fund. All defined benefit schemes were closed to new entrants from 31 August 2002 except for SHPS. The other schemes are defined contribution schemes including a scheme administered by Friends Provident, which was closed to new entrants from 1 April 2005.

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

The details of the schemes are set out below:

### London Pensions Fund Authority Pension Fund (“LPFAPF”)

The Group is one of a number of employers participating in the fund. This fund is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2007 and 2008 and the Local Government Pension Scheme (Transitional Provisions) Regulations 2008.

The fund is valued every three years and the last actuarial valuation took place as at 31 March 2010.

From 1 April 2010 the contribution rate is 16.4% of pensionable salaries for future service benefits plus an annual payment of £314,947 to cover the past deficit.

### London Borough of Bromley Pension Fund (“Bromley”)

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

In 2010-2011 the Group contributed at the rate of 17.3% of pensionable salaries plus an annual payment of £121,000 to cover the past service deficit.

The last formal actuarial valuation of the fund was as at 31 March 2010 using a set of assumptions consistent with those required under Financial Reporting Standard 17: Accounting for Retirement Benefits. The next formal valuation is due as at 31 March 2013.

### Downland Housing Group Pension & Assurance Scheme (“DHGPA”)

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

The scheme has been defined as a multi-employer scheme. Accordingly the full liability has been incorporated in the group financial statements but has not been reflected in the operating companies; Downland Housing Association Limited and Grange Management (Southern) Limited.

The Group expects to contribute approximately £410,000 for the year starting 1 April 2011.

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (continued)

## 27. Pensions – Group (continued)

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

The Group participates in the Social Housing Pension Scheme ("SHPS"). The scheme is funded and is contracted out of the state scheme.

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

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

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

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

The next triennial formal valuation of the scheme is due as at 30 September 2011. The results of the valuation will be available in the autumn of 2012.

As at the balance sheet date there were 523 active members of the scheme employed by the Group. The Group continues to offer membership of the scheme to its employees.

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

<b>Valuation discount rates</b>	<b>% per annum</b>	<b>Pension increases</b>	<b>% per annum</b>
Pre-retirement	7.8	Pre 88 GMP	0.0
Non pensioner post-retirement	6.2	Post 88 GMP	2.8
Pensioner post-retirement	5.6	Excess over GMP	3.0
Pensionable earnings growth	4.7		
Price inflation	3.2		
Rate of pension increases	2.5		

The valuation was carried out using the following demographic assumptions:

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

During the accounting period the Group paid contributions at the rate of 14.1%. Member contributions varied between 2.9% and 8.4% depending on age.

Following consideration of the results of the actuarial valuation it was agreed that the shortfall of £663 million would be dealt with by the payment of deficit contributions of 7.5% of pensionable salaries, increasing each year in-line with salary growth assumptions, from 1 April 2010 to 30 September 2020, dropping to 3.1% from 1 October 2020 to 30 September 2023. Pensionable earnings at 30 September 2008 are used as the reference point for calculating these deficit contributions. As a result of this, from 1 April 2010 the Group will pay contributions at the rate of 15.0% and members between 5.8% and 10.7% depending on age.

Employers joining the scheme after 1 October 2002 that do not transfer any past service liabilities to the scheme, pay contributions at the ongoing future service contribution rate. This rate is reviewed at each valuation and applies until the second valuation after the date of joining the scheme, at which point the standard employer contribution rate is payable. Contribution rates are changed on the 1 April that falls 18 months after the valuation date.

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (continued)

## 27. Pensions – Group (continued)

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

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

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

### The William Sutton Trust Pension Scheme ("WS Scheme")

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

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

The Group expects to contribute approximately £2,200,000 for the year starting 1 April 2011.

### The Hertfordshire County Council Pension Fund ("Herts Council")

Staff who transferred from Hertsmere Borough Council to the Ridgehill group of companies are members of this fund, which reflects the terms of the Local Government Pension Scheme ("LGPS"). There are 5 contributing members.

The latest actuarial valuation of the fund was carried out as at 31 March 2010 by an independent actuary. The next formal valuation is due as at 31 March 2011. The valuation was under the projected unit credit method.

The Group expects to contribute approximately £834,000 for the year starting 1 April 2011.

### Friends Provident

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

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

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (continued)

## 27. Pensions – Group (continued)

In accordance with Financial Reporting Standard 17: Accounting for Retirement Benefits ("FRS 17") the directors of the operating companies have appointed the scheme actuaries to prepare the following detailed disclosures and they have relied on the actuaries' expertise in this regard. The assumptions used by the actuaries are the best estimates chosen from a range of possibilities which, because of the time scale covered, might not necessarily be borne out in practice.

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

Year to 31 March 2011	LPFAPF £'000	Bromley £'000	DHGPA £'000	WS Scheme £'000	Herts Council £'000	Total £'000
Present value of defined benefit obligations	16,863	15,540	8,416	70,900	15,609	<b>127,328</b>
Fair value of fund assets	13,027	12,236	7,192	56,000	12,469	<b>100,924</b>
<b>Net liability in balance sheet</b>	<b>3,836</b>	<b>3,304</b>	<b>1,224</b>	<b>14,900</b>	<b>3,140</b>	<b>26,404</b>

### Movements in present value of defined benefit obligation

At 1 April 2010	19,352	18,552	9,498	73,400	18,266	<b>139,068</b>
Current service cost	364	204	–	900	109	<b>1,577</b>
Past service costs (exceptional item)	(1,909)	(1,679)	–	–	(1,819)	<b>(5,407)</b>
Interest on obligation	1,073	964	508	4,000	911	<b>7,456</b>
Contributions by members	94	56	–	100	27	<b>277</b>
Actuarial gains	(1,612)	(1,843)	(1,076)	(4,300)	(1,162)	<b>(9,993)</b>
Estimated unfunded benefits paid	(17)	–	–	–	–	<b>(17)</b>
Estimated benefits paid	(482)	(714)	(514)	(3,200)	(723)	<b>(5,633)</b>
<b>At 31 March 2011</b>	<b>16,863</b>	<b>15,540</b>	<b>8,416</b>	<b>70,900</b>	<b>15,609</b>	<b>127,328</b>

### Movements in fair value of fund assets

At 1 April 2010	12,149	13,122	7,049	51,600	11,861	<b>95,781</b>
Expected return on fund assets	823	838	378	3,900	830	<b>6,769</b>
Contributions by members	94	56	–	100	27	<b>277</b>
Actuarial gains/(losses)	(107)	(1,326)	(301)	2,500	(238)	<b>528</b>
Contributions by employer	567	260	580	1,100	712	<b>3,219</b>
Benefits paid	(499)	(714)	(514)	(3,200)	(723)	<b>(5,650)</b>
<b>At 31 March 2011</b>	<b>13,027</b>	<b>12,236</b>	<b>7,192</b>	<b>56,000</b>	<b>12,469</b>	<b>100,924</b>

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (continued)

## 27. Pensions – Group (continued)

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

Year to 31 March 2010	LPFAPF £'000	Bromley £'000	DHGPA £'000	WS Scheme £'000	Herts Council £'000	Total £'000
Present value of defined benefit obligations	19,352	18,552	9,498	73,400	18,266	139,068
Fair value of fund assets	12,149	13,122	7,049	51,600	11,861	95,781
<b>Net liability in balance sheet</b>	<b>7,203</b>	<b>5,430</b>	<b>2,449</b>	<b>21,800</b>	<b>6,405</b>	<b>43,287</b>

### Movements in present value of defined benefit obligation

At 1 April 2009	12,615	12,283	7,169	54,400	12,906	99,373
Current service cost	189	135	–	700	101	1,125
Past service costs	–	–	–	–	4	4
Interest on obligation	864	802	464	3,600	889	6,619
Contributions by members	115	65	–	–	37	217
Actuarial losses	6,059	6,102	2,309	17,800	4,826	37,096
Estimated unfunded benefits paid	(3)	–	–	–	–	(3)
Estimated benefits paid	(500)	(835)	(120)	(3,100)	(599)	(5,154)
Curtailment losses	13	–	–	–	102	115
Experience losses on liabilities	–	–	196	–	–	196
Experience change in pensioner value	–	–	(520)	–	–	(520)
<b>At 31 March 2010</b>	<b>19,352</b>	<b>18,552</b>	<b>9,498</b>	<b>73,400</b>	<b>18,266</b>	<b>139,068</b>

### Movements in fair value of fund assets

At 1 April 2009	9,217	9,152	5,585	42,000	8,944	74,898
Expected return on fund assets	597	591	336	3,200	569	5,293
Contributions by members	115	65	–	–	37	217
Actuarial gains	2,123	3,865	1,404	8,800	2,357	18,549
Contributions by employer	597	284	416	700	553	2,550
Contributions in respect of unfunded benefits	3	–	–	–	–	3
Scheme expenses	–	–	(52)	–	–	(52)
Unfunded benefits paid	(3)	–	–	–	–	(3)
Benefits paid	(500)	(835)	(120)	(3,100)	(599)	(5,154)
Experience change in pensioner value	–	–	(520)	–	–	(520)
<b>At 31 March 2010</b>	<b>12,149</b>	<b>13,122</b>	<b>7,049</b>	<b>51,600</b>	<b>11,861</b>	<b>95,781</b>

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (continued)

## 27. Pensions – Group (continued)

Expenses recognised in the income and expenditure:

	LPFAPF £'000	Bromley £'000	DHGPA £'000	WS Scheme £'000	Herts Council £'000	Total £'000
<b>Year to 31 March 2011</b>						
Current service cost	364	204	–	900	109	<b>1,577</b>
Interest cost	1,073	964	508	4,000	911	<b>7,456</b>
Expected return on employer assets	(823)	(838)	(378)	(3,900)	(830)	<b>(6,769)</b>
Past service costs (exceptional item)	(1,909)	(1,679)	–	–	(1,819)	<b>(5,407)</b>
<b>Total</b>	<b>(1,295)</b>	<b>(1,349)</b>	<b>130</b>	<b>1,000</b>	<b>(1,629)</b>	<b>(3,143)</b>

<b>Year to 31 March 2010</b>						
Current service cost	189	135	–	700	101	<b>1,125</b>
Interest cost	864	802	464	3,600	889	<b>6,619</b>
Expected return on employer assets	(597)	(591)	(336)	(3,200)	(569)	<b>(5,293)</b>
Past service costs	–	–	–	–	4	<b>4</b>
Curtailment losses	13	–	–	–	478	<b>491</b>
Scheme expenses	–	–	52	–	–	<b>52</b>
<b>Total</b>	<b>469</b>	<b>346</b>	<b>180</b>	<b>1,100</b>	<b>903</b>	<b>2,998</b>

The expense is recognised in the following line items in the income and expenditure account

<b>Year to 31 March 2011</b>						
Operating costs	(1,545)	(1,475)	–	900	(1,710)	<b>(3,830)</b>
Other finance cost	250	126	130	100	81	<b>687</b>
<b>Total</b>	<b>(1,295)</b>	<b>(1,349)</b>	<b>130</b>	<b>1,000</b>	<b>(1,629)</b>	<b>(3,143)</b>

<b>Year to 31 March 2010</b>						
Operating costs	202	135	52	700	583	<b>1,672</b>
Other finance cost	267	211	128	400	320	<b>1,326</b>
<b>Total</b>	<b>469</b>	<b>346</b>	<b>180</b>	<b>1,100</b>	<b>903</b>	<b>2,998</b>

The total amount recognised in the statement of total recognised surpluses and deficits in respect of actuarial gains is £10,521,000 (2010: actuarial losses of £18,743,000).

The cumulative actuarial loss reported in the statement of total recognised surpluses and deficits for accounting periods ending on or after 22 June 2002 and subsequently included by prior year adjustment under paragraph 96 of FRS 17, is £15,021,000.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (continued)

## 27. Pensions – Group (continued)

### History of schemes

	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
<b>LPFAPF</b>					
Present value of scheme liabilities	<b>16,863</b>	19,352	12,615	12,930	14,329
Present value of scheme assets	<b>13,027</b>	12,149	9,217	11,503	11,091
<b>Deficit</b>	<b>3,836</b>	7,203	3,398	1,427	3,238
<b>Bromley</b>					
Present value of scheme liabilities	<b>15,540</b>	18,552	12,283	14,673	15,886
Present value of scheme assets	<b>12,236</b>	13,122	9,152	11,610	11,050
<b>Deficit</b>	<b>3,304</b>	5,430	3,131	3,063	4,836
<b>DHGPA</b>					
Present value of scheme liabilities	<b>8,416</b>	9,498	7,169	7,857	9,021
Present value of scheme assets	<b>7,192</b>	7,049	5,585	6,699	6,987
<b>Deficit</b>	<b>1,224</b>	2,449	1,584	1,158	2,034
<b>WS Scheme</b>					
Present value of scheme liabilities	<b>70,900</b>	73,400	54,400	57,700	62,900
Present value of scheme assets	<b>56,000</b>	51,600	42,000	57,600	62,400
<b>Deficit</b>	<b>14,900</b>	21,800	12,400	100	500
<b>Herts Council</b>					
Present value of scheme liabilities	<b>15,609</b>	18,266	12,906	14,152	15,338
Present value of scheme assets	<b>12,469</b>	11,861	8,944	11,630	11,954
<b>Deficit</b>	<b>3,140</b>	6,405	3,962	2,522	3,384

FRS 17.95C allows Affinity Sutton Group not to re-state the corresponding amounts for the first two of the previous four accounting periods for the effect of using the current bid-price rather than the mid-market price. The Group has taken advantage of this exemption.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (continued)

## 27. Pensions – Group (continued)

### Experience adjustments

	2011 %	2010 %	2009 %	2008 %	2007 %
<b>LPFAPF</b>					
Experience losses/(gains) as % of scheme liabilities	<b>7.90</b>	0.30	(0.01)	(6.64)	2.30
Experience gains/(losses) as % of scheme assets	<b>(0.80)</b>	17.50	(35.55)	(9.04)	0.89
<b>Bromley</b>					
Experience losses/(gains) as % of scheme liabilities	<b>11.60</b>	0.00	(0.21)	(2.02)	0.00
Experience gains/(losses) as % of scheme assets	<b>(10.8)</b>	29.50	(20.84)	(2.58)	0.00
<b>DHGPA</b>					
Experience losses/(gains) as % of scheme liabilities	<b>(1.71)</b>	2.06	0.38	0.18	0.16
Experience gains/(losses) as % of scheme assets	<b>2.00</b>	2.78	0.48	0.21	0.20
<b>WS Scheme</b>					
Experience losses/(gains) as % of scheme liabilities	<b>(0.42)</b>	(1.00)	(1.84)	0.00	1.27
Experience gains/(losses) as % of scheme assets	<b>4.46</b>	17.10	(43.10)	(13.89)	0.00
<b>Herts Council</b>					
Experience losses/(gains) as % of scheme liabilities	<b>1.03</b>	(20.22)	0.07	4.06	0.00
Experience gains/(losses) as % of scheme assets	<b>(1.91)</b>	19.87	(40.8)	(12.66)	(0.20)

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (continued)

## 27. Pensions – Group (continued)

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

<b>As at 31 March 2011</b>	<b>LPFAPF £'000</b>	<b>Bromley £'000</b>	<b>DHGPA £'000</b>	<b>WS Scheme £'000</b>	<b>Herts Council £'000</b>	<b>Total £'000</b>
The fair value of the assets:						
Equities	8,988	10,156	3,668	41,600	9,102	73,514
Bonds	1,824	1,835	692	9,400	2,369	16,120
Other	2,215	245	2,832	5,000	998	11,290
	<b>13,027</b>	<b>12,236</b>	<b>7,192</b>	<b>56,000</b>	<b>12,469</b>	<b>100,924</b>
Present value of fund liabilities	16,863	15,540	8,416	70,900	15,609	127,328
<b>Fund deficit</b>	<b>3,836</b>	<b>3,304</b>	<b>1,224</b>	<b>14,900</b>	<b>3,140</b>	<b>26,404</b>

<b>As at 31 March 2010</b>	<b>LPFAPF £'000</b>	<b>Bromley £'000</b>	<b>DHGPA £'000</b>	<b>WS Scheme £'000</b>	<b>Herts Council £'000</b>	<b>Total £'000</b>
The fair value of the assets:						
Equities	8,505	11,153	3,933	43,300	8,421	75,312
Bonds	1,336	1,837	708	8,100	2,254	14,235
Other	2,308	132	2,408	200	1,186	6,234
	<b>12,149</b>	<b>13,122</b>	<b>7,049</b>	<b>51,600</b>	<b>11,861</b>	<b>95,781</b>
Present value of fund liabilities	19,352	18,552	9,498	73,400	18,266	139,068
<b>Fund deficit</b>	<b>7,203</b>	<b>5,430</b>	<b>2,449</b>	<b>21,800</b>	<b>6,405</b>	<b>43,287</b>

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (continued)

## 27. Pensions – Group (continued)

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

As at 31 March 2011	LPFAPF	Bromley	DHGPA	WS Scheme	Herts Council
Inflation	2.7%	3.5%	3.4%	2.9%	2.8%
Salary increases	4.5%	5.0%	N/A	4.9%	5.1%
Pension increases in payment	2.7%	2.7%	3.4%	2.9%	2.8%
Discount rate	5.5%	5.5%	5.6%	5.5%	5.5%
Expected return on equities	7.4%	7.1%	7.1%	8.4%	7.5%
Expected return on bonds	5.5%	5.5%	4.9%	5.1%	4.9%
Expected return on gilts	N/A	4.3%	N/A	N/A	N/A
Expected return on cash	3.0%	3.0%	1.7%	N/A	4.6%
Expected return on property	N/A	N/A	N/A	7.4%	5.5%
Expected return on other	6.4%	N/A	5.6%	0.5%	N/A

As at 31 March 2010	LPFAPF	Bromley	DHGPA	WS Scheme	Herts Council
Inflation	3.9%	3.8%	3.9%	3.5%	3.8%
Salary increases	5.4%	5.3%	N/A	5.0%	5.3%
Pension increases in payment	3.9%	3.8%	3.9%	3.4%	3.8%
Discount rate	5.5%	5.7%	5.5%	5.5%	5.5%
Expected return on equities	7.5%	7.5%	7.5%	8.4%	7.8%
Expected return on bonds	4.5%	5.7%	5.5%	5.1%	5.0%
Expected return on gilts	N/A	4.7%	N/A	N/A	N/A
Expected return on cash	3.0%	3.0%	3.0%	N/A	4.8%
Expected return on property	N/A	N/A	N/A	N/A	5.8%
Expected return on other	6.5%	N/A	5.5%	0.5%	N/A

### Mortality Assumptions

In compiling the FRS 17 disclosures the actuaries have used the following assumptions:

#### Hertfordshire County Council Pension Fund

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

Current pensioners	Males	21.0
	Females	23.8
Future pensioners	Males	22.9
	Females	25.7

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (continued)

## 27. Pensions – Group (continued)

### Mortality Assumptions (continued)

#### The William Sutton Trust Pension Scheme

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

The assumed life expectations from age 65 are as follows:

Retiring today	Males	22.4
	Females	24.2
Retiring in 20 years	Males	24.6
	Females	26.1

#### London Borough of Bromley Pension Fund

The actuary has adopted a set of demographic assumptions that are consistent with those used for the formal funding valuation as at 31 March 2007. The post-retirement mortality tables adopted were the S1PA Heavy series with a 70% multiplier, making allowance for future improvements factors in line with the medium cohort projection with an underpin of 1%.

The assumed life expectations from age 65 are as follows:

Retiring today	Males	22.0
	Females	26.0
Retiring in 20 years	Males	24.1
	Females	28.1

#### London Pensions Fund Authority Pension Fund

Post-retirement mortality is based on Club Vita mortality analysis which has been projected, using the medium cohort projection and allowing for a minimum rate of improvement of 1%.

The assumed life expectations from age 65 are as follows:

Current pensioners	Males	21.3
	Females	24.0
Retiring in 20 years	Males	23.3
	Females	25.8

#### Downland Housing Group Pension & Assurance Scheme

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

The assumed life expectations from age 65 are as follows:

Retiring today	Males	22.1
	Females	24.2
Retiring in 20 years	Males	23.5
	Females	25.8

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011 (continued)

## 28. Legislative Provisions

Affinity Sutton Group Limited is incorporated under the Industrial and Provident Societies Act 1965 and is registered with the Tenant Services Authority under the Housing Act 1996.

## 29. Ultimate Parent Undertaking

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

Name	Legislative Provisions	Nature of business
Aashyana Housing Association Limited	Industrial and Provident Societies Act 1965	Registered Provider
Affinity Sutton Capital Markets PLC	Companies Act 2006	Funding vehicle
Affinity Sutton Community Foundation	Companies Act 2006, Charities Act 2006	Charitable services
Affinity Sutton Funding Limited	Companies Act 2006	Funding vehicle
Affinity Sutton Investments Limited	Companies Act 2006	Investment vehicle
Affinity Sutton Professional Services Limited	Companies Act 2006	Property development
Brighton Housing Trust	Companies Act 2006, Charities Act 2006	Registered Provider
BHT Enterprises Limited	Companies Act 2006	Ethical/green public relations
Broomleigh Housing Association Limited	Industrial and Provident Societies Act 1965	Registered Provider
Broomleigh Regeneration Limited	Companies Act 2006	Dormant
Community Building Services (CBS) Limited	Companies Act 2006	Building services
Downland Housing Association Limited	Industrial and Provident Societies Act 1965	Registered Provider
Downland Regeneration Limited	Companies Act 2006	Dormant
Grange Management (Southern) Limited	Industrial and Provident Societies Act 1965	Property management
William Sutton Housing Association Limited	Industrial and Provident Societies Act 1965	Registered Provider
William Sutton Developments Limited	Companies Act 2006	Property development

On 1 April 2011, Brighton Housing Trust and its subsidiary BHT Enterprises Limited ceased to be subsidiaries of the Group. This is a non-adjusting post-balance sheet event.

Affinity Sutton Group Limited's only direct equity investment as at 1 April 2010 and 31 March 2011 is in Affinity Sutton Capital Markets PLC (£1, or 0.002% of its issued share capital). All other companies are considered to be subsidiary companies because of the control exercised by the Board of Affinity Sutton Group Limited, or because they are wholly-owned subsidiaries of such companies.

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





**Affinity Sutton Group Limited**

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

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