

Affinity Sutton Group

Financial Statements

2007/08



Affinity Sutton



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BOARD, EXECUTIVES AND ADVISERS

Board

Alan Kilburn OBE (Chairman)
David Shrimpton (Vice Chairman)
Joyce Batten
Desmond Begley
Pat Berry
Robert Dean
John Farrant
Michael Herring
Niku Mawby
Simon Randall CBE
Peter Reynolds
David Viney
Keith Exford (Group Chief Executive)
Kerry Kyriacou (Group Development
and New Business Director)
Mark Washer (Group Finance Director)
Kerry Pollard (Removed 25 April 2007)

Group Executive Directors

Keith Exford
Rod Ainsworth (Company Secretary)
Jonathan Cawthra
Nick Dudman
Mark Hewson
Kerry Kyriacou
Tom Martin
Neil McCall
Mark Perry
Mark Washer
Paul Eastwood (Resigned 6 July 2007)

Registered Office

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London
SE1 2DA

Principal Solicitors

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Trowers & Hamblins
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Winckworth Sherwood
35 Great Peter Street
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Bankers

Barclays Bank plc
11 Bank Court
Hemel Hempstead
Hertfordshire
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Lloyds TSB plc
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NatWest Bank plc
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Bromley
Kent
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Auditors

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

REPORT OF THE BOARD

The Affinity Sutton Group Board presents its report and audited consolidated financial statements for the year ended 31 March 2008.

Operating and Financial Review

Overview

Affinity Sutton Group (“the Group”) is one of the leading providers of affordable housing in the country, with nearly 53,000 homes in ownership and management across England. It is regulated by The Housing Corporation.

It undertakes most activity through three main operating companies: Broomleigh Housing Association (“Broomleigh”), Downland Housing Association (“Downland”) and William Sutton Homes (“William Sutton”). Each of these is a charitable Registered Social Landlord operating along regional lines, with Broomleigh focussed on South London and the Thames Gateway, Downland operating in the South East of England and William Sutton covering Hertfordshire, North London, the North, Midlands and South West.

In addition, a number of other Group companies undertake a range of activities, including commercial property development, property management and residential property maintenance.

The Group’s main activity is the provision of affordable homes for people unable to access the property market. As well as rented accommodation, this includes various forms of low cost home ownership enabling purchasers to buy a share in a property through part-buy/part-rent schemes, and market rent accommodation. Profits from a programme of new build residential property sales on the open market are used to subsidise the development of affordable homes for rent.

Increasing amounts of money are being invested in a broad range of community initiatives targeting three key themes: tackling “worklessness”, financial inclusion and healthy living. Examples include one new programme which has been set up to help residents in temporary accommodation into work and another which works with a local Credit Union to promote access to affordable credit. As well as direct funding from reserves, the Group has been successful leveraging in funding from other bodies, such as Sport England and the European Social Fund.

The following table shows each of the Group’s main companies and their immediate subsidiaries:

Affinity Sutton Group Ltd ^{††}

Group parent. Provides strategic direction and ultimate control to its subsidiaries. Provides corporate services to the Group

<p>William Sutton Housing Association Ltd (trading as William Sutton Homes) [†] Operating nationally.</p>	<p>Broomleigh Housing Association Ltd [†] Operating in SE London and Thames Gateway.</p>	<p>Downland Housing Association Ltd [†] Operating in the South East.</p>	<p>Grange Management (Southern) Ltd Industrial and Provident Society undertaking property management.</p>	<p>Affinity Sutton Funding Ltd Special purpose company limited by guarantee; Group borrowing vehicle.</p>
<p>William Sutton Developments Ltd Property development company limited by shares.</p>	<p>Broomleigh Regeneration Ltd Property development company limited by shares.</p>	<p>Downland Regeneration Ltd Property development company limited by shares.</p>		
<p>Aashyana Housing Association Ltd [†] Small BME RSL operating in Bristol.</p>		<p>BHT [†] Undertaking special needs, homelessness, housing and legal advice.</p>		
<p>Community Building Services (CBS) Ltd Residential property maintenance company limited by shares.</p>				

[†]Charitable RSL ^{††}Non charitable RSL

REPORT OF THE BOARD (CONTINUED)

The Year Under Review

[A year of consolidation](#)

The year under review was a period of consolidation for the Group following 2006/07, which had seen considerable changes resulting from the merger of Affinity Homes Group and William Sutton Group. There were no mergers or acquisitions during the year. Instead, the focus was on taking important steps to rationalise the Group and its subsidiaries.

During the year work continued to bring together departments from across the former William Sutton and Affinity Homes Groups, including IT and financial accounting systems. Departments which had significant staff turnover as a result of recent mergers and relocation completed major recruitment exercises to enable them to focus on delivering excellent customer services.

On 31 March 2007 William Sutton Housing Association merged with Ridgehill to form William Sutton Homes. William Sutton's focus in the year was on restructuring in order to bring together the two companies into an effective and responsive customer-focussed RSL.

The merger of Affinity Homes Group and William Sutton Group led to considerable changes in strategy and policy. Differences over the strategic direction of the Group with one of its operating companies led to the removal of the Chairman and one other non executive director of William Sutton Homes in April and July 2007. The Group commissioned a solicitor to undertake a review of the circumstances surrounding these events and the way in which the Group responded. That report concluded that the decision to remove the Chairman was proper and reasonable in the circumstances. Applications by the former Chairman and the former director to the Employment Tribunal were withdrawn. The Housing Corporation was given a copy of the report and was satisfied that the Group had acted appropriately in all the circumstances.

The Group has commenced reviews of its corporate structures and governance arrangements which were underway at the year end and a decision is expected on the future structure of the Group later in 2008.

[Property Development](#)

The year was extremely exciting for the Group in progressing its major development plans in all parts of the Group. Through its subsidiary, Downland, the Group formalised a major new strategic relationship with developer Galliford Try plc and its subsidiary Linden Homes Limited, by setting up a joint venture vehicle to develop a major English Partnerships site in Chichester.

Other such arrangements reached advanced stages with a number of residential property developers. The year also saw the Group complete its first sales of homes on the open market, with a Broomleigh scheme in Rochester. We expect this will be followed by many more over the coming years. William Sutton progressed plans for the regeneration of its Chelsea Estate which will see a landmark scheme in the centre of Chelsea, one of London's prime residential areas, to redevelop and diversify the hundred year old estate.

[The "Credit Squeeze" and property slowdown](#)

The Group's activity has been carried out against a backdrop of unprecedented and volatile times in the economy. The Group has taken the current credit crunch and property market downturn very seriously, and conducted a review to assess the potential impact on its activity. A tightening of the credit markets has not only had an impact on the willingness of lenders to continue lending to the sector at competitive interest rate margins, but has also led to a dramatic tightening of the availability of credit to RSLs generally. However, Affinity Sutton remains in a strong position in this regard, in that it has substantial contracted but undrawn facilities that will comfortably fund its development activities in the medium term. Much of the potential impact of higher interest charges arising from disruptions in inter-bank lending and the dislocation between Bank of England Base Rate and LIBOR have also been avoided through active interest rate management, resulting in a substantially fixed interest loan portfolio. Notwithstanding this, the Group is aware that access to the capital markets provides an option to broaden its funding base and this is under review.

There is also firm evidence of a weaker property market and this has the potential to have a negative impact on sales volumes and values in the Group. Whilst the Group's development plans do contemplate increasing levels of shared ownership and outright market sale over the medium term, exposures will remain relatively small compared with the scale of the business. Furthermore, the Board believes that its approach to risk mitigation will protect it from many of the worst impacts of any significant downturn. These include risk sharing with partners in the commercial residential development sector, the development of mechanisms to facilitate purchasers accessing the property market, and improved approaches to valuing and managing its exposure to riskier market activity.

Operating Performance in the Year

The Group has continued to perform well operationally, although there has been some slight worsening in some of the key indicators. The following table demonstrates performance against key indicators:

	2008	2007
Current Arrears as a percentage of rent debit	4.4%	3.7%
Percentage of rent lost due to voids	1.7%	1.8%
Average days to re-let general needs dwellings	28.5	25.8
Percentage of routine repairs responded to within target	96.5%	96.4%
Percentage of customers satisfied with overall service	78.8%	79.3%

Although the year end figures for rent arrears were up on the previous year, performance since the year end has stabilised and started to return to normal levels. The higher year end figure resulted from the considerable systems and structure changes that took place within William Sutton.

Rent lost from empty properties has remained largely stable. The time taken to relet dwellings has increased by about 2½ days. The increase was in William Sutton and led to the creation of a team dedicated to controlling re-letting of property. Since the year end performance is improving.

Response times on reactive repairs have improved marginally, reflecting improved performance in Downland.

At nearly 80%, customer satisfaction is extremely high against sector comparators.

Financial Performance in the Year

The Group remains committed to balancing strong financial management with investment in existing housing, new homes and communities. A key measure of this is that the Group retains its Aa2 credit rating with a stable outlook from Moody's Investor Service Limited.

Affinity Sutton believes it is vital to balance its financial strength with investment in its housing stock and the development of new homes. Its financial Golden Rules provide a clear business framework for structured and planned growth, managed risk taking and prudent borrowing in the short and medium term. Key elements of this framework are that:

- the interest cover ratio should not fall below 140%;
- annual surpluses should improve year on year;
- operating costs per unit should decrease year on year in real terms;
- no borrowing will be undertaken to invest in existing homes, so that cash generated by operating activity is positive.

Surplus

These financial statements demonstrate continued strong financial performance with a surplus for the year to 31 March 2008 of £25.2 million (2007: £27.1 million).

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

	2007/08 £m	2006/07 £m	2005/06 £m
Turnover	203	199	184
Operating costs	(140)	(137)	(135)
Operating surplus	63	62	49
Profit on disposal of fixed assets	4	5	4
Interest (net finance costs payable)	(42)	(40)	(40)
Other	-	-	(12)
Surplus for the year	25	27	1

REPORT OF THE BOARD (CONTINUED)

Financial performance this year, the first full year after the merger of Affinity and William Sutton, was strong. This is reinforced by the Group's lack of reliance upon asset sales. Whilst the Group believes that an active programme of disposals is entirely appropriate for a large and diverse RSL group, disposals are significantly lower than many operating in the sector, where a number of RSLs are reliant upon profits on disposals to meet financing costs. In addition, the annual surplus is only marginally down on that of the previous year despite unexpectedly high interest rates, which also demonstrates solid performance.

Group Turnover has increased by £4 million, with Operating Costs increasing by £3 million. This relatively low increase in Turnover reflects the departure of Tor Homes on 31 March 2007. Like for like the increase is £15 million or 8.0%.

Social housing Operating Costs have reduced by £0.9 million. This is due to depreciation reducing by £1.0 million and expenditure on maintenance and revenue major repairs decreasing by £1.4 million, partially offset by an increase in management costs of £1.0 million, increase in rent loss of £0.3 million and a £0.2 million increase in development cost. Operating Costs for other social housing activities such as costs associated with Social Services contracts for supported housing, have increased by £3.4 million, which has been offset by a corresponding increase in income. Operating Costs for non social housing activities have increased by £1.9 million partially offset by £0.7 million increase in income. Interest and financing costs have increased by £2 million as a result of higher drawn funding and the dislocation between LIBOR rates and the Bank of England Base Rate.

The Group remains on target to achieve the major efficiency savings from the merger of William Sutton and Ridgehill, and the Group level merger of William Sutton Group and Affinity Homes. By 2010 it expects to benefit from ongoing annual savings of £4.1 million, and has made significant progress towards this target with savings in 2007/08 of £2.5 million.

Balance Sheet

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

	2007/08 £m	2006/07 £m	2005/06 £m
Tangible fixed assets	2,055	1,834	1,776
Net current liabilities	(10)	(7)	(15)
Total assets less current liabilities	2,045	1,827	1,761
Creditors due in over one year	830	709	725
Income & expenditure account	266	235	205
Revaluation and other reserves	933	861	812
Other	16	22	19
	2,045	1,827	1,761

Fixed asset growth of £221 million reflects new development and stock investment, plus an overall increase of 2.5% in the underlying property stock valuation (on an existing use value for social housing). This represented one of the biggest years for growth in the history of the Group and brings the total value of housing assets to £2.0 billion (2007: £1.8 billion).

Loans totalling £113 million were drawn from lenders on a bilateral basis to fund development, bringing total loan debt to £815 million.

All new borrowing was used to invest in new stock rather than for investment in existing homes, which was financed by income.

Key financial indicators

Targets for the key indicators the Group monitors reflect continued strong financial performance:

	Actual	Target/Budget
Operating margin percentage	31%	30%
Interest cover	144%	140%
Operating cost per unit	£2,712	£2,812
Adjusted cash generated from operations £million	8.8	7.8
Net surplus percentage	12.4%	12.5%
Gearing	39.9%	41.6%
Debt per unit £000	15.7	16.1

Treasury Management Strategy

Most borrowing is dealt with through Affinity Sutton Funding Limited, the Group's main borrowing vehicle. Policy and strategy is determined by the Group Treasury Committee.

The Group continues to be risk averse in its approach to interest rate management. It is committed to retaining a high level of treasury expertise in house, and uses external experts when necessary. It continued its policy of keeping between 60% and 80% of its drawn funds fixed or otherwise hedged, with flexibility to depart from these parameters if economic or business circumstances make this more appropriate. Where possible the Group seeks to maximise flexibility on interest hedging by entering into free-standing arrangements with hedging counterparties and currently has two stand alone contracts with UK banks to enable this.

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 financing arrangements and derivative instruments. Similarly, on investments, the Group regards a prime objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it ensures that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited.

The Group currently has no exposure to exchange rate risk, although new Rules, which await approval by the Housing Corporation, would allow the Group to borrow in US dollars or euros with scope to hedge those exposures as appropriate.

Governance

The Group Board is comprised of 12 non-executive directors and three executive directors. Their diverse experience, skills and independent perspectives provide an effective review and challenge to the activities of the Group. All directors are remunerated.

The focus of the Group Board is to lead, control and monitor the overall performance of the Group. Specific responsibilities have been delegated to Group Committees which have approved terms of reference. The Group Committees cover:

- Audit
- Finance and Performance
- Remuneration and Nominations
- Treasury

Day to day management is delegated to the Group Executive Team.

During 2007/08 the Group undertook a review of its governance arrangements which included annual appraisals of non-executive directors and a cyclical in-house board member training programme.

The Board is currently considering proposals to simplify the Group's legal structure by combining its three large subsidiaries with the Group parent to create a single legal entity. It is envisaged that the balance and composition of shareholders will be reviewed during this process.

The Remuneration Committee sets the pay of the executive directors at a level to attract and retain the talent required to lead the Group. It takes into account evidence of the pay and conditions of directors undertaking similar roles in the housing association and other relevant sectors based on the independent advice of specialist consultants. The pension schemes available to the executive directors are offered on the same terms as all other staff. All directors are part of a non consolidated bonus scheme based on performance against objectives and business targets. This is designed to reward good performance over a rolling three year period.

REPORT OF THE BOARD (CONTINUED)

Statement of Compliance

The Operating and Financial Review has been prepared in accordance with UK Accounting Standards and applicable legislation (Statement of Recommended Practice "Accounting by Registered Social Landlords Update 2005").

The Board's Responsibilities in Respect of the Board Report and the Financial Statements

The Board is responsible for preparing Financial Statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice, and which give a true and fair view of the state of affairs of the Group and the Association, and of the surplus or deficit for the period.

Industrial and Provident Society law requires the Board to prepare financial statements. Company law requires the directors to prepare financial statements for each financial year. Under those laws they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice). In preparing those financial statements the Board is required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards 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 which disclose with reasonable accuracy at any time the financial position of the Association and enable its members to ensure that the financial statements comply with the Industrial and Provident Societies Acts 1965 to 2002, the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2006. It also has a general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the Group and to prevent fraud and other irregularities.

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

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 Association'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 Association's auditors are aware of that information.

The Group's System of Internal Control

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 and regulated by an external agency (BSI) under ISO9000: 2000;
- Group-wide management assurance function, incorporating Internal Audit, 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 and operating companies' activities are also presented to senior managers so that recommendations for strengthened controls and improvement can be implemented promptly;

- Group-wide Health and Safety function: all major operating companies within the Group secured Royal Society for the Prevention of Accidents (RoSPA) Gold or Silver Awards for their management of Health and Safety;
- management structures providing balance and focus within the Group;
- 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 (either directly or through the Finance and Performance Committee) 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 participated in the 2006 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. During the year the Group improved its treasury management policies and procedures.

The Group and operating company Chief Executives have reviewed the internal control and assurance arrangements by reference to checks on the above and have reported to their respective Boards on the effectiveness of the control systems. The Group Audit Committee, on behalf of the Group Board, has expressed its satisfaction with these arrangements, but noted concerns over some financial control and reporting arrangements linked to bank reconciliations within William Sutton for which remedial action has been taken. It believes that satisfactory controls are now in place.

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 2008/09 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 has adequate resources to continue in operational existence for the foreseeable future.

Auditors

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



Alan Kilburn, OBE
Group Chairman
14 July 2008

REPORT OF THE AUDITORS ON THE FINANCIAL STATEMENTS

Introduction

We have audited the financial statements of Affinity Sutton Group Limited for the year ended 31 March 2008 which comprise the Group and Association Income and Expenditure Accounts, the Group and Association Balance Sheets, the Group Statement of Total Recognised Surpluses and Deficits, the Group Note of Historic Cost Surpluses and Deficits, the Group Cash flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Association's members, as a body, in accordance with Schedule 1 paragraph 16 to the Housing Act 1996 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 auditors' 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 auditors

The responsibility of the Association's Board for the preparation of the Board's report and the preparation of financial statements in accordance with applicable United Kingdom law and UK accounting standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Board's Responsibilities on pages 12 - 13.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002, the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2006. We also report to you if, in our opinion, a satisfactory system of control over transactions has not been maintained, if the association has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the Board's Report and consider the implications for our report if we become aware of any apparent misstatements within it. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Association's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

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 2008 and of the surplus for the year then ended; and
- have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002, the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2006.



KPMG LLP
Chartered Accountants
& Registered Auditor
1 Forest Gate
Brighton Road
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West Sussex RH11 9PT

15 July 2008

GROUP AND ASSOCIATION INCOME AND EXPENDITURE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2008

	Notes	Group		Association	
		2008 £'000	2007 £'000	2008 £'000	2007 £'000
Turnover	2(a)	203,103	199,163	21,461	15,636
Operating costs	2(a)	(140,440)	(137,338)	(21,379)	(15,594)
Operating surplus	2(a)	62,663	61,825	82	42
Surplus on disposal of properties and other fixed assets	2(a)	4,342	5,186	3	5
Interest receivable and similar income		1,217	860	61	47
Interest payable and similar charges	5	(44,195)	(41,967)	(110)	(94)
Other finance income		1,188	1,242	-	-
Surplus on ordinary activities before taxation	6	25,215	27,146	36	-
Tax on surplus on ordinary activities	7	13	(68)	-	(13)
Minority Interest		-	(24)	-	-
Surplus/(deficit) for the year	18	25,228	27,054	36	(13)

All operations are continuing.

STATEMENT OF TOTAL RECOGNISED SURPLUSES AND DEFICITS FOR THE YEAR ENDED 31 MARCH 2008

	Notes	Group	
		2008 £'000	2007 £'000
Surplus for the financial year		25,228	27,054
Actuarial gains on pension schemes	24	3,271	1,699
Unrealised surplus on revaluation of properties	18	74,070	72,059
Total recognised surpluses for the year		102,569	100,812

NOTE OF HISTORICAL COST SURPLUSES AND DEFICITS FOR THE YEAR ENDED 31 MARCH 2008

	Notes	Group	
		2008 £'000	2007 £'000
Reported Surplus on ordinary activities before taxation		25,215	27,146
Realisation of property revaluation surpluses of previous years	18	267	2,130
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount.	18	1,431	1,905
Historical cost surplus on ordinary activities before taxation		26,913	31,181
Tax on surplus on ordinary activities	7	13	(68)
Minority interest		-	(24)
Historical cost surplus on ordinary activities after taxation		26,926	31,089

GROUP AND ASSOCIATION BALANCE SHEETS

AS AT 31 MARCH 2008

	Notes	Group		Association	
		2008 £'000	2007 £'000	2008 £'000	2007 £'000
Tangible fixed assets					
Housing property at valuation	8	2,004,051	1,798,579	-	-
Non housing fixed assets	9	37,303	35,209	2,463	1,805
Investments	10	13,221	-	-	-
Investment in joint venture	11				
— share of gross assets		52,710	-	-	-
— share of gross liabilities		(52,710)	-	-	-
Total tangible fixed assets		2,054,575	1,833,788	2,463	1,805
Current Assets					
Stock		131	76	-	-
Debtors					
— due within one year	12	24,706	23,430	1,727	1,562
— amounts falling due after more than one year	12	4	3,880	-	-
Cash at bank and in hand		18,722	25,365	68	308
		43,563	52,751	1,795	1,870
Creditors: amounts falling due within one year	13	(53,605)	(59,809)	(2,933)	(2,386)
Net current liabilities		(10,042)	(7,058)	(1,138)	(516)
Total assets less current liabilities		2,044,533	1,826,730	1,325	1,289
Creditors: amounts falling due after more than one year	14	829,742	708,897	1,500	1,500
Provision for liabilities and charges	16	8,271	13,815	-	-
Capital and reserves					
Share capital	17	-	-	-	-
Revaluation reserve	18	933,112	860,740	-	-
Restricted reserve	18	58	28	-	-
Income and expenditure account	18	265,592	235,416	(175)	(211)
Negative goodwill	19	7,758	7,834	-	-
		2,044,533	1,826,730	1,325	1,289

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



Chairman



Non Executive Director



Company Secretary

GROUP CASH FLOW STATEMENT FOR YEAR ENDED 31 MARCH 2008

	Notes	2008		2007	
		£'000	£'000	£'000	£'000
Net cash flow from operating activities	23(i)		74,118		66,027
Returns on investments and servicing of finance					
Interest received and similar income		1,217		860	
Interest paid and similar charges		<u>(44,195)</u>		<u>(41,967)</u>	
Net cash outflow from returns on investments and servicing of finance			(42,978)		(41,107)
Taxation					
Corporation tax paid		<u>(12)</u>		<u>(95)</u>	
Net cash outflow on taxation			(12)		(95)
Capital expenditure					
Payments to acquire and develop housing properties		(195,497)		(143,649)	
Social housing grant received		38,361		56,880	
Payments to acquire other fixed assets		(4,185)		(3,746)	
Sale of housing properties		19,853		33,497	
Local authority right to buy claw back		(3,966)		(286)	
Sale of other fixed assets		<u>4,385</u>		<u>-</u>	
Net cash outflow from capital expenditure			(141,049)		(57,304)
Net cash flow before management of liquid resources and financing			(109,921)		(32,479)
Management of liquid resources					
Fixed deposits			(13,221)		1,100
			(123,142)		(31,379)
Financing					
Housing loans drawn	23(ii)		112,985		47,024
Repayment of finance leases			(170)		(180)
(Decrease)/Increase in cash	23(iii)		(10,327)		15,465

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008

1. Accounting policies

Basis of Accounting

The Group comprised six Registered Social Landlords at the balance sheet date, one unregistered business, which is an Industrial and Provident Society, one company limited by guarantee and one company limited by shares. The financial statements have been prepared 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 2005" 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.

Basis of Consolidation

The consolidated statements incorporate the financial statements of all members of the Group as at 31 March 2008 using merger and acquisition accounting where appropriate.

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.

Housing Properties

Completed housing properties are shown on the Balance Sheet at valuation, with subsequent additions at cost. Full revaluations are carried out annually. The aggregate surplus or deficit on the property revaluation is transferred to a 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. 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 cost and classified as 'Housing Properties in the course of construction'.

No attributable development staff costs or interest costs are capitalised on land banking.

Amortisation of Goodwill

Negative 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. It is included within reserves and released to the Income and Expenditure Account in the periods in which the fair values of the non-monetary assets purchased on the same acquisition are recovered whether through depreciation or sale.

Depreciation and Impairment

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:

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

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 these are held for the purpose of:

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)

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

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 SSAP 19 in order to give a true and fair view.

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 (SHG) 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.

Recycled Capital Grant Fund

The Group has the option to recycle SHG which would otherwise be repayable, for re-use on new developments. If unused within a three year period, it will be repayable to the Housing Corporation 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 more than one year’. The remainder is disclosed under ‘creditors due within one year’.

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 Determinations 2006.

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.

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.

Pre-contract costs

Costs incurred in bidding for and securing contracts for the supply of products and services under the Private Finance Initiative are recognised as expenses as incurred up to the date of the announcement of the preferred bidder. Where the Group is successful in attaining preferred bidder status, those costs that are incurred after attaining preferred bidder status are directly attributable to the contract and are recognised as an asset.

Development Partnerships

The Group acts in partnership with other Registered Social Landlords 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 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

Affinity Sutton Group Limited, the parent, and its operating companies, Grange Management (Southern) Limited, Affinity Sutton Funding Limited, Community Building Services (CBS) Limited, Downland Regeneration Limited, Broomleigh Regeneration Limited and William Sutton Developments Limited, are liable to corporation tax at the prevailing rate of taxation. The remaining operating companies undertake charitable activities and as such are not liable to corporation tax.

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 2008, discounted deferred tax assets/liabilities are not material and hence no provision is made.

Value Added Tax

The Group's Value Added Tax (VAT) affairs are dealt with under a Group registration in the name of Affinity Sutton Group Limited. The Association 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 Association participates in nine pension schemes, six are defined benefit schemes administered by the London Pensions Fund Authority Pension Fund, the London Borough of Bromley Pension Fund, Downland Housing Group Pension & Assurance Scheme, the Social Housing Pension Scheme, ("SHPS"), the Hertfordshire County Council Pension Fund and the William Sutton Trust Pension Scheme providing benefits based on final pensionable pay. The others are defined contribution scheme administered by Friends Provident. SHPS is accounted for as a defined contributions 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 Association 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 gains and losses, actuarial gains and losses.

Restricted Reserves

The Restricted Reserves relate to cash reserves from the Social Housing Agency Fund which will fund future housing research initiatives.

Designated Reserve

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.

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 based on the loan drawdown amounts.

Financial costs relating to the renegotiation of existing facilities are charged to the Income and Expenditure Account as they are incurred.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)

2. Turnover, cost of sales, operating costs and operating surplus/(deficit)

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

	Turnover £'000	Cost of sales £'000	Operating costs £'000	2008 Operating surplus/ (deficit) £'000	Turnover £'000	2007 Operating surplus/ (deficit) £'000
Social housing activities						
Income and expenditure from social housing lettings	185,706	-	(124,306)	61,400	186,649	61,479
Other income and expenditure	3,087	-	(2,762)	325	2,467	(340)
Total social housing	188,793	-	(127,068)	61,725	189,116	61,139
Other social housing activities						
Supporting people contract income	2,795	-	(2,745)	50	1,885	(75)
Other services	3,960	-	(3,964)	(4)	1,671	(126)
Total	6,755	-	(6,709)	46	3,556	(201)
Total social and other housing activity	195,548	-	(133,777)	61,771	192,672	60,938
Non social housing activity						
Income and expenditure from lettings	939	-	(297)	642	871	575
Income relating to commercial tenancies	1,840	-	(1,057)	783	1,560	651
Other	4,776	-	(5,309)	(533)	4,060	(339)
	203,103	-	(140,440)	62,663	199,163	61,825
Net surplus/(deficit) from disposals	14,649	(10,020)	(287)	4,342	14,649	5,186
Interest receivable				1,217		860
Interest payable				(44,195)		(41,967)
Other finance cost/income				1,188		1,242
Surplus on ordinary activities before taxation				25,215		27,146

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

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

	General Needs Housing	Supported Housing/ Housing for older people	Shared Ownership Accommo- dation	Leasehold	Key Workers	Total 2008	Total 2007
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Rent	148,818	17,048	2,367	18	3,403	171,654	172,376
Charges for support services	-	3,769	-	-	-	3,769	3,921
Service charges	6,874	2,208	209	1,726	-	11,017	10,910
Garage rents	1,179	-	-	-	-	1,179	1,208
Gross rents receivable	156,871	23,025	2,576	1,744	3,403	187,619	188,415
Rent losses from voids	(2,426)	(531)	(20)	-	(106)	(3,083)	(3,417)
Net rents receivable	154,445	22,494	2,556	1,744	3,297	184,536	184,998
Revenue grants from local authorities	894	109	-	-	-	1,003	1,589
Supported housing management grant	-	-	-	-	-	-	57
Other income	167	-	-	-	-	167	5
Total income from social housing lettings	155,506	22,603	2,556	1,744	3,297	185,706	186,649
Expenditure on social housing letting activities							
Services	(11,374)	(6,395)	(305)	(1,263)	(787)	(20,124)	(20,064)
Management	(23,159)	(3,663)	(518)	(898)	(326)	(28,564)	(27,573)
Routine maintenance (including cyclical)	(35,503)	(4,561)	(28)	(99)	(746)	(40,937)	(41,405)
Rent losses from bad debts	(1,486)	(183)	-	-	(14)	(1,683)	(1,365)
Major repairs expenditure	(23,525)	(2,915)	-	-	(365)	(26,805)	(27,734)
Development	(2,400)	-	-	-	-	(2,400)	(2,194)
Depreciation on housing properties	(2,625)	(186)	(98)	-	-	(2,909)	(3,888)
Rent paid	(661)	(223)	-	-	-	(884)	(902)
Other costs	-	-	-	-	-	-	(45)
Total expenditure on social housing lettings	(100,733)	(18,126)	(949)	(2,260)	(2,238)	(124,306)	(125,170)
Operating surplus/(deficit) on social housing letting activities	54,773	4,477	1,607	(516)	1,059	61,400	61,479

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)

3. Directors' emoluments

The directors are defined for the purpose of emoluments as the chief executive, any person with the title of director and any person reporting directly to the chief executive or directly to the Board.

The emoluments were as follows:

	Association	
	2008 £'000	2007 £'000
Emoluments (including compensation for loss of office and benefits in kind)		
Non executive directors	127	73
Executive directors	885	671
Pension contributions – in respect of services as directors	102	67
	1,114	811

The non executive directors were remunerated from October 2006. Consequently the figures for 2007 include only a partial year of remuneration compared with a full year for 2008.

One director received £65,715 in total for loss of office as director in line with the Group's redundancy terms (2007: six directors, £210,000).

	2008 £	2007 £
Highest paid director	244,466	213,828
Pension contributions of the highest paid director	26,446	19,596
	£'000	£'000
Expenses reimbursed to directors not chargeable to United Kingdom income tax	49	36

The pay of the highest paid director was increased in October 2006 to reflect increased responsibilities arising from the merger of Affinity Homes Group and William Sutton Group.

The pay shown for 2007/08 is for a full year at the new rate and also includes a non consolidated bonus payment of £28,878.

4. Employee information

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

	Group		Association	
	2008 Number	2007 Number	2008 Number	2007 Number
Full time equivalent	1,419	1,507	155	119
Staff Costs:	£'000	£'000	£'000	£'000
Wages and salaries	38,820	38,964	7,380	5,660
Social security costs	3,363	3,276	745	518
Pension costs (Note 24)	4,314	4,514	998	710
	46,497	46,754	9,123	6,888

5. Interest payable and similar charges

	Group		Association	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Interest on loans and overdrafts	45,937	43,637	106	90
Interest payable on finance leases	428	443	4	4
Other charges	884	751	-	-
	47,249	44,831	110	94
Less: interest capitalised	(3,054)	(2,864)	-	-
	44,195	41,967	110	94

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)

6. Surplus on ordinary activities before taxation

	Group		Association	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Surplus on ordinary activities before taxation is stated after charging/(crediting):				
Depreciation	5,545	6,194	820	560
Impairment	61	851	-	-
Charitable donations	64	63	-	-
Operating lease rentals	3,238	2,618	354	354
Amortisation of negative goodwill	(76)	(79)	-	-
Auditors remuneration:				
— in capacity as auditors	196	229	42	53
— in respect of other services	72	70	-	40
Other revenue grants	(1,003)	(822)	-	-

7. Taxation

Analysis of charge in period	Group		Association	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Uk Corporation tax				
Current tax (credit)/charge on income for the period	(13)	43	-	13
Adjustment in respect of prior periods	-	25	-	-
Total tax (credit)/charge	(13)	68	-	13

Factors affecting the tax charge for the period

The current tax charge for the Group is lower (2007: lower) for the period than the 30% (2007: 30%) standard rate of corporation tax in the UK. The differences are explained below:

Current tax reconciliation	Group		Association	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Surplus on ordinary activities before tax	25,125	27,146	-	-
Current tax at 30%	7,565	8,144	-	-
Effects of:				
Charitable surpluses not taxed	(7,578)	(7,884)	-	13
Gift aid	-	(217)	-	-
Total current tax charge (see above)	(13)	43	-	13

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)

8. Tangible fixed assets – Housing Property – Group

	Housing Properties £'000	Housing Properties in the course of construction £'000	Shared Ownership Properties £'000	Leasehold improvements £'000	Total £'000
Cost/Valuation					
At 1 April 2007	2,259,293	107,501	59,870	425	2,427,089
Additions	23,018	172,462	-	17	195,497
Proceeds from first tranche shared ownership sales	-	(12)	(12,042)	-	(12,054)
Schemes completed	77,647	(107,374)	29,727	-	-
Transfer to current assets	-	(946)	-	-	(946)
Disposals	(3,608)	-	(704)	-	(4,312)
Impairment	(61)	-	-	-	(61)
Revaluation	59,220	-	8,000	-	67,220
At 31 March 2008	2,415,509	171,631	84,851	442	2,672,433
Social Housing Grant					
At 1 April 2007	(573,202)	(39,664)	(15,546)	-	(628,412)
Received in year	(28,020)	(10,605)	(1,272)	-	(39,897)
Eliminated on disposals	214	-	(145)	-	69
At 31 March 2008	(601,008)	(50,269)	(16,963)	-	(668,240)
Depreciation					
At 1 April 2007	-	-	-	(98)	(98)
Charge for year	(2,700)	-	(69)	(79)	(2,848)
Revaluation	2,700	-	69	35	2,804
At 31 March 2008	-	-	-	(142)	(142)
Net book value					
As at 31 March 2008	1,814,501	121,362	67,888	300	2,004,051
Net book value as at 31 March 2007	1,686,091	67,837	44,324	327	1,798,579

	Housing Properties £'000	Housing Properties in the course of construction £'000	Shared Ownership Properties £'000	Leasehold improvements £'000	Total £'000
Net book value of housing property at 31st March 2008 is represented by:					
Gross cost	1,498,064	171,631	65,118	442	1,735,255
Social Housing Grant	(601,008)	(50,269)	(16,963)	-	(668,240)
Depreciation	-	-	-	(142)	(142)
Revaluation surplus	917,445	-	19,733	-	937,178
	1,814,501	121,362	67,888	300	2,004,051
Housing Property comprises				2008	2007
				£'000	£'000
Freeholds				1,982,433	1,741,722
Long Leaseholds				21,618	56,531
Short Leaseholds				-	326
				2,004,051	1,798,579

Development and major works additions and improvements to housing properties during the year include capitalised interest of £3,053,386 (2007: £2,864,166) and capitalised administration costs of £3,255,496 (2007: £2,551,188).

The historic cost of completed properties at the end of the year was £945,500,000 (2007: £871,272,000).

Total expenditure in 2008 on works to existing properties was £49,823,000 (2007: £47,972,000) of which £23,018,000 (2007: £20,238,000) has been capitalised.

A valuation was carried out as at 31 March 2008 by Drivers Jonas, the Group's professional external valuer. The valuation has been prepared in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Model. 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 range from 5.25% to 7.25%, but 5.25% 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.

Drivers Jonas 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 Drivers Jonas (2007: between 85% to 99%).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)

9. Non housing fixed assets Group

	Freehold Offices £'000	Leasehold Offices £'000	Office Equipment & Cars £'000	Investment Properties £'000	Total £'000
Cost/Valuation					
As at 1 April 2007	28,327	1,364	25,445	3,361	58,497
Additions	1,692	75	2,387	62	4,216
Disposals	(4,506)	-	(175)	(32)	(4,713)
Revaluation	-	-	-	4,046	4,046
At 31 March 2008	25,513	1,439	27,657	7,437	62,046
Acquisition Grants	-	(26)	(5)	-	(31)
Depreciation					
At 1 April 2007	(3,865)	(316)	(19,076)	-	(23,257)
Charge for year	(594)	(112)	(1,991)	-	(2,697)
Eliminated on disposal	1,100	-	142	-	1,242
At 31 March 2008	(3,359)	(428)	(20,925)	-	(24,712)
Net book value as at 31 March 2008	22,154	985	6,727	7,437	37,303
Net book value as at 31 March 2007	24,462	1,022	6,364	3,361	35,209
Net Book Values				2008	2007
				£'000	£'000
Leased motor vehicles				106	125
Depreciation charge for the year					
Leased motor vehicles				59	61

A commercial valuation on investment properties was carried out as at 31 March 2008 by Drivers Jonas on an open market value basis as defined in the Royal Institution of Chartered Surveyors Appraisal and Valuation Model.

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 17% in accordance with Leasehold Valuation Tribunal decisions.

9. Non housing fixed assets Association

	Office Equipment & Cars £'000
Cost	
As at 1 April 2007	3,024
Additions	1,486
Disposals	(27)
At 31 March 2008	4,483
Depreciation	
At 1 April 2007	(1,219)
Charge for year	(820)
Eliminated on disposal	19
At 31 March 2008	(2,020)
Net book value as at 31 March 2008	2,463
Net book value as at 31 March 2007	1,805

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)

10. Fixed Asset Investments – Group

	2008 £'000	2007 £'000
As at 31 March 2007	-	-
Additions	13,000	-
Interest receivable	221	-
As at 31 March 2008	13,221	-

Fixed asset investments represent funds advanced by Downland to Linden/Downland 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 year to undertake the development of an English Partnership 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. The Group and Downland have considered the recoverability of the capital and interest and are satisfied that, based on current forecasts, it is reasonable to assume that funds will be earned by the LLP and recovered as planned.

11. Investment in Joint Venture - Group

The undertaking in which the Group’s interest at year end is more than 20% is as follows:

	Country of Incorporation	Principal Activity	Class and percentage of shares held - Group
Joint venture Linden/Downland Graylingwell LLP	United Kingdom	Development	50% Ordinary

Joint venture

The total of the Group’s profit before taxation from its interest in the joint venture was £nil (2007: £nil). The amounts included in respect of the joint venture comprise the following:

	Linden/Downland Graylingwell LLP £'000	Affinity Sutton Group’s share £'000
Turnover	-	-
Current Assets	105,419	52,710
Liabilities		
— due within one year	(29,538)	(14,769)
— due after one year	(75,881)	(37,941)
Net Assets	-	-

There was no profit or loss in the year as all directly attributable costs of the development project were capitalised in accordance with FRS15 and Group accounting policy.

12. Debtors

	Group		Association	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Amounts falling due within one year				
Rents and service charge	15,481	13,144	-	-
Provision for bad debt	(5,966)	(4,944)	-	-
	9,515	8,200	-	-
Social Housing Grant receivable	3,780	3,354	-	-
Amounts receivable from Group undertakings	-	-	536	839
Other debtors and prepayments	11,411	11,876	1,191	723
	24,706	23,430	1,727	1,562
Amounts falling due after one year				
Loan to other RSLs	-	3,872	-	-
Employee Loans	4	8	-	-
	4	3,880	-	-
Total Debtors	24,710	27,310	1,727	1,562

13. Creditors: amounts falling due within one year

	Group		Association	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Bank Overdraft	4,327	644	1,049	-
Obligations under finance leases (Note 15)	230	199	-	-
Trade creditors	4,692	6,017	-	74
Recycled Capital Grant Fund	435	1,975	-	-
Disposal Proceeds Fund (Note 15)	-	7,047	-	-
Amount payable to Group undertakings	-	-	7	34
Other taxation & social security	348	752	-	289
Accruals and deferred income	26,998	20,992	1,843	1,945
Other creditors	15,700	21,211	34	31
Corporation tax	5	30	-	13
Net housing loans	870	942	-	-
	53,605	59,809	2,933	2,386

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)

14. Creditors: amounts falling due after one year

	Group		Association	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Housing loans	815,164	702,012	-	-
Loan set up costs	(3,397)	(3,317)	-	-
Net housing loans	811,767	698,695	-	-
Obligation under finance leases (Note 15)	5,603	5,804	-	-
Recycled Capital Grant Fund (Note 15)	815	316	-	-
Other Creditors	411	-	-	-
Disposal Proceeds Fund (Note 15)	11,137	4,082	-	-
Sinking fund	9	-	-	-
Amounts payable to Group undertakings	-	-	1,500	1,500
	829,742	708,897	1,500	1,500

Housing Loans

	2008 £'000	2007 £'000
Loans	815,164	702,012
Loan set up costs	(3,397)	(3,317)
	811,767	698,695
Repayable, otherwise than by instalments as follows:		
Between one and two years	1,029	1,023
Between two and five years	7,589	3,228
In five years or more	806,546	697,761
	815,164	702,012

Affinity Sutton Group Limited has £1.07 billion loan facilities.
The drawn facilities are hedged as follows:

	2008 £'000	2007 £'000
Market swaps outside loan agreement	255,200	151,400
Total fixed	247,664	248,627
Total unhedged	309,906	299,651
Total indexed linked	2,394	2,334
Total Housing Loans	815,164	702,012

15. Creditors: Analysis of movement on funds – Group

	2008	2007
	£'000	£'000
Obligations under finance leases		
Due in less than one year	230	199
Due between one and two years	206	252
Due between two and five years	581	579
In five years or more	4,816	4,973
At 31 March	5,833	6,003
Recycled Capital Grant Fund		
At 1 April 2007	2,291	2,413
Grants recycled	624	205
Interest Accrued	110	103
Utilisation of fund	(1,775)	(396)
Eliminated on de-merger of Tor Homes	-	(34)
At 31 March 2008	1,250	2,291
Disposal Proceeds Fund		
At 1 April 2007	11,129	11,022
Additions	1,739	1,661
Interest accrued	657	543
Utilisation of fund	(2,388)	(1,644)
Eliminated on de-merger of Tor Homes	-	(453)
At 31 March 2008	11,137	11,129

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)

16. Provision for Liabilities and Charges - Group

	2008 £'000	2007 £'000
Pension Schemes		
Downland Housing Group Pension & Assurance Scheme	1,158	2,008
London Pensions Fund Authority Pension Fund	1,427	3,238
London Borough of Bromley Pension Fund	3,063	4,725
The William Sutton Trust Pension Scheme	100	500
The Hertfordshire County Council Pension Fund	2,523	3,344
As at 31 March 2008	8,271	13,815

Under FRS 17 "Retirement Benefits" the Group has recognised the above pension fund liabilities (see note 24).

17. Share Capital – Group

	2008 Number	2007 Number
Shares of £1 allotted, issued and fully paid		
At beginning of year	24	64
Net movement during the year	(2)	(40)
At the end of the year	22	24

These shares carry no dividend rights and are cancelled on cessation of membership of Affinity Sutton Group Limited. Each member has the right to vote at members' meetings.

18. Reserves

Group

	Revaluation Reserve £'000	Restricted Reserves £'000	Income and Expenditure Account £'000	Total £'000
At 1 April 2007	860,740	28	235,416	1,096,184
Surplus for the year	-	-	25,228	25,228
March 2008	74,070	-	-	74,070
Transfer on disposal of properties	(267)	-	267	-
Transfer to Restricted reserves	-	21	(21)	-
Transfer for depreciation relating to revaluation	(1,431)	-	1,431	-
Actuarial gain on pension scheme liability	-	-	3,271	3,271
Other movements	-	9	-	9
At 31 March 2008	933,112	58	265,592	1,198,762

Within the Income and Expenditure Account are designated reserves of £168,000.

Association

	Income and Expenditure Account £'000
At 1 April 2007	(211)
Surplus for the year	36
At 31 March 2008	(175)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)

19. 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 2007 £'000	Amortised in the year £'000	At 31 March 2008 £'000
BHT	7,441	(74)	7,367
Merrimac Housing Association	393	(2)	391
	7,834	(76)	7,758

20. Capital Commitments – Group

	2008 £'000	2007 £'000
Capital expenditure contracted for but not provided for in the financial statements	364,700	127,216
Capital expenditure authorised by the Board not contracted for	182,038	90,813

21. Commitments under operating leases – Group

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

	2008 £'000	2007 £'000
Land and buildings		
Expiry date:		
Within one year	296	597
Between one and two years	155	215
Between two and five years	312	517
After five years	1,716	1,104
	2,479	2,433
Plant and Machinery		
Expiry date:		
Within one year	15	82
Between one and two years	7	7
Between two and five years	528	450
After five years	-	-
	550	539

22. Accommodation – Group

Number of units	Market rent	Supported	General Needs Housing	Shared Ownership	Leasehold	Keyworker	Student	Total
As at 1 April 2007	24	4,108	38,033	1,009	7,663	698	55	51,590
Net movement	(1)	82	174	225	(19)	(65)	-	396
As at 31 March 2008	23	4,190	38,207	1,234	7,644	633	55	51,986
							2008 Units	2007 Units
Owned and managed							50,137	49,398
Managed on behalf of others							1,849	2,192
Managed by others							783	698

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)

23. Notes to the cash flow statement

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

	2008 £'000	2007 £'000
Operating surplus	62,663	61,825
Non cash flow items:		
Depreciation	5,545	6,395
Amortisation of loan costs	(60)	(62)
Impairment of properties	-	650
(Decrease)/increase in stock	(55)	11
Decrease in work in progress	-	6,005
FRS 17 adjustment	(1,087)	(717)
Decrease/(increase) in debtors	3,952	(6,415)
Increase/(decrease) in creditors	3,160	(1,665)
Net cash flow from operating activities	74,118	66,027

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

	2008 £'000	2007 £'000
(Decrease)/increase in cash in period	(10,327)	15,465
Housing Loans drawn	(112,985)	(47,024)
Acquisition of BHT and Merrimac	-	(2,457)
Departure of Tor Homes	-	62,582
Amortisation costs	(15)	(15)
Cash flow from decrease/(increase) in liquid resources	13,221	(1,100)
Change in net debt resulting from cash flows	(110,106)	27,451
Repayment of finance lease	170	180
Net debt as at 1 April 2007	(680,919)	(708,550)
Net debt as at 31 March 2008	(790,855)	(680,919)

(iii) Reconciliation of net debt

	Cash at bank and in Hand £'000	Investment £'000	Finance Leases £'000	Housing Loan £'000	Net Debt £'000
Balance at 1 April 2007	24,721	-	(6,003)	(699,637)	(680,919)
Net Cash Flow	(10,327)	13,221	170	(112,985)	(109,921)
Other non cash changes	-	-	-	(15)	(15)
Balance at 31 March 2008	14,394	13,221	(5,833)	(812,637)	(790,855)

24. Pensions

During the 2007/2008 financial year the Group participated in nine pension schemes. Six are defined benefit final salary pension schemes: the London Pensions Fund Authority Pensions 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 pension charge paid by the Group for the year for these schemes was £4,314,000 (2007: £4,514,000). The cost is assessed in accordance with advice from qualified actuaries.

The details of the schemes are set out below:

London Pensions Fund Authority Pensions Fund (“LPFAPF”)

The Group is one of a number of employers participating in the fund. This fund provides members with benefits related to pay and services at rates that are defined under the Local Government Superannuation Regulations. To finance these benefits assets are accumulated in the fund and held separately from the assets of the Group.

The fund is valued every three years and the last actuarial valuation took place as at 31 March 2007.

From 1 April 2008 the contribution rate will be 16.4% of pensionable salaries for future service benefits plus an annual payment of £287,306 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 2007 – 2008 the Group contributed at the rate of 11.6% of pensionable salaries plus an additional payment of £159,596 to cover the past service deficit.

The last actuarial valuation of the Bromley pension fund (“the Fund”) was updated to 31 March 2007 by a qualified actuary, using a set of assumptions consistent with those required under FRS 17. The next formal valuation is due as at 31 March 2010.

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

This scheme is administered on behalf of the Trustees by the Legal & General Pension Trust and is funded to cover future pension liabilities, including expected future earnings and pension increases, in respect of service up to the balance sheet date. This scheme is subject to a full independent valuation every three years on the basis of which the qualified actuary certifies that the rate of the employer’s contributions together with contributions paid by employees and proceeds of the scheme assets, are sufficient to fund the benefits payable under the scheme.

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

The last full actuarial valuation was at 31 March 2006 using the projected unit method and was updated for FRS 17 purposes to 31 March 2008. The major assumptions used in the valuation were:

	2008	2007	2006
Inflation	3.6%	3.2%	3.0%
Pension increases in payment	3.6%	3.2%	3.0%
Discount rate	6.3%	5.4%	4.9%
Expected return on Equities	7.5%	7.8%	7.5%
Expected return on Bonds	6.3%	5.3%	4.9%
Expected return on other assets	4.8%	6.8%	7.0%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the time scale covered, might not necessarily be borne out in practice. In 2007 – 2008 there was no employer contribution. The scheme was closed for future service accrual in March 2005. There is an annual payment of £362,000 to fund the scheme deficit.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)

Social Housing Pension Scheme (“SHPS”)

The Group participates in the Social Housing Pension Scheme (“SHPS”). SHPS is a multi-employer defined benefit scheme. The scheme is funded and is contracted out of the state scheme.

Employer participation in the scheme is subject to adherence with the employer responsibilities and obligations as set out in the “SHPS House Policies and Rules Employer Guide”. The scheme operated a single benefit structure, final salary with a 1/60th accrual rate, to March 2007. From April 2007 there are three benefit structures available namely:

- 3.1 Final salary with a 1/60th accrual rate
- 3.2 Final salary with a 1/70th accrual rate
- 3.3 Career average revalued earnings (“Care”) with a 1/60th accrual rate

An employer can elect to operate different benefit structures for their active members (as at the first day of April in any given year) and their new entrants. An employer can only operate one open benefit structure at any one time. An open benefit structure is one which new entrants are able to join. The Group has elected to operate the 1/60th accrual rate benefit structure for active members as at 31 March 2007 and the Care benefit structure for new entrants from 1 April 2007.

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 determine the level of future contributions required, in respect of each benefit structure, so that the scheme can meet its pension obligations as they fall due. From April 2007 the split of the total contribution rate between member and employer is set at individual employer level, subject to the employer paying no less than 50% of the total contribution rate.

The actuarial valuation assesses whether the scheme’s assets at the valuation date are likely to be sufficient to pay the pension benefits accrued by members as at the valuation date. Asset values are calculated by reference to market levels. Accrued pension benefits are valued by discounting expected future payments using a discount rate calculated by reference to the expected future payments using a discount rate calculated by reference to the expected future investment returns.

During the accounting period the Group paid contributions at rates from 9.7% to 14.1%. Member contributions varied between 2.9% and 8.4% depending on age. As at the balance sheet date there were 595 active members of the scheme employed by the Group. The Group continues to offer membership of the scheme to its employees.

It is not possible in the normal course of events to identify the share of underlying assets and liabilities belonging to individual participating employers. Accordingly due to the nature of the plan, the accounting charge for the period under FRS 17 represents the future contribution payable.

The last formal valuation of the scheme was performed as at 30 September 2005 by a professionally qualified actuary using the projected unit credit method. The market value of the scheme’s assets at the valuation date was £1,278 million. The valuation revealed a shortfall of assets compared with the value of liabilities of £283 million, equivalent to a past service funding level of 82%.

The scheme actuary has prepared an actuarial report that provides an approximate update on the funding position of the scheme as at 30 September 2007. Such a report is required by legislation for years in which a full actuarial valuation is not carried out. The funding update revealed an increase in the assets of the scheme to £1,760 million and indicated a decrease in the shortfall of assets compared to liabilities to approximately £209 million, equivalent to a past service funding level of 89%. Annual funding updates of the SHPS scheme are carried out using approximate actuarial techniques rather than member by member calculations and will therefore not produce the same results as a full actuarial valuation. However, they will provide a good indication of the financial progress of the scheme since the last valuation.

Since the contribution rates payable to the scheme have been determined by reference to the last full actuarial valuation the following notes relate to the formal actuarial valuation at 30 September 2005.

The financial assumptions underlying the valuation as at 30 September 2005 were as follows:

	%per annum
Investment Return pre-retirement	7.2
Investment return post-retirement	4.8
Rate of salary increases to 30 September 2010	5.0
Rate of salary increases from 1 October 2010	4.0
Rate of pension increases	2.5
Rate of price inflation	2.5

The valuation was carried out using the PA92C2025 mortality table for non-pensioners and PA92C2013 mortality table for pensioners. The table below illustrates the assumed life expectancy in years for pension scheme members at age 65 using these mortality assumptions.

	Assumed Life Expectancy in years at age 65	
	Males	Females
Non – Pensioners	20.4	23.3
Pensioners	19.4	22.4

The long term joint contribution rates required from employers and members to meet the cost of future benefit accrual were assessed at:

Benefit Structure

Long Term

	Joint Contribution Rate (% of pensionable salaries)
Final salary with 1/60th accrual rate	17.6
Final Salary with 1/70th accrual rate	15.3
Career average revalued earnings with a 1/60th accrual rate	14.1

The long term joint contribution rates require from employers and members where contributions are set on an age related basis are:

Benefit Structure

Long Term

	Joint Contribution Rate (% of pensionable salaries)		
	Under 30	30-40	Over 40
Final salary with 1/60th accrual rate	16.1	17.1	18.1
Final Salary with 1/70th accrual rate	13.8	14.8	15.8
Career average revalued earnings with a 1/60th accrual rate	12.6	13.6	14.6

If an actuarial valuation reveals a shortfall of assets compared to liabilities the trustee must prepare a recovery plan setting out the steps to be taken to make up the shortfall.

Following the consideration of the results of the actuarial valuation it was agreed that the shortfall of £283 million would be dealt with by the payment of deficit contributions of 4.4% of pensionable salaries with effect from 1 April 2007. These deficit contributions are in addition to the long-term joint contribution rates set out in the table above. With effect from 1 April 2007 the employer and employee contribution rates from 2007 – 2008 will be 9.7% to 14.1% and 2.9% to 8.4% of pensionable salaries respectively.

Employers that participate in the scheme on a non-contributory basis pay a joint contribution rate (that is, a combined employer and employee rate).

Employers that have closed the scheme to new entrants are required to pay an additional employer contribution loading of 3.0% to reflect the higher costs of a closed arrangement. A small number of employers are required to contribute at a different rate to reflect the amortisation of a surplus or deficit on the transfer of assets and past service liabilities from another pension scheme into SHPS.

Employers joining the scheme after 1 October 2002, including the company, 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.

If the valuation assumptions are borne out in practice this pattern of contributions should be sufficient to eliminate the past service deficit by 30 September 2020.

A copy of the recovery plan, setting out the level of deficit contributions payable and the period for which they will be payable, must be sent to the Pensions Regulator. The Regulator has the power under Part 3 of the Pensions Act 2004 to issue scheme funding directions where it believes that the actuarial valuation assumptions and / or recovery plans are inappropriate. For example the Regulator could require that the Trustee strengthens the actuarial assumptions (which would increase the scheme liabilities and hence impact on the recovery plan) or impose a schedule of contributions on the Scheme (which would effectively amend the terms of the recovery plan). The Regulator has reviewed the recovery plan for the SHPS scheme and confirmed that, in respect of the September 2005 actuarial valuation, it does not propose to issue any scheme funding directions under part 3 of the Pensions Act 2004.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)

The next full actuarial valuation will be carried out as at 30 September 2008. An actuarial report will be prepared as at 30 September 2007 in line with statutory regulations.

Following a change in legislation in September 2005 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 buyout 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 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 most recent full actuarial valuation was carried out as at 30 September 2006. The employer contribution made in respect of the accounting period amounted to £1,151,000 (2007: £1,312,444). The current agreement as regards contribution rates for future years is described in the Schedule of Contributions dated 18 December 2007.

The scheme is closed to new entrants. The current service cost under the projected unit method is therefore expected to increase as the membership ages.

The Hertfordshire County Council Pension Fund (Herts Council Fund)

Staff who transferred from Hertsmere Borough Council to the Ridgehill group of companies are members of this scheme, which reflects the terms of the Local Government Pension Scheme ("LGPS"). There are 24 contributing members.

The latest actuarial valuation of the Herts Council Fund was carried out as at 31 March 2007 by an independent actuary. The next formal valuation is due as at 31 March 2010. The valuation was under the projected unit credit method.

The contribution paid in 2007 /08 by the Group was 18.6% (2007: 18.6%) and a monthly lump sum of £39,667.

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 dependant on the contribution by the employee as follows:

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

In accordance with Financial Reporting Standard 17 ("FRS 17") the directors of the Group 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 actuary are the best estimates chosen from a range of possible actuarial assumptions which, because of the time scale covered, may not necessarily be borne out in practice.

The fair value of the assets in the scheme, the present value of the liabilities in the scheme and the expected rate of return at each balance sheet date were:

	LPFAPF £'000	Bromley £'000	DHGPA £'000	WS Scheme £'000	Herts Council £'000	Total £'000
As at 31 March 2008						
The fair value of the assets:						
Equities	6,871	7,091	3,596	46,600	8,519	72,677
Bonds	2,220	2,530	567	10,700	1,527	17,544
Other	2,412	1,989	2,536	300	1,584	8,821
	11,503	11,610	6,699	57,600	11,630	99,042
Present value of fund liabilities	(12,930)	(14,673)	(7,857)	(57,700)	(14,153)	(107,313)
Fund deficit	(1,427)	(3,063)	(1,158)	(100)	(2,523)	(8,271)
As at 31 March 2007						
The fair value of the assets:						
Equities	6,907	7,270	3,817	51,800	9,151	78,945
Bonds	2,480	2,363	563	10,300	1,371	17,077
Other	1,704	1,528	2,633	300	1,472	7,637
	11,091	11,161	7,013	62,400	11,994	103,659
Present value of fund liabilities	(14,329)	(15,886)	(9,021)	(62,900)	(15,338)	(117,474)
Fund deficit	(3,238)	(4,725)	(2,008)	(500)	(3,344)	(13,815)
As at 31 March 2006						
The fair value of the assets:						
Equities	6,523	8,700	4,533	48,800	8,393	76,949
Bonds	1,971	1,912	729	10,300	1,421	16,333
Other	1,856	363	1,331	600	1,205	5,355
	10,350	10,975	6,593	59,700	11,019	98,637
Present Value of Scheme Liabilities	(14,157)	(15,284)	(9,662)	(61,400)	(15,639)	(116,142)
Fund deficit	(3,807)	(4,309)	(3,069)	(1,700)	(4,620)	(17,505)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)

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

As at 31 March 2008	LPFAPF	Bromley	DHGPA	WS Scheme	Herts Council
Inflation	3.6%	3.6%	3.6%	3.6%	3.6%
Salary increases	5.1%	5.1%	N/A	4.4%	5.1%
Pension increases in payment	3.6%	3.6%	3.6%	3.6%	3.6%
Discount rate	6.9%	6.3%	6.3%	6.9%	6.9%
Expected return on equities	7.5%	7.0%	7.5%	8.0%	7.7%
Expected return on bonds	6.3%	6.3%	6.3%	5.5%	5.7%
Expected return on gilts	N/A	4.4%	N/A	5.5%	N/A
Expected return on other annuities	N/A	N/A	6.3%	5.3%	N/A
Expected return on property	6.7%	6.4%	4.8%	8.0%	5.7%
Expected return on cash	4.8%	5.3%	4.8%	5.3%	4.8%

As at 31 March 2007	LPFAPF	Bromley	DHGPA	WS Scheme	Herts Council
Inflation	3.2%	3.3%	3.2%	2.8%	3.2%
Salary increases	4.7%	5.1%	N/A	4.3%	4.7%
Pension increases in payment	3.2%	3.3%	3.2%	2.8%	3.2%
Discount rate	5.4%	5.2%	5.4%	5.4%	5.4%
Expected return on equities	7.7%	7.1%	7.8%	8.0%	7.8%
Expected return on bonds	6.4%	5.2%	5.3%	5.0%	4.9%
Expected return on gilts	N/A	4.5%	N/A	5.3%	N/A
Expected return on other annuities	N/A	N/A	5.4%	5.3%	N/A
Expected return on property	6.8%	6.6%	6.8%	8.0%	5.8%
Expected return on cash	4.9%	5.0%	5.3%	5.3%	4.9%

As at 31 March 2006	LPFAPF	Bromley	DHGPA	WS Scheme	Herts Council
Inflation	3.1%	3.0%	3.0%	2.5%	3.1%
Salary increases	3.1%	4.8%	N/A	4.0%	4.6%
Pension increases in payment	4.6%	3.0%	3.0%	2.5%	3.1%
Discount rate	4.9%	4.9%	4.9%	4.9%	4.9%
Expected return on equities	7.3%	7.0%	7.5%	8.0%	7.4%
Expected return on bonds	6.0%	4.9%	4.9%	4.5%	4.6%
Expected return on gilts	N/A	4.2%	N/A	4.5%	N/A
Expected return on other annuities	N/A	N/A	7.0%	4.5%	N/A
Expected return on property	6.5%	6.5%	N/A	8.0%	5.5%
Expected return on cash	4.6%	4.0%	N/A	4.5%	4.6%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the time scale covered, may not necessarily be borne out in practice.

The following represents the amounts charged to the income and expenditure account following the full implementation of FRS 17:

	LPFAPF £'000	Bromley £'000	DHGPA £'000	WS Scheme £'000	Herts Council £'000	Total £'000
Year to 31 March 2008						
Amounts charged to operating activities:						
Current and past service cost	278	237	-	1,200	187	1,902
Curtailment and settlements	-	-	(39)	-	61	22
	278	237	(39)	1,200	248	1,924
Amounts charged to pension finance costs:						
Expected return on pension fund assets	805	743	452	4,600	868	7,468
Interest on pension fund liabilities	(772)	(814)	(473)	(3,400)	(821)	(6,280)
	33	(71)	(21)	1,200	47	1,188
Actuarial gains and losses on defined benefit pension fund:						
Actual return less expected return on pension fund assets	(1,040)	(305)	(744)	(8,000)	(1,404)	(11,493)
Experience gains and losses arising on the fund liabilities	859	297	(14)	-	(340)	802
Changes in financial assumptions underlying the present value of the fund liabilities	1,668	1,685	1,338	7,200	2,071	13,962
	1,487	1,677	580	(800)	327	3,271
Movement in deficit during the year:						
Deficit on the fund at 1 April 2007	(3,238)	(4,725)	(2,008)	(500)	(3,344)	(13,815)
Current service cost	(278)	(235)	(39)	(1,200)	(189)	(1,941)
Employer contributions	553	291	362	1,200	653	3,059
Other income/outgoings	-	-	(32)	-	-	(32)
Contributions in respect of unfunded benefits	16	-	-	-	44	60
Past service costs	-	-	-	-	-	-
Impact of settlements and curtailments	-	-	-	-	(61)	(61)
Net return on assets	33	(71)	(21)	1,200	47	1,188
Actuarial (loss)/gain	1,487	1,677	580	(800)	327	3,271
Deficit in fund at 31 March 2008	(1,427)	(3,063)	(1,158)	(100)	(2,523)	(8,271)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)

	LPFAPF	Bromley	DHGPA	WS Scheme	Herts Council	Total
	£'000	£'000	£'000	£'000	£'000	£'000
History of experience gains and losses						
Difference between the expected return and actual return on fund assets	(1,040)	(305)	(744)	(8,000)	(1,404)	(11,493)
Value of assets	11,503	11,610	6,699	57,600	11,630	99,042
As a percentage of fund assets:	(9%)	(2.6%)	(11.1%)	(13.9%)	(12.1%)	(11.6%)
Experience gains on fund liabilities	859	297	(14)	-	(340)	802
Present value of liabilities	12,930	14,673	7,857	57,700	14,152	107,312
As a percentage of fund liabilities	6.6%	2.0%	(0.2%)	0.0%	(2.4%)	0.7%
Actuarial (losses)/gains recognised in Statement of Total Recognised Gains and Losses						
	1,487	1,677	580	(800)	327	3,271
Present value of liabilities	12,930	14,673	7,857	57,700	14,152	107,312
As a percentage of fund liabilities	11.5%	11.4%	7.4%	(1.5%)	2.3%	3.0%
Year to 31 March 2007						
Amounts charged to operating activities:						
Current and past service cost	327	236	60	1,200	207	2,030
Amounts charged to pension finance costs						
Expected return on pension fund assets	699	705	443	4,300	754	6,901
Interest on pension fund liabilities	(694)	(745)	(460)	(3,000)	(760)	(5,659)
	5	(40)	(17)	1,300	(6)	1,242
Actuarial gains and losses on defined benefit pension fund						
Actual return less expected return on pension fund assets	99	(418)	147	-	24	(148)
Experience gains and losses arising on the fund liabilities	(329)	-	(14)	(800)	-	(1,143)
Changes in financial assumptions underlying the present value of the fund liabilities	873	-	673	600	820	2,966
	643	(418)	806	(200)	844	1,675

	LPFAPF	Bromley	DHGPA	WS Scheme	Herts Council	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Movement in deficit during the year						
Deficit on the fund at 1 April 2006	(3,807)	(4,309)	(3,069)	(1,700)	(4,620)	(17,505)
Current service cost	(327)	(236)	(60)	(1,200)	(207)	(2,030)
Employer contributions	232	278	332	1,300	604	2,746
Contributions in respect of unfunded benefits	16	-	-	-	41	57
Net return on assets	5	(40)	(17)	1,300	(6)	1,242
Actuarial (loss)/gain	643	(418)	806	(200)	844	1,675
Deficit in fund at 31 March 2007	(3,238)	(4,725)	(2,008)	(500)	(3,344)	(13,815)
History of experience gains and losses	£'000	£'000	£'000	£'000	£'000	£'000
Difference between the expected return and actual return on fund assets	99	(418)	147	-	24	(148)
Value of assets	11,091	11,161	7,013	62,400	11,994	103,659
As a percentage of fund assets	0.9%	(3.7%)	2.1%	0.0%	0.2%	(0.11%)
Experience gains on fund liabilities	(329)	-	(14)	(800)	-	(1,143)
Present value of liabilities	14,329	15,886	9,021	62,900	15,338	117,474
As a percentage of fund assets	(2.3%)	0.0%	(0.2%)	(1.3%)	0.0%	(1.0%)
Actuarial (losses)/gains recognised in Statement of Total Recognised Gains and Losses	643	(418)	806	(200)	844	1,675
Present value of liabilities	14,329	15,886	9,021	62,900	15,338	117,474
As a percentage of fund liabilities	4.5%	(2.6%)	8.9%	(0.3%)	5.5%	1.4%
Year to 31 March 2006						
History of experience gains and losses	£'000	£'000	£'000	£'000	£'000	£'000
Difference between the expected return and actual return on fund assets	1,332	1,976	748	8,500	1,620	14,176
Value of assets	10,350	10,975	6,593	58,900	11,019	97,837
As a percentage of fund assets	12.9%	18.0%	11.3%	14.2%	14.7%	14.5%
Experience gains on fund liabilities	292	-	(82)	300	139	649
Present value of liabilities	14,157	15,284	9,662	61,400	15,639	116,142
As a percentage of fund liabilities	2.1%	0.0%	(0.8%)	0.6%	0.99%	0.6%
Actuarial (losses)/gains recognised in Statement of Total Recognised Gains and Losses	(4)	562	(237)	(100)	166	387
Present value of liabilities	14,157	15,284	9,662	61,400	15,639	116,142
As a percentage of fund liabilities	0.0%	3.7%	(2.5%)	(0.2%)	1.1%	0.3%

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)

Year to 31 March 2005

	LPFAPF	Bromley	DHGPA	WS Scheme	Herts Council	Total
	£'000	£'000	£'000	£'000	£'000	£'000
History of experience gains and losses						
Difference between the expected return and actual return on fund assets	221	257	277	1,800	277	2,832
Value of assets	8,100	8,480	5,789	48,300	9,346	80,015
As a percentage of fund assets	2.7%	3.0%	4.8%	3.7%	3.0%	3.5%
Experience gains on fund liabilities	817	2,859	191	100	(340)	3,627
Present value of liabilities	12,160	13,263	8,854	50,800	14,096	99,173
As a percentage of fund liabilities	6.7%	21.6%	2.2%	0.2%	(2.4%)	3.7%
Actuarial (losses)/gains recognised in Statement of Total Recognised Gains and Losses	829	(54)	(28)	1,100	(283)	1,564
Present value of liabilities	12,160	13,263	8,854	50,800	14,096	99,173
As a percentage of fund liabilities	6.8%	(0.4%)	(0.3%)	2.2%	(2.0%)	1.6%

Year to 31 March 2004

	£'000	£'000	£'000	£'000	£'000	£'000
History of experience gains and losses						
Difference between the expected return and actual return on fund assets	773	1,043	599	7,700	1,188	11,303
Value of assets	6,049	7,730	4,560	44,400	8,864	71,603
As a percentage of fund assets	12.8%	13.5%	13.1%	17.3%	13.4%	15.8%
Experience gains on fund liabilities	38	-	(11)	200	(20)	207
Present value of liabilities	11,172	12,531	7,299	48,200	13,338	92,540
As a percentage of fund liabilities	0.3%	0.0%	(0.2%)	0.4%	(0.1%)	0.2%
Actuarial (losses)/gains recognised in Statement of Total Recognised Gains and Losses	221	565	38	7,300	457	8,581
Present value of liabilities	11,172	12,531	7,299	48,200	13,338	92,540
As a percentage of fund liabilities	2.0%	4.5%	0.5%	15.1%	3.4%	9.3%

25. Ultimate Parent Undertaking

At the year end Affinity Sutton Group Limited was the ultimate parent undertaking for the following wholly owned operating companies:

Organisations registered in England and Wales under the Industrial & Provident Societies Act 1965:

- Downland Housing Association Limited
- Grange Management (Southern) Limited
- Broomleigh Housing Association Limited
- William Sutton Housing Association Limited
- Aashyana Housing Association Limited

Limited companies registered in England and Wales:

- Brighton Housing Trust
- Affinity Funding Limited
- Community Building Services (CBS) Limited
- William Sutton Developments Limited
- Downland Regeneration Limited (from 18 December 2007)
- Broomleigh Regeneration Limited (from 5 February 2008)

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

26. Legislative Provisions

The Group is incorporated under the Industrial and Provident Societies Act 1965 and is registered with the Housing Corporation under the Housing Act 1996.

27. Minority Interest

The minority interest disclosed in the Group's balance sheet represents the interest of Plymouth City Council, a 49% shareholder in the subsidiary company Call24hour Limited. Since the departure of Tor Homes from the Group Call24hour is no longer a subsidiary of Affinity Sutton Group Limited.

CONTACT

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