



Consolidated Financial Statements

for the Year Ended
31 March 2016



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Board of Management, Executive Team and Advisers

Board of Management:

Member		Board	Audit Committee	Remuneration Committee (From 28 January 2016)
P Lakey	N	Chair	Chair (To 28 January 2016)	Chair (From 28 January 2016)
P Remington	N	✓	Chair (From 28 January 2016)	
R Bennett (Appointed 1 May 2015)	N	✓	✓	
K Laud (Appointed 1 May 2015)	N	✓	✓	
R Finon (Resigned 31 March 2016)	N	✓	✓	
D Ayre (Resigned 31 July 2015)	N	✓		
D McQuade	E	✓		
D Armstrong	E	✓		
H Walsham	E	✓		
R Ayden	S			

The following were co-optees of the committees as indicated and not members of the Board

P Cook (To 24 March 2016)	C	✓		✓
C Waller (Appointed 1 May 2015 to 28 March 2016)	C	✓		
R Bennett (To 1 May 2015)	C		✓	

Advisers:

Registered Office: Keswick Hall, Keswick, Norwich, Norfolk, NR4 6TJ

Solicitors: Anthony Collins Solicitors, 134 Edmund Street, Birmingham, B3 2ES

Internal Auditors: Beever & Struthers, St Georges House, 215 - 219 Chester Road, Manchester, M15 4JE

External Auditor: Mazars LLP, 45 Church Street, Birmingham, B3 2RT

Bankers: National Westminster Bank, Norfolk & Waveney Corporate Business Centre, Norfolk House, Exchange Street, Norwich, Norfolk, NR2 1DD

Group Funders: The Royal Bank of Scotland; Santander UK; The Co-operative Bank; Nationwide Building Society

Key

- N Non-Executive Director
- E Executive Director
- S Company Secretary
- C Co-optee

Chair's Statement

2015/16 was a year when Flagship rose to the challenge presented by government policy – especially the significant loss of income from four years' rent reduction and the growing stress caused by welfare reform. In doing so, we laid important foundations for the future. Our focus has been on improving operational performance. Efficiency gains and tighter cost control have delivered an operating margin of 39% and a record net surplus of £27.4m. This was matched by improved customer satisfaction.

We retained our A1 credit rating from Moody's, and agreed a £15m loan from the European Investment Bank at a very favourable interest rate.

We have achieved strong operational progress in housing management maintaining high levels of rent collection and further improvements in void loss and customer satisfaction. We added 243 new homes – a mixture of affordable rent, shared ownership and market rent. Income from shared ownership first tranche sales grew significantly.

We want to build as many new homes for affordable rent as we sensibly can, and to make this possible we aim to generate profit commercially. This will be partly from our new development company, Flagship Homes, meeting wider housing needs by building for outright sale, market rent and shared ownership, and partly from other commercial activity, including through RFT Services, our maintenance company.

Development projects take a few years to come to fruition but we are building a strong pipeline for increased supply from 2017/18 onwards. For example, we acquired land in Papworth, and Cambourne, in Cambridgeshire. These two sites will provide around 93 new homes – including our first ones for outright sale and others for affordable rent and shared ownership.

RFT Services continued to evolve positively, increasing its efficiency and customer satisfaction and was awarded ISO 14001 and ISO 9001 for Quality Management and Environmental Systems. This positions us well for external markets – as does the success of our first outside venture, maintaining Breckland Council's commercial premises.

Our Business Improvement Team is pleased to be providing consultancy to a Midlands housing association to help them implement their equivalent of The Flagship Way – our approach to continuous improvement, driving out waste and improving performance.

The social housing regulator, the HCA, chose Flagship for one of the very first In Depth Assessments of governance and financial viability. We came out of this very well – with extensive praise for our approach to governance and our financial results and viability. There was only one negative finding of significance. Earlier in the year we had introduced a structured framework of system reviews, which we intended to work alongside traditional internal audit to strengthen internal controls. The HCA felt that the balance between system reviews and traditional audit needed to be amended to achieve satisfactory board assurance. We acted positively on their recommendations with the result that, in July 2016, we were returned to the highest regulatory ratings of G1 and V1.

I would like to thank Ros Finon who retired as a non-executive director in March 2016. Ros was an enthusiastic and hard-working member of the Board, and a very professional Chair of the Audit Committee. Her contribution was much appreciated.

We can all be proud of what has been achieved in the last year - in a difficult and unpredictable operating environment - to create a better future for our customers. On behalf of the Board I thank Flagship's people for their continuing hard work and commitment.



We came out of this very well - with extensive praise for our approach to governance and our financial results and viability.

We did what we set out to do. We successfully reshaped Flagship - positioning it well for sustainable growth - so that we can continue to fulfil our purpose and provide good quality homes for those in need.

A handwritten signature in black ink, appearing to read 'Peter Lakey'.

Peter Lakey

Chair

28 July 2016



“On behalf of the Board I thank Flagship’s people for their continuing hard work and commitment.”



Strategic Report for the Year Ended 31 March 2016

Principal activities

Flagship's primary activity is to provide general needs rented accommodation for people on low incomes. Our purpose is to provide homes for people in need. The majority of our housing stock is one, two and three bedroom accommodation. We provide five very sheltered housing schemes with extra care, and a number of traditional sheltered schemes. In addition we provide accommodation for young people aged 16-24, shared ownership homes, some student accommodation and a small number of market rented homes. The Group had 22,323 (2015: 22,088) homes in management at 31 March 2016.

The results of Flagship Housing Developments Limited and RFT Repairs Limited are consolidated in the Group's results. Flagship Housing Developments Limited provides development services to the Group, RFT Repairs Limited provides repairs services to the Group.

Objectives and strategies

In 2015 Flagship refreshed its corporate strategy, to ensure we deliver our purpose and our strategic intent.



Our purpose: To provide homes for people in need.



Our 2030 vision: An agile business that is outstanding in customer service and value for money.



Strategic intent: To be the best service provider in our chosen markets.

It reinforces our commitment to achieving excellence through the Flagship Way and provides a clear focus on business and commercial growth to support our purpose and meet customers' needs.

Operating review

During the year Flagship's development programme produced 243 (2015: 217) new homes. 48 new Shared Ownership properties were completed this year (2015: 59.) During the year there were 65 (2015: 50) staircasing sales, 59 (2015: 39) of which were staircasing up to outright ownership.

Improvement of our housing stock remains a priority and during the year we invested £32.4m (2015: £39.2m) on routine and planned maintenance (including capital elements) of social housing stock. This expenditure is a core part of the Group's programme to invest more in maintenance by ensuring we do the right repairs to protect the long-term value of our housing stock.

We are committed to the continuous improvement of all our services through the development of the Flagship Way. Our methodology enables us to understand what is going on in the work, the causes of variation in performance, act on the system to reduce waste, build capacity and keep improving.

We are regulated by the Homes & Communities Agency (HCA). As with any regulator this involves an ongoing dialogue in respect of all issues affecting the sector and Flagship at a local level. The Group has a Governance rating of G1 and a Viability rating of V1. www.homesandcommunities.co.uk/ourwork/regulatory-judgements. During the year Moody's maintained their credit rating of the Group at A1.

We are committed to the continuous improvement of all our services through the development of the Flagship Way.

Principal strategic and operational risks

The principal risks faced by Flagship are identified by the Board and senior managers at regular board meetings and factored into the Business Plan. Currently the external risks include:

- Changing local and national political landscape, impacting on the operating environment.
- Reduced public funding restricting the amount of new developments able to be built.
- Welfare reform leading to a loss of income, including uncertainty over future housing benefit eligibility, caps and direct payments to customers.
- Imposed rent reduction.
- Inflation, interest rate and margin increases resulting in higher costs.

FRS 102

The financial statements for the year ended 31 March 2016 have been presented for the first time under the new financial accounting standard FRS 102. The look and feel of the financial statements is different, along with some of the data presented as FRS 102 requires some alternative methods of recognising assets and liabilities. Note 34 details the re-statements necessary to report under FRS 102.

One of the areas of change for Flagship is the presentation of the property fixed assets. Previously these assets were disclosed at valuation. Under FRS 102, Flagship will hold the assets at cost. For the opening balances, a transitional relief which allows the valuation to be used as deemed cost has also been utilised.



Group results: summary		
	2016 £'000	2015 £'000
Statement of comprehensive income		
Turnover	127,060	121,636
Operating costs	(76,783)	(77,599)
Operating surplus	50,277	44,037
Surplus on sale of assets	1,176	1,436
Net interest and financing charges	(24,126)	(24,599)
Surplus on revaluation of investment properties	33	175
Surplus for the year	27,360	21,049
Statement of financial position		
Fixed assets	1,329,423	1,322,970
Current assets	89,897	77,193
Current liabilities	(36,659)	(35,162)
	1,382,661	1,365,001
Financed by:		
Creditors due after 1 year	802,919	812,448
Other long-term liabilities	5,290	6,920
Reserves	574,452	545,633
	1,382,661	1,365,001
Statement of cash flows		
Net cash flow from operating activities	59,182	65,933
Cash flows from investing activities	(22,769)	(47,150)
Cash flows from financing activities	(28,473)	(28,732)
Net cash flow	7,940	(9,949)
Financial ratios		
Operating margin – social housing	41.2%	36.1%
Operating margin	39.6%	36.2%
Operating costs per home – social housing	£ 2,910	£ 3,108
Operating costs per home	£ 3,520	£ 3,593
Cash generated per unit	£ 2,650	£ 2,985
Key covenant ratios		
Operating surplus to interest	2.84	2.46
Debt per unit	£ 27,134	£ 27,546
Asset cover – charged properties on £460m loan	1.29	1.27
Gearing	41.3%	41.9%
Other key performance indicators		
Homes in management	22,323	22,088
Overall customer satisfaction	90%	88%
Current tenant rental arrears as a % of income	2.5%	2.4%
Current tenant rental arrears	£ 2.7m	£ 2.5m
Average weekly gross rent (52 weeks)	£ 94.18	£ 95.45
Average re-let time	40.0 days	40.5 days
Rent loss from voids as a % of income	0.80%	0.87%
New handovers in year	243	217
First tranche shared ownership sales	77	51
Staircasing shared ownership sales	65	50
SHIFT Rating	47.9	47.9

Financial results

Core social housing rental income has increased on an annual basis in accordance with our rental policy. Next year, this will reduce in accordance with the 1% rent reduction.

Financial performance

The Group surplus before tax for 2015/16 has increased by £6.3m to £27.4m. The financial statements continue to demonstrate strong performance. Some key facts are:

Income:

- The majority of income comes from social housing lettings – 84.0% (2015 – 85.4%) and this income increased from £103.9m to £106.8m, reflecting the increased rent levels in accordance with the approved rent policy.
- The housing team maintained their strong performance on rent collection, ending the year with a rent arrears percentage of 2.5% (2015 2.4%). 2016-17 could be a more challenging year with the introduction into more parts of our region of Universal Credit. The housing teams continue to engage with customers to educate and assist as their circumstances change.
- The largest income growth area was shared ownership first tranche. Due to favourable housing conditions, first tranche sales income of £10.3m was £4.0m higher than last year, with all schemes reporting favourable variances on all the number of sales, the valuations and the % first tranche sales.

Expenditure:

Operating costs have decreased, 2016 – £76.8m; 2015 – £77.6m.

- As there was a greater shared ownership income, the associated costs of sales also increased. 2016 – £7.8m, 2015 – £4.5m.
- In 2015 there was an additional £2m charge relating to the revaluation of the past service deficit of the SHPS pension scheme.
- Routine maintenance, cyclical maintenance, planned maintenance and major works expenditure for the full year for our social properties decreased to £32.4m from £39.2m (including the capital elements).
- As a result the surplus generated from social housing lettings has increased by £7.4m to £45.9m.

Balance Sheet:

Housing properties are valued at £1,272.4m.

- The properties are held at depreciated historical cost. During the transition to FRS 102, advantage was taken to hold our stock transfer assets at a deemed cost on 1 April 2014.
- The gearing ratio (showing the level of indebtedness) has improved to 41.3% (2015:41.9%).
- The LGPS pension liability is £5.3m (2015:£6.9m.) This does not reflect the position of the Group's SHPS scheme. The estimated employers' buy out debt in the SHPS scheme is £38.3m (2015:£34.6m).

Cash Flows:

- Operating activities generated cash of £59.2m.
- Interest paid was lower than the prior year at £25.0m (2015:£25.6m). This is due to a greater proportion of the debt moving to the variable rates, taking advantage of historically low interest rates.
- During the year £22.4m (2015:£56.4m) was spent on the improvement, construction and purchase of housing properties.
- Repayments of £2.5m were made of the RSL Finance No1 bond.

Funding:

- Gross loans outstanding at 31 March 2016 were £589.4m (2015: £591.9m). The average interest rate on these loans is 4.08% (2015: 4.18%).
- In the year ended 31 March 2017, the first payment of the syndicated loan of £5m is due.
- Flagship has comfortably met the covenants required as a condition of the above funding.

The Business Plan confirms that these conditions will continue to be met.

Key performance indicators

In addition to monitoring the key financial information, operating performance is reviewed monthly by the Executive Team and at all Group Board meetings to ensure we are achieving our objectives and strategies.

Customer satisfaction has increased to 90%, from 88%.

Investment for the future

Our purpose is to provide homes for people in need across the east of England. Our core business is the provision of housing management and maintenance services to over 22,000 rented homes. We also have a new build development programme where we expect to handover around 1500 new properties over the next five years to 31 March 2021.

Our strategic intent is to provide homes for people in need.

By delivering services which are truly designed against customer needs we will build a different business model to all other housing associations in the east, enabling us to provide a significantly better overall service.

Our relentless pursuit of continuous improvement and learning will differentiate us from our competitors and position us strongly for the future.

Business priorities:

- We plan to grow our core business through the development of new affordable homes at a rate of at least 300 new homes per year.
- Improve performance in housing management and our repairs service.
- Focus on implementing group-wide continuous improvement.
- Consider business growth ideas that could add value to our strategic intent.
- Review options on current business areas that do not align to our strategic intent.
- Develop new partnerships and alliances where this supports our strategic intent and business focus.

Sustainability

Over the past year, a team from across the business has undertaken a comprehensive review of our response to sustainability. The outcome of this work is a unique modelling tool developed to support decision-making and measure performance. Over the course of the following year a revised sustainability plan will be rolled-in across the organisation.

Capital structure

Flagship Housing Group Limited is registered under the Co-operative and Community Benefit Societies Act 2014. It has issued share capital of £142. The shares do not have a right to any dividend or distribution in a winding-up, and are not redeemable. Each share has full voting rights. Further details of the group structure can be found in Note 13 to the financial statements.

Treasury policy

Flagship Housing Group has adopted a group Treasury Policy that sets out the parameters and controls for treasury activities across the group. Properties are financed through loans from the debt and capital markets. The gross amount owed by Flagship Housing Group as at 31 March 2016 relating to these facilities was £589.4m (2015: £591.9m). Further details relating to these facilities can be found in note 19 to the financial statements.

Statement of compliance

In presenting the Strategic Report, the Board has endeavoured to follow the principles as set out in the Statement of Recommended Practice for accounting by Registered Providers.

Value for Money (VfM) – 2015/16

We define Value for Money (VfM) as achieving the best possible results with the available resources; finding the right balance between cost, quality and effectiveness.

Our approach is built around a culture of continuous improvement. Through the Flagship Way – our system for continually challenging our cost base, doing things right and measuring the relationship between costs and outcomes – our efforts are focused on creating long-term value over short-term savings. Our customers' satisfaction demonstrates our progress.

This self-assessment includes a review of progress during 2015/16 and outlines our plans and aspirations for 2016/17. Further details are provided in an additional report published in September in the annual report section of our website at: www.flagship-group.co.uk/our-finances

The operating environment continues to be uncertain and ever more challenging. In addition to the further roll-out of Universal Credit there were major policy changes to bring in four years of rent reduction, proposals for voluntary right to buy and a clear shift towards a policy of home ownership.

Following the announcements the Board met to discuss additional stress tests to the business plan and to begin analysing the likely impacts and potential changes to our strategy. In November 2015 the Board agreed a number of tweaks to our plans in response to the new environment including: an increase in our existing efficiency target from £8m to £10m per annum by 2017 (measured against our 2015/16 budget); acceleration of our plans to build for outright sale; re-assessment of our plans for additional debt – financing our growth without more debt in the short term.




These changes, together with a relentless drive for continuous improvement, will ensure our assets are well protected, our customers continue to receive an excellent service and we build a business with the strength and resilience to continue to grow.

Our purpose remains unchanged – providing homes for people in need but in an ever-challenging operating environment this means finding innovative new ways of working to finance new homes. By developing our partnerships with local authorities, investors and developers and building more homes for outright sale, market rent and shared ownership we aim to generate the profit required to invest into providing desperately-needed affordable homes.

We are reporting under the new financial reporting standards (FRS 102) for the first time which means we have restated our current and prior year financial data. In both cases this increased our balance sheet value but reduced our profit by c£5m. Peer comparison data is taken from the 2014/15 financial statements and is therefore based on the previous standards.

Value for Money monitoring – comparing the cost of delivering services to the level of performance and satisfaction they achieve – is essential to us. We measure our performance and benchmark ourselves against housing associations with stock managed between 15,000 & 30,000 properties and against the previous year's performance. We use a colour coding system to highlight our VfM performance:

Key

-  Good
-  OK
-  Requires improvement

Highlights this year include:

- 90% customer satisfaction (2015:88%)
- 39.6% operating margin (2015:36.2%)
- £6.0m reduction in maintenance spend
- Improved void loss at 0.80% (2015:0.87%)
- 2.5% arrears (2015:2.4%)
- £2.4m surplus from 1st tranche sales (2015:£1.8m)
- 21.5% net margin (2015:17.2%)
- 243 new homes handed over (2015:217)
- Maintained a streamlined, agile governance framework
- Maintained A1 credit rating with Moody's

Strategy

Our aim is to provide excellent housing management and maintenance – and keep investing in our core social housing business – whilst growing on a number of fronts.

We have enhanced our development arm to increase our efforts on outright sale, market rent and shared ownership. We want growth to help us build a dynamic, great company delivering high customer satisfaction and driving value for money.

Our strategy sets out five key areas of focus as outlined below:

Customers

Deliver outstanding customer service

Provide more new homes

Growth

Grow our business through acquisition or merger opportunities

Develop profitable new activities to support our core business

People

Develop skilled and talented people

Develop the Flagship Way – our method of continual improvement

Systems

Improve the performance of our assets

Increase efficiency and productivity to achieve £8m* savings in the first year

*Rising to £10m in second year

Finances





Increase our operating surplus

Reduce the cost of our borrowing

Deliver outstanding customer service

Our Customer Operations Group (COG) has made great progress this year. Their purpose to “influence decision making by helping us understand what matters to our customers” has given greater clarification to their role and they now play a key part within the system review programme, our method of extending and enhancing internal audit, and in reviewing outcomes from a range of activities. The VfM statement is shared with COG.

We continue to aspire to deliver outstanding customer service and this year we saw increasing levels of customer satisfaction compared to 2015, however, customer satisfaction for re-lets remains a key focus area. We are looking at the common themes of dissatisfaction such as cleanliness and decoration so we can better understand the issues to see where we can make improvements.

Measure	2016 Actual	Comparison to:	
		2015 Actual	Progress
Customer satisfaction with:			
Repairs	91%	91%	
Rangers service	95%	95%	
New homes	86%	90%	
Re-lets	79%	78%	

Our customer services team work closely with COG to introduce improvements to systems and services for our customers. We launched an online 'log your own repair' service this year enabling customers to report their repairs online. This reduces demand on our call centre so we can deal with more calls during core opening times - providing a service that works for our customers, when they need us the most.

As we continue to meet the challenges of welfare reform, RTB and pay to stay, our housing team's focus is on:



- Maximising income
- Effective tenancy management
- Protection of our homes
- Outstanding customer service

Following a group-wide restructure the housing service has been remodelled so that the housing team are mobile rather than office based, making sure customers are supported face to face as much as possible. Our rent arrears remain the same and we hope that this new approach helps keep arrears to a minimum whilst delivering high levels of customer satisfaction.

This year we revised our repairs scope of service - defining the service model to clearly explain landlord and customer responsibilities. Satisfaction with repairs remained static at 91%.

Provide more new homes

During the year we delivered 243 homes - an improvement on the previous year but less than our aim for the year.

Measure	2016 Actual	Comparison to:	
		2015 Actual	Progress
New homes handed over	243	217	
Build cost per unit	£139,000	£127,000	

The shortfall was due to a combination of developer delays and strategic changes; we put on hold a number of schemes on our own land following the rent reduction to re-evaluate the proposals and tenure mix to make sure they were financially viable. This pause and realignment will have an impact on next year before the new programme gains traction and begins delivering at least 300 homes each year as stated in our strategy.

Following a review and based on customer feedback we increased the specification and build cost of our homes so that they offer more storage space and increased energy efficiency.

Right to Buy (RTB) activity was lower than expected although enquiries have increased and we expect volumes of sales to increase once details of the new scheme are finalised.

Growth

We have recognised the need to broaden our housing offer, diversify into complementary products and services, and develop new skills. Alongside, we recognise the need to work with new partners to share risk and reward and supplement skills where we have insufficient capacity. This should help our commercial success.

We want to build as many new homes for affordable rent as we sensibly can, and to make this possible we aim to generate profit commercially. This will be partly from our development company, Flagship Housing Developments, meeting wider housing needs by building for outright sale, market rent and shared ownership, and partly from other commercial activity, including through RFT Services, our facilities and repairs & maintenance company.

We have recently completed the purchase of a site in Cambourne to build 27 homes which will be available to buy or for affordable rent.



Following a review and based on customer feedback we increased the specification and build cost of our homes so that they offer more storage space and increased energy efficiency.

This is the second land purchase we have completed in the Cambridge area in support of our new strategic intent to offer homes for sale on the open market.

We bought a two-hectare site in Papworth Everard last October to build 66 new homes and community facilities, including a brewhouse and bakery, in partnership with Cambridge-based charity Allia.

We're already an established homebuilder in Cambourne having delivered more than 80 new homes in the town over the last three years, including 40 available for shared ownership.

Grow our business through acquisitions or merger opportunities

The Board has agreed to look at opportunities to partner, acquire or merge with businesses that can expand our customer base, broaden our service offer or provide greater economies of scale.

Deliver profitable new activities to support our core business

We continue to look for ways to expand other commercial offerings and to generate surplus that we can invest back into the business to increase our supply of homes.

RFT Services received notification of BS EN ISO 14001:2015 and BS EN ISO 9001:2015 certification for its Quality Management and Environmental Systems – a positive step forward in positioning RFT Services for external markets as well as further assuring delivery of quality services to our existing customer base.

RFT successfully won a local authority responsive and planned repairs contract in 2015, delivering repairs work on both residential and commercial properties, and is set to carry on the service for a further year.

People

Develop skilled and talented people

This year we introduced a talent management process providing a mechanism to help support individual and team performance and recognise the potential of our people.

As each individual on their team continues to develop their own talents, the company continues to achieve its strategic ambition, innovate and grow.

Develop the Flagship Way

The Flagship Way continues to evolve and the Business Improvement Team has introduced a number of initiatives to help develop staff understanding of the importance of driving out waste, increasing capacity and making improvements to services from the customers' perspective.

A programme of system reviews for 2015/16 included:

- Complaints
- Affordable Rent Conversion
- Development Approvals Process
- Asset Register
- Choice based lettings
- Safeguarding
- Fleet management
- Scheme financial performance

As a result, we have updated our complaints' process, redefining what a complaint is and making it easier for our customers to contact us; introduced a system to review arrears performance and affordability of affordable rent tenancies; introduced a new process for the real-time recording of the disposal of assets from asset registers and reviewed the goods receipting process at our distribution centres to improve the tracking of tools.

We also started a leadership development programme which all managers will take part in – challenging and enabling our leaders to make sure we stay competitive and effective.

Finances

Increase operating surplus

Our turnover increased by £5.4m (4.5% growth) and our operating margin improved to 39.6% due to savings in responsive maintenance and overheads. As a result, we improved our operating surplus to £50.3m (14.2% growth).

The net surplus of £27.3m (£20.9m in 2014/15) is the highest recorded by Flagship and was helped by improved asset sales and treasury management.

Asset sales delivered a better than expected surplus of £1.2m:

- £1.2m asset disposal programme surplus
- £0.2m shared ownership staircasing surplus
- £0.2m Right to Buy deficit (as a result of sharing agreements with two local authorities)

Work on the treasury portfolio delivered a number of significant benefits that help position us well for the future:

- Cost of capital reduced to 3.8%
- £50m revolving credit facility was entered into

The improved net surplus helped push our return on assets to 3.6% - higher than the previous year (3.1%).

Reduce the cost of our borrowing

Towards the end of the year we secured a £15m fixed rate facility from the EIB at 2.01% to support the development of affordable homes. The facility will be drawn in June 2016.

Measure	2016 Actual	Comparison to:			Peer Comparison
		2015 Actual	Peer Group	Progress	
Operating margin	39.6%	36.2%	26.8%	●	●
Return on assets	3.6%	3.1%	5.2%	●	●
Cash generated per unit	£2,650	£2,985	£2,344	●	●
Cost of capital	3.8%	4.0%	4.9%	●	●

Benchmark data from an internal report comparing HA's managing 15,000 to 30,000 units using old UK GAAP

Our arrears management continued to perform well, ending the year at 2.5% - a small increase on last year.

We have teamed up with independent researchers at Sheffield Hallam University to undertake an affordability research project to better understand the value of our services.

This piece of research is particularly timely, given the range of imminent welfare reforms. Results from the research will help us understand the potential impact of these reforms and the effect on our customers.

We worked hard to maintain our void performance and delivered a 0.1% improvement in void loss. The average number of void properties in the year was reduced slightly to 143 (2015: 145.)

In total 1,455 properties were re-let during the year at an average re-let time of 43 days. This is an improved position yet we continue to strive for better performances. Our data includes all void types: general, major works and re-development, and when compared to other providers of the same size our total void loss of 0.8%, compares very well with the peer average of 2.9%.

Measure	Comparison to:				
	2016 Actual	2015 Actual	Peer Group	Progress	Peer Comparison
Average weekly rent	£94.18	£95.45	N/A	●	N/A
Current arrears %	2.5%	2.4%	3.7%	●	●
Void loss %	0.8%	0.9%	2.9%	●	●
Rent collection %	99.0%	99.3%	N/A	●	N/A
Bad Debts %	0.3%	0.5%	N/A	●	N/A



When compared to other providers of the same size our total void loss of 0.8%, compares very well with the peer average of 2.9%.

Systems

Improve the performance of our assets

Understanding the performance of our assets begins at the highest level where we assess and monitor the performance of different services.

Services	Income		Operating Profit		Progress
	2016 £m	2015 £m	2016 £m	2015 £m	
Social Housing	106.8	103.9	45.8	38.4	●
Shared ownership	10.3	6.2	2.5	1.8	●
Market Rent	0.8	0.7	0.4	0.4	●
Student Accommodation	2.5	2.7	0.2	0.6	●
	Gross Yield		Operating Margin		
	2016 %	2015 %	2016 %	2015 %	
Social Housing	8.4	8.2	42.9	36.9	●
Shared ownership	N/A	N/A	23.8	28.5	●
Market Rent	4.7	6.6	49.4	58.2	●
Student Accommodation	N/A	N/A	8.3	21.9	●

Our traditional social housing delivered a £7.4m increase in operating profit due to the work on reducing costs during the year, and a corresponding improvement in operating margin.

Shared ownership first tranche sales increased significantly, due to a combination of additional sales, higher values and higher % first tranche purchases. All schemes comfortably exceeded our investment hurdle rates. The slight fall in operating margin from the previous year is due to a different geographical mix with fewer properties available for sale in our areas of highest return.

Market rent continued to perform well and exceeded expectations for the year. Performance is marginally down on the prior year due to additional overheads to support the portfolio growth of around 40%. The purchases were completed in the final quarter of the year so a full year of rent is not included.

Income from student accommodation is down on the previous year. This is due to voids generated from a major refurbishment programme – this has also had an adverse impact on the operating profit as the expenditure was calculated in line with the new accounting guidelines and expensed during the year rather than capitalised.

Total spend on maintenance (including component replacement) reduced by £6.0m. A number of improvements were made to the service to deliver greater productivity and an improved customer experience. However, due to changes in the way we deliver planned works we did not complete as much capital work as we had anticipated. Recruitment in most teams has progressed well and we expect to complete more planned works in the coming year.

In total we invested £32.4m into improving our existing stock with £11.7m spent on planned works, £1.6m on refurbishing our Student Accommodation and £25.5m spent on responsive and cyclical maintenance. As part of our planned programme we replaced 1,195 kitchens, 747 bathrooms and 1,863 boilers.



In total we invested
£32.4m into improving
our existing stock.

Measure	2016 Actual	Comparison to:			
		2015 Actual	Peer Group	Progress	Peer Comparison
Repair end to end time (days)*	27	44	N/A	●	N/A
Capital maintenance cost per property	£457	£602	£665	●	●
Responsive, cyclical and void cost per property	£993	£1,172	£739	●	●

* Repair end to end time includes all responsive and planned works

At a more detailed level we appointed Savills to undertake a property survey of our portfolio and help us build an asset evaluation tool – the results will help drive a robust asset appraisal programme.

The asset evaluation tool considers both financial and non-financial factors (such as antisocial behaviour/crime, fuel poverty, bid rates).

This output is crucial in understanding the performance, and variations in performance, of our assets. The data will be used as part of our strategic planning to help shape our development programme – where and what to build to maximise our social and financial returns. Alongside informing strategic choices about how we drive more value from our existing assets we will use the data to build a better, stronger business that is both more resilient and able to generate even greater surplus to reinvest in new homes.

The property review showed:

- The 30-year net present value (NPV) of the income and expenditure of our tenanted housing stock stands at £430m, £20,996 per property. The overall result reflects a range of NPV levels across the stock. The position is healthy and above average for the sector.
- That 65% of our assets perform well and exceed our targets; 32% perform acceptably; 3% have been identified as poor performers.
- The bottom 3% will now undergo options appraisal to evaluate the most effective way forward.
- Those properties with the highest capital expenditure requirements (approximately 130 homes) will also go through an options appraisal process.

Introducing a separate service charge payable only by those tenants who receive the services, started in 2010. Since this time it has been agreed practice that a service charge will be introduced at tenancy change. During the year the overall deficit has reduced from £1.1m to £0.5m, however where a sizeable deficit still exists on an individual property basis, financial performance is significantly affected. A review of sites that attract a high service charge or those with a service charge deficit will be undertaken in the next two years with a view to accelerating or improving collection rates.

Increase efficiency and productivity to achieve £8m savings in the first year

During the year we carried out a robust cost saving exercise to help us understand the causes of cost, challenging ourselves on how we could reduce our operating costs, increase capacity and achieve savings.

As well as quantifying the financial impact, we also considered the impact of any change on the customer. By analysing our costs and looking at the reasons why some costs were high, we changed the way we work, and as a result, the whole Group contributed to savings of £8m per year.

Some of the VfM gains this year include:

- £4.3m through Group-wide staff restructure (effective from April 2016)
- £773k saving on fuel due to more effective resource allocation of repairs operatives
- Restructured teams to fewer sub-contractors projecting £730k saving in a full year
- £2k per kitchen and £500 per bathroom (for a higher specification) by recruiting an in-house planned maintenance team
- £75k income from training and development of Flagship Way to another HA
- £75k income for repairs and maintenance contract for a further year
- £80k on upgrade of lift equipment
- £33k retender of mobile phone contract
- £26k additional income from garages through promotional campaign

The results of the efficiency drive have been a key factor in improving our operating margin. Next year we plan to increase the savings by a further £2m.

Despite reductions in maintenance spend we continue to spend more per unit than the peer group. Our approach over the last three years has been to invest more in responsive repairs, making sure we do the right repair – ensuring a full repair rather than a patch – and whilst attending repairs, taking the time to fix other issues before they become more complex and expensive problems. We have been able to fund this additional investment by spending less on administration and overheads so despite the additional investment our operating margin remains amongst the best in the sector.

We continue to look at ways to improve the repairs service and during the year made significant improvements to resource allocation, reduced sub-contractor works and made substantial savings on fuel. Over the coming year we will be bringing more services in-house, rationalising our stock catalogue and re-procuring materials contracts.

Absolute and comparative costs	2016 Actual	2015 Actual	Peer Group	Progress	Peer Comparison
Management cost per unit – Social Housing	£850	£885	£1,059		
Maintenance cost per unit charged to I&E – Social Housing	£1,028	£1,211	£1,037		
Total maintenance cost per unit	£1,451	£1,774	£1,404		
Operating margin	39.6%	36.2%	26.8%		
Net margin	21.5%	17.2%	19.6%		
Return on public capital invested (RPCI)	13.8%	10.5%	N/A		N/A
Rent collection	99.0%	99.3%	N/A		N/A
Current arrears	2.5%	2.4%	3.7%		
Void loss	0.8%	0.9%	2.9%		
Average cost of funding	3.8%	4.0%	4.9%		
Interest cover	284%	252%	279%		
Cash generated per unit managed	£2,650	£2,985	£2,344		
Debt per unit	£27,134	£27,546	£23,556		
Gearing (debt to cost of assets)	41.3%	41.9%	42.8%		

Social Value

Social value is about looking at the added benefit that we can provide to our customers.

Our teams look to improve the economic, social and environmental wellbeing of our customers to create positive outcomes.

Successes this year included:

- Over 3000 cases dealt with through our housing advice surgeries and drop-in clinics
- 9420 home visits of which 5391 were unique home visits
- 75% of Flagship Young People's Services (FYPS) customers engaged in employment, education, training and volunteering programmes
- 80% successful planned moves in young people services
- 9 apprenticeships filled across the Group
- £16k invested in community initiatives including garden equipment, communal furniture and a play area
- Exited provision of care and support – customers now receiving care & support from specialised organisations

Beyond direct service provision, taking social value into account is an important aspect of how we deliver our services. Through our repairs service we aim to work with local suppliers wherever possible. Their knowledge and local presence, and the wider positive impact on the local economy, are an important part of doing business in the region. Local suppliers accounted for 98% of our sub-contractor spend, and we obtained materials from 107 local suppliers.

VfM Plans for 2016/17

Value for Money is a continuous process of evaluation and improvement.

Despite our strong operating margin, we still believe there is more we can do. We will continue on our ambitious programme of efficiency savings. And we firmly believe the Flagship Way is the most effective way to achieve it.

Update on 2015/16 actions:

- £2m saving on repairs and maintenance – £3m saved on responsive and cyclical repairs.
- £200k reduction in void loss (and increased customer satisfaction) – £52k reduction achieved so far.
- £200k cost avoidance – replace repair van tracking software with in-house solution – complete.
- £100k saving from procurement activity: mobile telephony; print and design; transactional banking; grounds maintenance; cleaning – achieved.
- £50k saving from legal services review by bringing the service in-house – £35k achieved.
- £39k RFT fleet savings by switching to more economical vehicles – £20k savings from fuel efficiency but a total of £773k achieved from more efficient resource allocation reducing miles travelled.
- 250 new affordable homes – 199 affordable homes built.
- 50 additional homes at market rent – 52 new homes acquired.
- 1,000 surplus assets released from loan security – 1,036 surplus security assets released.
- Secure additional long-term fixed rate funding that lowers overall cost of capital – £15m EIB funding at 2.01% secured.
- Secure additional grant to build more homes through Continuous Market Engagement process.
- 87% customer satisfaction – 90% achieved.

Our plans for 2016/17 include:

- Deliver additional £2m annualised efficiency savings (£10m in total).
- Achieve 47% operating margin.
- Invest £17m in improving our existing homes.
- Maintain arrears levels below 3% – despite universal credit rollout.
- Improve re-let customer satisfaction.
- Improve our void re-let times.
- Deliver 119 new homes.
- Improve our digital offering for customers.
- Achieve 90% customer satisfaction.

By order of the Board

R Ayden

Company Secretary

28 July 2016

“ Despite our strong operating margin, we still believe there is more we can do. We will continue on our ambitious programme of efficiency savings. And we firmly believe the Flagship Way is the most effective way to achieve it. ”



Report of the Board for the Year Ended 31 March 2016

The Board of Management (the Board) presents its report and audited financial statements for the year ended 31 March 2016.

Statement of board's responsibilities

The Board is responsible for preparing the Strategic Report, Report of the Board and the financial statements in accordance with applicable law and regulations.

The Co-operative and Community Benefit Societies Act 2014 requires the Board to prepare financial statements for each financial year. Under those regulations the Board has elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the company and the Group and of the surplus or deficit for that period. In preparing these financial statements, the Board is required to select appropriate accounting policies and then apply them consistently; make judgements and estimates which are reasonable and prudent; state whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures being disclosed and explained in the financial statements, and prepare them on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

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

Disclosure of information to the auditor

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

Group structure

The trading companies of the Group for the year comprise:

Flagship Housing Group Limited;

Flagship Housing Developments Limited;

RFT Repairs Limited.

Community initiatives and charitable donations

During the year the Group spent £25,195 (2015: £94,834) on community initiatives. No charitable donations were made (2015: nil).

The Board of Management and Executive Team

The Board and Executive Team who served Flagship during the year are detailed on page 1 of the financial statements. Each Director of the Board holds one fully paid share of £1 in the Company, with the exception of the Chief Executive, the Deputy Chief Executive and the Executive Director – Finance.

The Executive Director – RFT Chief Executive Officer, and, Executive Director – Governance & Communications hold no interest in the Company's share capital, and although they do not have the legal status of Directors, they act as executives within the authority delegated by the Board.

The composition of the full Board (with no vacancies) is:

	To 30 April 2015	From 1 May 2015 to 31 July 2015	From 1 August 2015
Non-Executive Directors	4	6	4
Executive Directors	3	3	3
	7	9	7

Flagship has purchased Directors' and Officers' Liability Insurance for the Non-Executive Directors, Executive Directors and staff of the Company.

Recruitment and selection procedures for Non-Executive Directors

The Board has an open recruitment and selection policy for Non-Executive Directors (NEDs). In the event of a vacancy, advertisements are placed on regional business websites, in the local and, where appropriate, specialist press, seeking candidates with expertise in the areas where the Board has identified it is least well served, ensuring that all relevantly experienced applicants have an equal opportunity to apply. A copy of the recruitment and selection policy is available on request from the Executive Director – Governance & Communications.

All new NEDs are provided with induction training and are required to abide by a formal Code of Conduct setting out their obligations and commitment to the Group.

NEDs serve a maximum term of six years (plus a further year in exceptional circumstances) with transitional arrangements in place for existing NEDs who were in post at 1 April 2012.

National Housing Federation (NHF) Code of Governance

The Board has adopted the NHF Code of Governance 2015 and complies with all aspects of the Code.

Chair's and Non-Executive Directors' remuneration

Flagship remunerates its Chair and other Non-Executive Directors (the Executive Directors do not receive any additional remuneration for serving on the Board). The remuneration is in recognition of the commitment required for these crucial and demanding governance roles. Payments in the year ended 31 March 2016 are summarised as follows:

Board member	Board role	Emoluments - 2016 (£)
P Lakey	Chair	24,087
P Remington	Committee Chair / Senior Independent Director	12,300
R Finon	Non-Executive Director	12,300
K Laud	Non-Executive Director	11,275
R Bennett	Non-Executive Director	11,525
D Ayre	Local Authority Liaison lead	4,100
P Cook	Co-optee	3,300
C Waller	Co-optee	2,750

Executive Directors' remuneration

The Board has noted the content of the Combined Code on Directors' Remuneration. Although it does not apply to housing associations, the Board is committed to acting in an open and accountable manner.

Flagship's policy with regard to the remuneration of the Executive Team reflects that applicable to the remuneration of our entire staff. Flagship seeks to provide remuneration packages that will attract, retain and motivate officers and staff of the quality required, but seeks to avoid paying more than is necessary. External professional advice is sought as necessary to ensure that regard is taken of remuneration levels in similar housing associations and in the locality. All of the Executive Team are employed on contracts with a maximum notice period of six months.

Summary information of the remuneration of Non-Executive Directors and Executive Team is provided in note 28 to the financial statements.

Employees

Employee information is set out in note 29 to the financial statements. Flagship ensures that sufficient staff with appropriate skills are employed and that effective employment policies are in place and good practice is followed.

Flagship involves all of our employees in matters affecting their functions. At a formal level this takes place through the Joint Negotiating and Consultation Committee where management consult with elected staff representatives. At an operational level Flagship relies on regular team meetings and 'one to ones' with individuals.

Equality and diversity

As a housing provider Flagship understands that it has legal and social responsibilities to ensure that: all customers and employees have equal opportunities; unlawful discrimination is eliminated; and good relationships between different people are actively promoted.

This means Flagship takes steps to ensure that no individual or group of people is treated less favourably because of their: age, disability, gender, gender identity, ethnicity, nationality, religion, faith or belief, sexuality, or any other reason that cannot be justified.

Auditor

A resolution to consider reappointing Mazars LLP as external auditor will be proposed at the forthcoming Annual General Meeting.

By order of the Board

R Ayden

Company Secretary

28 July 2016

Report of the Board on Corporate Governance and Internal Financial Control

The Board has overall responsibility to the Group and Company for all aspects of the business. This includes ensuring that Flagship has a system of controls in place that is appropriate to the various environments in which it operates. Each member of the Board is responsible as a trustee and has a fiduciary responsibility to the Company's membership. As appropriate for the effective and efficient running of the business, the Board has delegated to the Committees listed below responsibility for specific areas of operation. The schemes of delegation are clearly defined and are reviewed regularly to ensure that they continue to be appropriate in the light of operational experience.

Set out below is the framework of corporate governance and a description of the system of internal control adopted by Flagship.

Committee Structure

The composition of the Committees is summarised below:

Audit Committee	Three Non-Executive Directors
Remuneration Committee (from 28 January 2016)	Four Non-Executive Directors

Executive Team

Members of the Executive Team are all full-time employees. They are responsible for the operational management of Flagship and for ensuring that the policies determined by the Board are properly implemented. The composition of the team is:

Chief Executive	David McQuade
Deputy Chief Executive	Helen Walsham
Executive Director – Finance	David Armstrong
Chief Executive (RFT)	Emma King
Executive Director – Governance & Communications	Rod Ayden

Full compliance statement on internal control

The Board has overall responsibility for establishing and maintaining the whole system of internal control and for reviewing its effectiveness. The Board's responsibility applies for all organisations within the Flagship Group.

The Board recognises that no system of internal control can provide absolute assurance or eliminate all risk. The system of internal control is designed to manage risk and to provide reasonable assurance that key business objectives and expected outcomes will be achieved. It also exists to give reasonable assurance about the preparation and reliability of financial and operational information and the safeguarding of assets and interests.

In meeting its responsibilities, the Board has adopted a risk-based approach to internal controls, which are embedded within the normal management and governance process. This approach includes the regular evaluation of the nature and extent of risks to which Flagship is exposed.

The process adopted by the Board in reviewing the effectiveness of the system of internal control, together with some of the key elements of the control framework, is detailed below:

Identification and evaluation of key risks

Management responsibility has been clearly defined for the identification, evaluation and control of significant risks. There is a formal and ongoing process of management review in each area of the activities. This process is co-ordinated through a regular reporting framework by the Executive Team.

The Executive Team regularly considers reports on significant risks facing Flagship and is responsible for reporting to the Board any significant changes affecting key risks.

The strategic risk map is reviewed by the Board at each of the regular meetings.

Monitoring and corrective action

A process of management control, self-assessment and regular management reporting on control issues provides hierarchical assurance to successive levels of management and to the Board. This includes a rigorous procedure for ensuring that corrective action is taken in relation to any significant control issues, particularly those with a potentially material impact on the financial statements.

Control environment and control procedures

The Board retains responsibility for a defined range of issues covering strategy, finance and compliance, including treasury management and new investment projects. The Board has adopted, and disseminated to all employees, the National Housing Federation Code of Governance 2015. This sets out Flagship's policies with regard to the quality, integrity and ethics of Board Directors and employees. It is supported by a framework of policies and procedures with which Board, Directors and employees must comply. These cover issues such as delegated authority, segregation of duties, accounting, treasury management, health and safety, data and asset protection and fraud prevention and detection.

Information and financial reporting systems

Financial reporting procedures include detailed budgets for the year ahead and forecasts for subsequent years which are reviewed and approved by the Board. The Board also

regularly reviews key performance indicators to assess progress towards the achievement of key business objectives, targets and outcomes.

The internal control framework and the risk management process are subject to regular review by the Internal Auditors who are responsible for providing independent assurance to the Board via the Audit & Risk Committee, which acts under delegated authority from the Board. The Audit & Risk Committee considers internal control and risk at each of its meetings during the year.

Fraud

The Group has a zero tolerance approach to fraud and action is taken to limit the risk of fraud through the system of internal control. An anti-fraud and response plan is incorporated in the risk management framework.

Bribery

The Group has a zero tolerance approach to bribery and action is taken to limit the risk of bribery through the system of internal control. Flagship undertakes regular reviews of the anti-bribery measures in place, ensuring that they remain adequate.

The Governance and Financial Viability Standard

Having made reasonable enquiries and to the best of our knowledge, we certify that Flagship Housing Group has, in all material respects, completed with the requirements of the HCA Governance and Financial Viability Standard.

Statement

The Board has received the Executive Team's annual report, has conducted its annual review of the effectiveness of the system of internal control, and has taken account of any changes needed to maintain the effectiveness of the risk management and control process.

The Board confirms that there is an ongoing process for identifying, evaluating and managing significant risks faced by Flagship. This process has been in place throughout the year under review, up to the date of the annual report, and is regularly reviewed by the Board.

By Order of the Board

R Ayden

Company Secretary

28 July 2016

Independent Auditor's Report To The Members Of Flagship Housing Group Limited

We have audited the financial statements of Flagship Housing Group Limited for the year ended 31st March 2016 which comprise the Group and Company Statements of Comprehensive Income, the Group and Company Statements of Financial Position, the Group Cash Flow Statement, the Group and Company Statements of Changes in Reserves and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Respective responsibilities of the Board of Management and auditors

As explained more fully in the Statement of Board's Responsibilities set out on page 22, the Board is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. This report is made solely to Company members, as a body, in accordance with Part 7 of the Co-operative and Community Benefit Societies Act 2014 and Chapter 4 of Part 2 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to Company members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and Company members as a body for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements;

- give a true and fair view of the state of the Group and Company affairs as at 31st March 2016 and of the Group and Company surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Matters on which we are required to report by exception

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

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

Mazars LLP, Chartered Accountants and Statutory Auditor

45 Church Street, Birmingham, B3 2RT.

7 September 2016

Statement of Comprehensive Income for the Year Ended 31 March 2016

	Notes	Group	Group	Company	Company
		2016 £'000	2015 £'000	2016 £'000	2015 £'000
Turnover	2	127,060	121,636	128,856	122,946
Operating costs	2	(76,783)	(77,599)	(79,888)	(79,763)
Operating surplus	2	50,277	44,037	48,968	43,183
Gain on disposal of property, plant and equipment	4	1,176	1,436	1,176	1,436
Interest receivable and similar income		915	1,042	2,224	2,030
Interest and financing costs	5	(25,041)	(25,641)	(25,041)	(25,641)
Surplus on revaluation of investment properties	10	33	175	33	175
Surplus for the year before taxation		27,360	21,049	27,360	21,183
Taxation	6	(17)	(119)	-	-
Surplus for the year	7	27,343	20,930	27,360	21,183
Actuarial gain / (loss) in respect of pension schemes	27(a)	1,476	(450)	1,476	(450)
Total comprehensive income for the year		28,819	20,480	28,836	20,733

All amounts relate to continuing activities.

Notes on pages 32 to 66 form part of the financial statements.

Statement of Financial Position as at 31 March 2016

		Group	Group	Company	Company
	Notes	2016	2015	2016	2015
		£'000	£'000	£'000	£'000
Fixed assets					
Intangible assets	8	690	502	690	502
Housing properties	9	1,272,397	1,273,504	1,275,027	1,276,134
Investment properties	10	37,697	29,715	38,029	30,047
Other property, plant & equipment	11	6,365	6,975	4,121	4,213
Investments – Homebuy	12	38	38	38	38
Investments – Other	13	12,236	12,236	22,336	17,336
		1,329,423	1,322,970	1,340,241	1,328,270
Current assets					
Inventories	14	6,925	1,484	1,624	683
Debtors due within one year	15	10,647	11,486	6,244	8,102
Current asset investments	16	40,312	40,150	40,312	40,150
Cash at bank and in hand		32,013	24,073	29,061	21,694
Total current assets		89,897	77,193	77,241	70,629
Creditors					
Amounts falling due within one year	17	(36,659)	(35,162)	(32,168)	(31,262)
Net current assets		53,238	42,031	45,073	39,367
Total assets less current liabilities		1,382,661	1,365,001	1,385,314	1,367,637
Financed by:					
Creditors					
Amounts falling due after one year	18	802,919	812,448	802,919	812,448
Pension liability	27	5,290	6,920	5,290	6,920
Capital and reserves					
Share capital	24	-	-	-	-
Revenue reserves		156,904	124,572	159,557	127,208
Revaluation reserves		417,548	421,061	417,548	421,061
		1,382,661	1,365,001	1,385,314	1,367,637

These financial statements were approved by the Board of Management on 28 July 2016
and were signed on its behalf by:

P Lakey	Chair
R Bennett	Board Member
D Armstrong	Executive Director – Finance

Statement of Changes in Reserves as at 31 March 2016

Group	Notes	Revenue reserve	Revaluation reserve	Total
		£'000	£'000	£'000
At 1 April 2014	34	100,570	424,583	525,153
Surplus from statement of comprehensive income		20,480	-	20,480
Transfer from revaluation reserve to revenue reserve		3,522	(3,522)	-
At 31 March 2015		124,572	421,061	545,633
Surplus from statement of comprehensive income		28,819	-	28,819
Transfer from revaluation reserve to revenue reserve		3,513	(3,513)	-
At 31 March 2016		156,904	417,548	574,452

Company	Notes	Revenue reserve	Revaluation reserve	Total
		£'000	£'000	£'000
At 1 April 2014	34	102,953	424,583	527,536
Surplus from statement of comprehensive income		20,733	-	20,733
Transfer from revaluation reserve to revenue reserve		3,522	(3,522)	-
At 31 March 2015		127,208	421,061	548,269
Surplus from statement of comprehensive income		28,836	-	28,836
Transfer from revaluation reserve to revenue reserve		3,513	(3,513)	-
At 31 March 2016		159,557	417,548	577,105

Cash Flow Statement for the Year Ended 31 March 2016

		Group	Group	Company	Company
	Notes	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Net cash generated from operating activities	31	59,182	65,933	61,544	64,376
Cash flows from investing activities					
Purchase of intangible assets		(497)	(381)	(497)	(381)
Purchase of housing properties		(22,449)	(54,606)	(21,577)	(54,865)
Purchase of other fixed assets		(546)	(677)	(546)	(521)
Purchase of investment property		(7,949)	(529)	(7,949)	(529)
Proceeds from sale of property, plant and equipment		7,757	8,001	7,641	7,918
Investment in subsidiary		-	-	(5,000)	-
Interest received		915	1,042	2,224	2,030
Net cash flows from investing activities		(22,769)	(47,150)	(25,704)	(46,348)
Cash flows from financing activities					
Interest paid		(23,821)	(24,346)	(23,821)	(24,346)
Interest element of finance lease rental payments		(1,220)	(1,295)	(1,220)	(1,295)
Repayments of borrowings		(2,463)	(2,270)	(2,463)	(2,270)
Capital element of finance lease rental payments		(969)	(821)	(969)	(821)
Net cash flows from financing activities		(28,473)	(28,732)	(28,473)	(28,732)
Net increase/(decrease) in cash and cash equivalents		7,940	(9,949)	7,367	(10,704)
Cash and cash equivalents at beginning of year		24,073	34,022	21,694	32,398
Cash and cash equivalents at end of year		32,013	24,073	29,061	21,694

Notes to the Financial Statements for the Year Ended 31 March 2016

1. Principal accounting policies

Flagship Housing Group Limited is a Registered Provider (RP) incorporated under the Co-operative and Community Benefit Societies Act 2014 and registered with the Homes and Communities Agency as an RP as defined by the Homes and Communities Act 2008.

Basis of accounting

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, in accordance with Financial Reporting Standard 102 (FRS102) issued by the Financial Reporting Council and the Accounting Direction for Private Registered Providers of Social Housing 2015. The financial statements have also been prepared in compliance with the Statement of Recommended Practice for registered social housing providers 2014 (SORP) and the Housing and Regeneration Act 2008. Flagship Housing Group Limited is a public benefit entity, and applies the relevant paragraphs prefixed "PBE" in FRS 102. The financial statements are prepared on the historical cost basis of accounting.

Statement of compliance

This is the first year the Group has prepared its financial statements in accordance with FRS 102, accordingly the financial information as at 1 April 2014 (being the date of transition) and for the year ended 31 March 2015 have been restated for material adjustments on adoption of FRS 102 in the current year. For more information see note 34.

In preparing the separate financial statements of the parent company, advantage has been taken of the following disclosure exemptions available in FRS 102:

- No disclosure has been given for the aggregate remuneration of the key personnel of the parent company as their remuneration is included in the totals for the group as a whole.
- Disclosures in respect of the parent company's financial instruments have not been presented as equivalent disclosures have been made of the group as a whole.

Basis of consolidation

The consolidated financial statements incorporate the results of Flagship Housing Group Limited and all of its subsidiary undertakings as at 31 March 2016 using the acquisition method of accounting as required. Where the acquisition method is used, the results of subsidiary undertakings are included from the date of acquisition, being the date the Group obtains control.

Going concern

The Group's financial statements have been prepared on a going concern basis which assumes an ability to continue operating for the foreseeable future. Government's announcements in July 2015 impacting on the future income of the Group have led to a reassessment of the Group's business plan as well as an assessment of imminent or likely future breach in borrowing covenants. No significant concerns have been noted and we consider it appropriate to continue to prepare the financial statements on a going concern basis.

1. Principal accounting policies (continued)

Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

- **Development expenditure.** The Group capitalises development expenditure in accordance with the accounting policy described on page 29. Initial capitalisation of costs is based on management's judgement that the development scheme is confirmed, usually when Board approval has taken place including access to the appropriate funding. In determining whether a project is likely to cease, management monitors the development and considers if changes have occurred that result in impairment.
- **Categorisation of housing properties.** The Group has undertaken a detailed review of the intended use of all housing properties. In determining the intended use, the Group has considered if the asset is held for social benefit or to earn commercial rentals. The Group has determined that market rented property and student accommodation are investment properties.
- **Impairment.** The Group has identified a cash generating unit for impairment assessment purposes at a property scheme level.

Other key sources of estimation and assumptions:

- **Tangible fixed assets.** Other than investment properties, tangible fixed assets are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.
- **Revaluation of investment properties.** The Group carries its investment property at fair value, with changes in fair value being recognised in the Statement of Comprehensive Income. The Group engaged independent valuation specialists to determine fair value at the transition date, 31 March 2015 and 31 March 2016. The valuer used a valuation technique based on a discounted cash flow model. The determined fair value of the

investment property is most sensitive to the estimated yield as well as the long term vacancy rate. The key assumptions used to determine the fair value of investment property are further explained in note 10.

- **Pension and other post-employment benefits.** The cost of defined benefit pension plans and other post-employment benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables for the specific sector. Future salary increases and pension increases are based on expected future inflation rates for the respective sector. Further details are given in note 27.
- **Impairment of non-financial assets.** Reviews for impairment of housing properties are carried out when a trigger has occurred and any impairment loss in a cash generating unit is recognised by a charge to the Statement of Comprehensive Income. Impairment is recognised where the carrying value of a cash generating unit exceeds the higher of its net realisable value or its value in use. A cash generating unit is normally a group of properties at scheme level whose cash income can be separately identified.
- During the year the government announced a change in rent policy which resulted in a material impact on the net income expected to be collected in the future for housing properties and the Group have assessed that this represents a trigger for impairment review.
- Following a trigger for impairment, the Group perform impairment tests based on fair value less costs to sell or a value in use calculation. The fair value less costs to sell calculation is based on available data from sales transactions in an arm's length transaction on similar cash generating units (properties) or observable market prices less incremental costs for disposing of the properties. The value in use calculation is based on either a depreciated replacement cost or a discounted cash flow model. The depreciated replacement cost is based on available data of the cost of constructing or acquiring replacement properties to provide the same level of service potential to the Group as the existing property. The cash flows are derived from the business plan for the next 40 years and do not include

1. Principal accounting policies (continued)

restructuring activities that the Group is not yet permitted to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes.

Following the assessment of impairment, no impairment losses were identified in the reporting period.

Turnover and revenue recognition

Turnover represents rental income receivable, amortised capital grant, revenue grants from local authorities and the Homes and Communities Agency, income from the sale of shared ownership and other properties developed for outright sale.

Rental income is recognised when the property is available for let, net of voids. Income from property sales is recognised on legal completion. Supporting People Income is recognised under the contractual arrangements.

Sales of properties developed for outright sale are included in Turnover and Cost of Sales.

Support income and costs including Supporting People income and costs

Supporting People (SP) contract income received from Administering Authorities is accounted for as SP income in the Turnover as per note 2. The related support costs are matched against this income in the same note. Support charges included in the rent are included in the Statement of Comprehensive Income from social housing lettings note 3 and matched against the relevant costs.

Service charges

Service charge income and costs are recognised on an accruals basis. The Group operates both fixed and variable service charges on a scheme by scheme basis in full consultation with residents. Where variable service charges are used the charges will include an allowance for the surplus or deficit from prior years, with the surplus being returned to residents by a reduced charge and a deficit being recovered by a higher charge. Until these are returned or recovered they are held as creditors or debtors in the Statement of Financial Position. Where periodic expenditure is required a provision may be built up over the years, in consultation with the residents; until these costs are

incurred this liability is held in the Statement of Financial Position within long term creditors.

Loan interest costs

Loan interest costs are calculated using the effective interest method of the difference between the loan amount at initial recognition and amount of maturity of the related loan.

Loan finance issue costs

These are amortised over the life of the related loan. Loans are stated in the Statement of Financial Position at the amount of the net proceeds after issue, plus increases to account for any subsequent amounts amortised. Where loans are redeemed during the year, any redemption penalty and any connected loan finance issue costs are recognised in the Statement of Comprehensive Income account in the year in which the redemption took place.

Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except that a change attributable to an item of income or expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

Deferred balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met, and
- Where timing differences relate to interests in subsidiaries, associates and joint ventures and the Group can control their reversal and such reversal is not considered probable in the foreseeable future.

1. Principal accounting policies (continued)

Value Added Tax

The Group charges VAT on some of its income and is able to recover part of the VAT it incurs on expenditure. All amounts disclosed in the accounts are inclusive of VAT to the extent that it is suffered by the Group and not recoverable.

Intangible assets

Intangible assets are stated at historic cost or valuation, less accumulated amortisation and any provision for impairment. Amortisation is provided on all Intangible assets at rates calculated to write off the cost or valuation of each asset on a straight-line basis over its expected useful life, as follows:

Computer software	33%
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Tangible fixed assets and depreciation

Housing properties

Tangible fixed assets are stated at cost, less accumulated depreciation. Donated land/assets or assets acquired at below market value from a government source, i.e. local authority, are included as a liability in the Statement of Financial Position at the fair value less consideration paid.

Housing properties under construction are stated at cost and are not depreciated. These are reclassified as housing properties on practical completion of construction.

Freehold land is not depreciated.

Where a housing property comprises two or more major components with substantially different useful economic lives (UELs), each component is accounted for separately and depreciated over its individual UEL. Expenditure relating to subsequent replacement or renewal of components is capitalised as incurred.

The Group depreciates freehold housing properties by component on a straight-line basis over the estimated UELs of the component categories.

UELs for identified components are as follows:

Structure	1.0%
Kitchen	5.0%
Bathrooms	3.3%
Boilers	10.0%
Heating system (exc boiler)	3.3%
Windows & doors	3.3%
Lifts	2.5%
Roofs	1.4% to 5.0%

The Group depreciates housing properties held on long term leases in the same manner as freehold properties, except where the unexpired lease term is shorter than the longest component life envisaged, in which case the unexpired term of the lease is adopted as the useful economic life of the relevant component category.

Depreciation is charged on other tangible fixed assets on a straight-line basis over the expected economic useful lives which are as follows:

Leasehold/Freehold Office buildings	4%
Computer equipment	33%
Leased assets (Over the life of the lease)	
Furniture, fixtures & fittings	10 - 20%
Owned vehicles	25%

Low cost home ownership properties

The costs of low cost home ownership properties are split between current and fixed assets on the basis of the first tranche portion. The first tranche portion is accounted for as a current asset and the sale proceeds shown in turnover. The remaining element of the shared ownership property is accounted for as a fixed asset and subsequent sales treated as sales of fixed assets.

Capitalisation of interest and administration costs

Interest on loans financing development is capitalised up to the date of the completion of the scheme and only when development activity is in progress.

Administration costs relating to development activities are capitalised only to the extent that they are incremental to the development process and directly attributable to bringing the property into their intended use.

1. Principal accounting policies (continued)

Property managed by agents

Where the Group carries the majority of the financial risk on property managed by agents, income arising from the property is included in the Statement of Comprehensive Income.

Where the agency carries the majority of the financial risk, income includes only that which relates solely to the Group.

In both cases, the assets and associated liabilities are included in the Group's Statement of Financial Position.

Leasing and hire purchase

Where assets are financed by hire purchase contracts and leasing agreements that give rights approximating to ownership (finance leases), they are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as obligations to the lessor in creditors. They are depreciated over the shorter of the lease term and their economic useful lives.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the Statement of Comprehensive Income over the term of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

Other leases are treated as operating leases and payments are charged to the Statement of Comprehensive Income on a straight line basis over the term of the lease.

Reverse premiums and similar incentives received on leases to enter into operating lease agreements are released to Statement of Comprehensive Income over the term of the lease.

Investment property

Investment property includes commercial and other properties not held for the social benefit of the Group. Investment property is measured at cost on initial recognition, which includes purchase cost and any directly attributable expenditure, and subsequently at fair value at the reporting date. Fair value is determined annually by

external valuers and derived from the current market rents and investment property yields for comparable real estate, adjusted if necessary for any difference in the nature, location or condition of the specific asset. No depreciation is provided. Changes in fair value are recognised in the Statement of Comprehensive Income.

HomeBuy

The Group operates this scheme by lending a percentage of the cost to home purchasers, secured on the property. The loans are interest free and repayable only on the sale of the property. On a sale, the fixed percentage of the proceeds is repaid. The loans are financed by an equal amount of SHG. On redemption:

- The SHG is recycled,
- The SHG is written off, if a loss occurs,
- The Group keeps any surplus.

HomeBuy loans are treated as concessionary loans and are initially recognised at the amount paid to the purchaser and reviewed annually for impairment. The associated HomeBuy grant from the HCA is recognised as deferred income until the loan is redeemed.

Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

Investments in unlisted company shares, which have been classified as fixed asset investments as the Group intends to hold them on a continuing basis, are re-measured to market value at each balance sheet date. Gains and losses on re-measurement are recognised in the Statement of Comprehensive Income.

Investments in listed company shares, which have been classified as current asset investments, are re-measured to market value at each balance sheet date. Gains and losses on re-measurement are recognised in the statement of Comprehensive Income.

Current asset investments

Current asset investments include cash and cash equivalents invested for periods of more than 24 hours. They are recognised initially at cost and subsequently at fair value at the reporting date. Any change in valuation between reporting dates is recognised in the Statement of Comprehensive Income.

1. Principal accounting policies (continued)

Stock and properties held for sale

Stock of materials is stated at the lower cost and net realisable value being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

Properties developed for outright sale are included in current assets as they are intended to be sold, at the lower of cost or estimated selling price less costs to complete and sell.

At each reporting date, stock and properties held for sale are assessed for impairment. If there is evidence of impairment, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in Statement of Comprehensive Income.

Short-term debtors and creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the income statement in other operating expenses.

Non-government grants

Grants received from non-government sources are recognised under the performance model. If there are no specific performance requirements the grants are recognised when received or receivable. Where grant is received with specific performance requirements it is recognised as a liability until the conditions are met and then it is recognised as Turnover.

Social Housing and other government grants

Where developments have been financed wholly or partly by social housing and other grants, the amount of the grant received has been included as deferred income and recognised in Turnover over the estimated useful life of the associated asset structure (not land), under the accruals model. SHG received for items of cost written off in the Statement of Comprehensive Income is included as part of Turnover.

When Social Housing Grant (SHG) in respect of housing properties in the course of construction exceeds the total cost to date of those housing properties, the excess is shown as a current liability.

SHG must be recycled by the Group under certain conditions, if a property is sold, or if another relevant event takes place. In these cases, the SHG can be used for projects approved by the Homes and Communities Agency and Greater London Authority. However, SHG may have to be repaid if certain conditions are not met. If grant is not required to be recycled or repaid, any unamortised grant is recognised as Turnover. In certain circumstances, SHG may be repayable, and, in that event, is a subordinated unsecured repayable debt.

Non-monetary government grant

On disposal of assets for which non-monetary government grants are held as liabilities in the Statement of Financial Position, the unamortised amount in creditors is derecognised and recognised as income in the Statement of Comprehensive Income.

Recycling of Capital Grant

Where Social Housing Grant is recycled, as described above, the SHG is credited to a fund which appears as a creditor until used to fund the acquisition of new properties, where recycled grant is known to be repayable it is shown as a creditor within one year.

Disposal Proceeds Fund (DPF)

Receipts from the sale of SHG funded properties less the net book value of the property and the costs of disposal are credited to the DPF, this creditor is carried forward until it is used to fund the acquisition of new social housing.

Holiday pay accrual

A liability is recognised to the extent of any unused holiday pay entitlement which has accrued at the balance sheet date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the balance sheet date.

Agreements to improve existing properties

Where the PRP has entered into agreements to purchase property from a third party and subsequently enters into a sub-contracting agreement to carry out improvement works to the properties, the related assets and liabilities are shown at gross values unless the right of net settlement exists.

1. Principal accounting policies (continued)

Retirement benefits

The cost of providing retirement pensions and related benefits is charged to management expenses over the periods benefiting from the employees' services.

The disclosures in the accounts follow the requirements of Section 28 of FRS 102 in relation to multi-employer funded schemes in which the Group has a participating interest.

Contributions payable under an agreement with SHPS to fund past deficits are recognised as a liability in the Group's financial statements calculated by the repayments known, discounted to the net present value at the year ended using a market rate discount factor of 3.02% at 31 March 2014, 1.92% at 31 March 2015 and 2.06% at 31 March 2016. The unwinding of the discount is recognised as a finance cost in the Statement of Comprehensive Income in the period incurred.

Revaluation Reserve

The revaluation reserve represents the difference on transition between the fair value of social housing properties and other assets and the historical cost carrying value, where deemed cost transitional relief was taken.

Financial Instruments

Financial assets and financial liabilities are measured at transaction price initially, plus, in the case of a financial asset or financial liability not at fair value through the Statement of Comprehensive Income, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

At the end of each reporting period, financial instruments are measured as follows, without any deduction for transaction costs the entity may incur on sale or other disposal:

Debt instruments that meet the conditions in paragraph 11.8(b) of FRS 102 are measured at amortised cost using the effective interest method, except where the arrangement constitutes a financing transaction. In this case the debt instrument is measured at the present value of the future payments discounted at a market rate of interest for a similar debt.

Financial instruments held by the Group are classified as follows:

- Financial assets such as cash, current asset investments and receivables are classified as loans and receivables and held at amortised cost using the effective interest method.
- Financial liabilities such as bonds and loans are held at amortised cost using the effective interest method.
- Loans to or from subsidiaries including those that are due on demand are held at amortised cost using the effective interest method.
- Commitments to receive or make a loan to another entity which meet the conditions above are held at cost less impairment.
- An investment in another entity's equity instruments other than non-convertible preference shares and nonputtable ordinary and preference shares are held at fair value.
- Derivatives such as interest rate swaps are classified as financial assets or financial liabilities at fair value.

Financial assets and financial liabilities at fair value are classified using the following fair value hierarchy:

- (a) The best evidence of fair value is a quoted price in an active market.
- (b) When quoted prices are unavailable, the price of a recent transaction for an identical asset, adjusted to reflect any circumstances specific to the sale, such as a distress sale, if appropriate.
- (c) Where there is no active market or recent transactions then a valuation technique is used to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

1. Principal accounting policies (continued)

Impairment of Financial Assets

Financial assets are assessed at each reporting date to determine whether there is any objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence of impairment, an impairment loss is recognised in the Statement of Comprehensive Income immediately.

The following financial instruments are assessed individually for impairment:

- (a) All equity instruments regardless of significance; and
- (b) Other financial assets that are individually significant.

Other financial instruments are assessed for impairment either individually or grouped on the basis of similar credit risk characteristics.

An impairment loss is measured as follows on the following instruments measured at cost or amortised cost:

- (a) For an instrument measured at amortised cost, the impairment loss is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.
- (b) For an instrument measured at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that the entity would receive for the asset if it were to be sold at the reporting date.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed either directly or by adjusting an allowance account. The reversal cannot result in a carrying amount (net of any allowance account) which exceeds what the carrying amount would have been had the impairment not previously been recognised. The amount of the reversal is recognised in the Statement of Comprehensive Income immediately.



2. Turnover, Operating costs and Operating surplus

		Turnover	Operating costs	Operating surplus
Group 2016	Notes	£'000	£'000	£'000
Social housing lettings	3(a)	106,800	(60,949)	45,851
Other social housing activities				
- Supporting People Block Gross contracts		1,168	(1,105)	63
- Supporting People Block Subsidy contracts		686	(649)	37
- Shared ownership property first tranche sales		10,290	(7,841)	2,449
- Other		2,141	(1,910)	231
Non-social housing activities	3(c)			
- Lettings		4,296	(3,719)	577
- Other		1,679	(610)	1,069
Total		127,060	(76,783)	50,277

Group 2015	Notes	£'000	£'000	£'000
Social housing lettings	3(a)	103,936	(65,502)	38,434
Other social housing activities				
- Supporting People Block Gross contracts		1,432	(1,594)	(162)
- Supporting People Block Subsidy contracts		736	(482)	254
- Shared ownership property first tranche sales		6,248	(4,469)	1,779
- Other		2,449	(2,118)	331
Non-social housing activities	3(c)			
- Lettings		4,266	(1,866)	2,400
- Other		2,569	(1,568)	1,001
Total		121,636	(77,599)	44,037

		Turnover	Operating costs	Operating surplus
Company 2016	Notes	£'000	£'000	£'000
Social housing lettings	3(b)	106,800	(63,656)	43,144
Other social housing activities				
- Supporting People Block Gross contracts		1,168	(1,105)	63
- Supporting People Block Subsidy contracts		686	(649)	37
- Shared ownership property first tranche sales		10,290	(7,841)	2,449
- Other		2,141	(1,910)	231
Non-social housing activities	3(c)			
- Lettings		4,296	(3,719)	577
- Other		3,475	(1,008)	2,467
Total		128,856	(79,888)	48,968

2. Turnover, Operating costs and Operating surplus (continued)

		Turnover	Operating costs	Operating surplus
Company 2015	Notes	£'000	£'000	£'000
Social housing lettings	3(b)	103,936	(67,085)	36,851
Other social housing activities				
- Supporting People Block Gross contracts		1,432	(1,594)	(162)
- Supporting People Block Subsidy contracts		736	(482)	254
- Shared ownership property first tranche sales		6,248	(4,469)	1,779
- Other		2,449	(2,118)	331
Non-social housing activities	3(c)			
- Lettings		4,266	(1,866)	2,400
- Other		3,879	(2,149)	1,730
Total		122,946	(79,763)	43,183

3. (a) Income and Expenditure from social housing lettings – Group

	General needs housing	Supported housing	Temporary social housing	Keyworker housing	Shared ownership	Total	Total
	£'000	£'000	£'000	£'000	£'000	2016 £'000	2015 £'000
Income							
Rents receivable net of identifiable service charges	96,164	1,964	142	130	3,270	101,670	98,039
Service income	2,509	146	42	3	194	2,894	2,876
Amortisation of capital grants	2,075	38	5	2	116	2,236	3,021
Total income	100,748	2,148	189	135	3,580	106,800	103,936
Expenditure							
Services	3,197	112	59	3	138	3,509	3,809
Management	16,436	945	36	17	883	18,317	18,911
Routine maintenance	20,316	429	57	25	-	20,827	23,798
Cyclical maintenance	1,318	24	5	1	-	1,348	2,084
Bad debts	402	15	-	-	(48)	369	547
Depreciation of housing properties	15,379	285	35	17	863	16,579	16,325
Property lease charges	-	-	-	-	-	-	28
Total expenditure	57,048	1,810	192	63	1,836	60,949	65,502
Operating surplus on lettings	43,700	338	(3)	72	1,744	45,851	38,434
Rent losses from voids	(1,394)	(27)	-	(1)	(5)	(1,427)	(1,454)

3. (b) Income and Expenditure from social housing lettings – Company

	General needs housing	Supported housing	Temporary social housing	Keyworker housing	Shared ownership	Total	Total
	£'000	£'000	£'000	£'000	£'000	2016 £'000	2015 £'000
Income							
Rents receivable net of identifiable service charges	96,164	1,964	142	130	3,270	101,670	98,039
Service income	2,509	146	42	3	194	2,894	2,876
Amortisation of capital grants	2,075	38	5	2	116	2,236	3,021
Total income	100,748	2,148	189	135	3,580	106,800	103,936
Expenditure							
Services	3,197	112	59	3	138	3,509	3,809
Management	16,436	945	36	17	883	18,317	18,911
Routine maintenance	23,023	429	57	25	-	23,534	25,381
Cyclical maintenance	1,318	24	5	1	-	1,348	2,084
Bad debts	402	15	-	-	(48)	369	547
Depreciation of housing properties	15,379	285	35	17	863	16,579	16,325
Property lease charges	-	-	-	-	-	-	28
Total expenditure	59,755	1,810	192	63	1,836	63,656	67,085
Operating surplus on lettings	40,993	338	(3)	72	1,744	43,144	36,851
Rent losses from voids	(1,394)	(27)	-	(1)	(5)	(1,427)	(1,454)

3. (c) Turnover from non-social housing activities

Lettings	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Market rented and commercial property rents	1,147	661	1,147	661
Student accommodation	2,514	2,740	2,514	2,740
Private garages	635	634	635	634
Other				
General management charges	-	-	1,796	1,310
Other income	1,679	2,699	1,679	2,699
Total	5,975	6,734	7,771	8,044

4. Surplus on sale of housing

	Shared Ownership Staircasing	Others	Total	Total
Group & Company	2016 £'000	2016 £'000	2016 £'000	2015 £'000
Proceeds of sales	4,437	3,204	7,641	7,918
Cost of disposals	(4,290)	(2,175)	(6,465)	(6,482)
Total	147	1,029	1,176	1,436

5. Interest and financing costs

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
On loans wholly or partly repayable in more than 5 years	23,592	24,379	23,592	24,379
Amortisation of debt issue costs	34	34	34	34
Interest accrued on RCGF balance	18	5	18	5
Finance leases	1,121	1,133	1,121	1,133
Unwinding of discounts on provisions	99	161	99	161
Net interest on defined benefit liability	680	814	680	814
	25,544	26,526	25,544	26,526
Less: Interest capitalised	(503)	(885)	(503)	(885)
Total	25,041	25,641	25,041	25,641

The weighted average interest on borrowings of 3.90% (2015: 4.08%) was used for calculating capitalised interest.

6. Taxation

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
UK corporation tax:				
Current tax on profits for the year	44	124	-	-
Adjustments in respect of prior years:	(27)	2	-	-
Deferred tax:				
Origination and reversal of timing differences	-	(7)	-	-
Total	17	119	-	-

Reconciliation of tax charge				
Tax on surplus on ordinary activities at standard UK corporation tax rate of 20% (2015: 21%)	5,152	4,336	4,890	4,781
Charitable non-taxable income	(4,970)	(4,115)	(4,890)	(4,781)
Depreciation in excess of capital allowances	(138)	(97)	-	-
Adjustments in respect of previous periods	-	-	-	-
UK corporation tax	44	124	-	-

7. Surplus for the year

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Is stated after charging:				
Auditor's remuneration (excluding VAT):				
• In their capacity as auditor	50	47	37	34
• Other services	1	1	1	1
Bad debts	383	544	383	544
Operating Leases:				
• Hire of plant and machinery	336	549	64	50
• Rent of office buildings	372	332	291	278
Depreciation on owned assets:				
• Housing stock	15,237	14,666	15,237	14,666
• Loss on replacement of components	3,611	3,430	3,611	3,430
• Other assets	2,062	1,881	832	774
Depreciation on assets held under finance leases:				
• Other assets	610	480	610	480
(Surplus) on sale of fixed assets	1,182	1,436	1,182	1,436
Gift aid received	-	-	1,310	988

8. Intangible assets

Group & Company Cost	IT Software £'000	Total £'000
At 1 April 2015	1,782	1,782
Additions	497	497
Disposals	(98)	(98)
At 31 March 2016	2,181	2,181
Depreciation		
At 1 April 2015	1,280	1,280
Charge for the year	307	307
Disposals	(96)	(96)
At 31 March 2016	1,491	1,491
Net book value 31 March 2016	690	690
Net book value at 31 March 2015	502	502

9. (a) Tangible fixed assets – Housing properties – Group

	Housing properties £'000	Housing properties under construction £'000	Shared ownership properties £'000	Shared ownership properties under construction £'000	Total £'000
Cost at 1 April 2015	1,306,508	31,370	74,014	44	1,411,936
Additions	11,535	5,102	-	5,798	22,435
Disposals	(5,242)	-	(3,290)	-	(8,532)
Transfers	30,217	(30,217)	5,068	(5,068)	-
Transfer to current assets	-	(420)	-	-	(420)
At 31 March 2016	1,343,018	5,835	75,792	774	1,425,419
Depreciation					
At 1 April 2015	132,423	-	6,009	-	138,432
Charge for year	14,555	-	682	-	15,237
Disposals	(340)	-	(307)	-	(647)
At 31 March 2016	146,638	-	6,384	-	153,022
Net book value					
At 31 March 2016	1,196,380	5,835	69,408	774	1,272,397
At 31 March 2015	1,174,085	31,370	68,005	44	1,273,504

9. (b) Tangible fixed assets – Housing properties – Company

	Housing properties	Housing properties under construction	Shared ownership properties	Shared ownership properties under construction	Total
	£'000	£'000	£'000	£'000	£'000
Cost at 1 April 2015	1,309,138	31,370	74,014	44	1,414,566
Additions	11,535	5,102	-	5,798	22,435
Disposals	(5,242)	-	(3,290)	-	(8,532)
Transfers	30,217	(30,217)	5,068	(5,068)	-
Transfer to current assets	-	(420)	-	-	(420)
At 31 March 2016	1,345,648	5,835	75,792	774	1,428,049
Depreciation					
At 1 April 2015	132,423	-	6,009	-	138,432
Charge for year	14,555	-	682	-	15,237
Disposals	(340)	-	(307)	-	(647)
At 31 March 2016	146,638	-	6,384	-	153,022
Net book value					
At 31 March 2016	1,199,010	5,835	69,408	774	1,275,027
At 31 March 2015	1,176,715	31,370	68,005	44	1,276,134

9. (c) Tangible fixed assets – Housing properties

Maintenance spend	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
The amount spent on existing properties during the year was				
Maintenance capitalised in fixed assets	10,209	13,300	10,209	13,548
Maintenance expensed in the Income and Expenditure account	22,175	25,882	22,175	25,882
Total	32,384	39,182	32,384	39,430

Development administration expenditure and interest costs capitalised during the year amounted to: Group and Company £1,426k (2015: £1,529k).

10. Tangible fixed assets – Investment properties held for letting

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
At 1 April 2015	29,715	29,011	30,047	29,343
Additions	7,949	529	7,949	529
Gain from adjustment in value	33	175	33	175
At 31 March 2016	37,697	29,715	38,029	30,047

Investment properties were valued at 31 March 2016 by Savills professional qualified external valuers. The valuation of properties was undertaken in accordance with the Royal Institute of Chartered Surveyors Valuation standards. In valuing the properties the following significant assumptions were used:

Discount rate	5.25%
Annual inflation rate	0.25% for Yr 1 increasing to 2.0% from Yr 4
Level of long term rent increase	1.1% for Yr 1, 2.0% from Yr 2

11. Tangible fixed assets – Other property, plant and equipment

	Offices	Plant and equipment	Total
Group	£'000	£'000	£'000
Cost			
At 1 April 2015	3,165	10,555	13,720
Additions	3	2,194	2,197
Disposals	-	(1,142)	(1,142)
At 31 March 2016	3,168	11,607	14,775
Depreciation			
At 1 April 2015	1,617	5,128	6,745
Charge for the year	127	2,238	2,365
Disposals	-	(700)	(700)
At 31 March 2016	1,744	6,666	8,410
Net book value 31 March 2016	1,424	4,941	6,365
Net book value at 31 March 2015	1,548	5,427	6,975

Company	£'000	£'000	£'000
Cost			
At 1 April 2015	2,661	6,061	8,722
Additions	3	1,322	1,325
Disposals	-	(848)	(848)
At 31 March 2016	2,664	6,535	9,199
Depreciation			
At 1 April 2015	1,253	3,256	4,509
Charge for the year	127	1,008	1,135
Disposals	-	(566)	(566)
At 31 March 2016	1,380	3,698	5,078
Net book value 31 March 2016	1,284	2,837	4,121
Net book value at 31 March 2015	1,408	2,805	4,213

The net book value of tangible fixed assets for Group and Company includes an amount of £2,170k (2015: £2,000k) in respect of assets held under finance leases.

12. HomeBuy

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Loans to home purchasers	38	38	38	38

13. Fixed asset investments

The group comprises the following entities, all registered in England:

Name	Entity type	Ownership	Regulated / Non-regulated	Nature of business
Flagship Housing Developments Limited	Company	100%	Non-regulated	Design and build
RFT Repairs Limited	Company	100%	Non-regulated	Repairs and maintenance
RFT Repairs & Maintenance Limited	Company	100%	Non-regulated	Dormant
East Anglian Homes Limited	Company	100%	Non-regulated	Dormant
Flagship Community Housing Limited	Company	100%	Non-regulated	Dormant

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
At 1 April 2015	12,236	12,236	17,336	17,336
Additions	-	-	5,000	-
At 31 March 2016	12,236	12,236	22,336	17,336
Group companies	-	-	10,100	5,100
Liquidity deposit reserve	12,234	12,234	12,234	12,234
Other Investments (at historical cost)	2	2	2	2
	12,236	12,236	22,336	17,336

During the year, Flagship Housing Developments issued 5,000,000 ordinary £1 shares to Flagship Housing Group Limited at cost.

14. Inventories

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Raw materials and consumables	691	801	2	-
Completed properties for sale	569	639	569	639
Work in progress	5,665	44	1,053	44
	6,925	1,484	1,624	683

15. Debtors

Debtors due within one year	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Amounts owed by group undertakings	-	-	1,607	1,017
Rent arrears				
· Amounts due from tenants	3,988	4,912	3,988	4,912
· Net present value adjustment	-	-	-	-
· Bad and doubtful debt provision	(2,920)	(2,467)	(2,920)	(2,467)
Other trade debtors				
· Amounts due from other trade debtors	245	535	219	478
· Bad and doubtful debt provision	-	(62)	-	(62)
Other debtors	949	913	908	891
Prepayments and accrued income	8,385	7,655	2,442	3,333
	10,647	11,486	6,244	8,102

16. Current asset investments

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Unlisted investments – at cost less impairment	40,312	40,150	40,312	40,150

17. Creditors - Amounts falling due within one year

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Bank loans and overdrafts (note 19)	7,186	2,377	7,186	2,377
Obligations under finance leases and hire purchase contracts (note 23)	1,628	1,782	1,628	1,782
Trade creditors	3,757	4,757	2,067	4,213
Other creditors	2,963	3,470	2,962	3,228
Accruals and deferred income	16,352	18,493	13,570	15,503
SHPS past service deficit	843	616	843	616
Deferred capital grant (note 20)	2,397	2,405	2,397	2,405
Recycled Capital Grant Fund (note 21)	1,455	1,078	1,455	1,078
Disposals Proceeds Fund (note 22)	60	60	60	60
Corporation tax	18	124	-	-
	36,659	35,162	32,168	31,262

18. Creditors - Amounts falling due after more than one year

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Bank loans and overdrafts (note 19)	582,255	589,527	582,255	589,527
Deferred debt issue costs	(57)	(90)	(57)	(90)
Obligation under finance leases and hire purchase contracts (note 23)	15,537	15,572	15,537	15,572
SHPS past service deficit	6,273	7,061	6,273	7,061
Accruals and deferred income	644	684	644	684
Deferred Capital Grant (note 20)	198,267	199,694	198,267	199,694
	802,919	812,448	802,919	812,448

19. Debt analysis

Housing loans are secured by way of a fixed charge on specific assets of the Group. They bear interest at variable (linked to LIBOR) and fixed rates. The current average interest rate is 3.81%; the average during the year was 3.90%.

The above maturities are calculated by reference to the existence of committed facilities at 31 March 2016.

The earliest dates on which repayment could be demanded under committed revolving facilities are as follows:

Housing loans	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Repayable in one year or less	7,186	2,377	7,186	2,377
Repayable between one and two years	7,360	7,271	7,360	7,271
Repayable between two and five years	23,245	22,943	23,245	22,943
Repayable in five years or more	551,650	559,313	551,650	559,313
	589,441	591,904	589,441	591,904

The interest rate profile of the Group was:	Variable rate £'000	Fixed rate £'000	Total £'000
Syndicated bank loans	215,754	244,246	460,000
RSL Finance (No 1) Bond	-	129,441	129,441
	212,754	373,687	589,441

	Weighted average rate %	Weighted average term of fixing Years	Undrawn facilities £'000
Syndicated bank loans	3.0%	8	-
RSL Finance (No 1) Bond	6.6%	23	-
Revolving credit facilities	0.0%	0	50,000

20. Deferred capital grant

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
At the start of the year	202,099	205,171	202,099	205,171
Grant received in the year	2,116	396	2,116	396
Grant released on disposals	(1,211)	(1,120)	(1,211)	(1,120)
Released to income in the year	(2,340)	(2,348)	(2,340)	(2,348)
At the end of the year	200,664	202,099	200,664	202,099
Amount due to be released < 1 year	2,397	2,405	2,397	2,405
Amount due to be released > 1 year	198,267	199,694	198,267	199,694
	200,664	202,099	200,664	202,099

21. Recycled capital grant fund

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
At the start of the year	1,078	852	1,078	852
Inputs:				
Grant recycled	876	313	876	313
Interest accrued	18	37	18	37
Recycling:				
New build	(517)	(125)	(517)	(125)
At the end of the year	1,455	1,078	1,455	1,078

22. Disposals proceeds fund

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
At the start and end of the year	60	-	60	-
Inputs:				
Grant recycled	-	58	-	58
Interest accrued	-	2	-	2
At the end of the year	60	60	60	60

23. Obligations under finance leases

Net finance lease obligations:	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
In one year or less	1,628	1,782	1,628	1,782
Between two and five years	15,537	15,572	15,537	15,572
	17,165	17,354	17,165	17,354

24. Non-equity share capital

	2016 £	2015 £
Allotted, issued and fully paid		
At start of the year	142	142
Issued during the year	-	-
At end of the year	142	142

The shares do not have a right to any dividend or distribution in a winding-up, and are not redeemable. Each share has full voting rights.

25. Capital commitments

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	24,081	17,582	24,081	17,582

The total amount contracted for at 31 March 2016 in respect of new dwellings relates to approved schemes for which grant approval has been received and or private finance arranged.

26. Operating leases

The Group holds housing stock, distribution centres and office accommodation under non-cancellable operating leases. At 31 March 2016 the Group had commitments of future minimum leases payments as follows:

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Within one year	313	313	313	313
Between one to five years	869	979	869	979
Between five to ten years	45	224	45	224
	1,227	1,516	1,227	1,516

27. Pension obligations

The Group and Company participates in four defined benefit schemes: the Norfolk County Council Pension Fund, Suffolk County Council Pension Fund, the Social Housing Pension Scheme (which is managed by The Pensions Trust), and the Plumbing & Mechanical Services (UK) Industry Pension Scheme. The Group participates in various defined contribution schemes. Details of the schemes operated are outlined below.

27. (a) Norfolk County Council Pension Fund and Suffolk County Council Pension Fund

The Norfolk County Council Pension Fund and Suffolk County Council Pension Fund are defined benefit pension schemes. Valuations for the purposes of FRS 102 were carried out at 31 March 2016. The results of the valuations are as follows:

Assumptions:	Group and Company 2016	Group and Company 2015
Financial assumptions:	% per annum	% per annum
Pension increase rate	2.15%	2.15%
Salary increase rate	3.65%	3.65%
Discount rate	3.45%	3.45%

Mortality rates (based on the funds VitaCurves with improvements in line with the CMI 2010 model)	Males 2016	Females 2016	Males 2015	Females 2015
	Years	Years	Years	Years
Current pensioners: post-retirement life expectancy	22.25	24.35	22.25	24.35
Future pensioners: post-retirement life expectancy	24.40	26.90	24.40	26.90

The major categories of plan assets as a percentage of total plan assets	Group and Company 2016	Group and Company 2015
Equities	63.0%	67.0%
Bonds	23.5%	20.0%
Property	12.0%	11.0%
Cash	1.5%	2.0%
	100.0%	100.0%

27. (a) Norfolk County Council Pension Fund and Suffolk County Council Pension Fund (continued)

Changes in the Fair Value of Plan Assets, Defined Benefit Obligation and Net Liabilities	Group and Company 2016	Group and Company 2015
Opening position		
Fair value of plan assets	15,053	13,343
Present value of funded liabilities	(21,842)	(19,890)
Present value of unfunded liabilities	(131)	-
Opening position as at 31 March 2015	(6,920)	(6,547)
Service cost		
Current service cost	(142)	(125)
Total Service cost	(142)	(125)
Net Interest		
Interest income on plan assets	470	551
Interest cost on defined benefit obligation	(680)	(814)
Total Net Interest	(210)	(263)
Total Defined Benefit Cost Recognised in the Statement of Comprehensive Income	(352)	(388)
Cash Flows		
Plan participants' contributions (net)	-	-
Employers contributions	497	455
Contributions in respect of unfunded benefits	9	10
Benefits paid (net)	-	-
Unfunded benefits paid (net)	-	-
Closing position before re-measurements	(6,766)	(6,470)
Re-measurements		
Changes in financial assumptions	1,234	(1,990)
Other experience	379	226
Return on assets excluding amounts held in net interest	(137)	1,314
Total measurements recognised in Other Comprehensive Income	1,476	(450)
Closing position		
Fair value plan assets	15,300	15,053
Present value of funded liabilities	(20,473)	(21,842)
Present value of unfunded liabilities	(117)	(131)
Closing position as at 31 March 2016	(5,290)	(6,920)

27. (b) Social housing pension scheme

The Group participates in the scheme, a multi-employer scheme which provides benefits to some 500 non-associated employers. The scheme is a defined benefit scheme in the UK. It is not possible for the Group to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore it accounts for the scheme as a defined contribution scheme. The Group closed the scheme to new entrants from 1 April 2008.

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

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

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

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

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

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

27. (b) Social housing pension scheme (continued)

	Group and Company 2016 £'000	Group and Company 2015 £'000
Reconciliation of opening and closing provisions		
Provision at start of period	7,677	5,642
Unwinding of the discount factor (interest expense)	99	161
Deficit contribution paid	(616)	(592)
Remeasurements – impact of any change in assumptions	(44)	263
Remeasurements – amendments to the contribution schedule	-	2,203
Provision at end of period	7,116	7,677
Statement of Comprehensive Income impact		
Interest expense	99	161
Remeasurements – impact of any change in assumptions	(44)	263
Remeasurements – amendments to the contribution schedule	-	2,203
Contributions paid in respect of future service*	276	349
Costs recognised in the Statement of Comprehensive Income	331	2,976
*includes defined contribution schemes and future service contributions (i.e. excluding any deficit reduction payments) to defined benefit schemes which are treated as defined contribution schemes.		

Assumptions:	31 March 2016	31 March 2015	31 March 2014
	% per annum	% per annum	% per annum
Rate of discount	2.06	1.92	3.02

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

Social housing pension scheme – growth plan

Flagship Housing Group participates in the SHPS's Growth Plan. The Plan is funded and is not contracted out of the state scheme. The Growth Plan is a multi-employer pension plan.

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

The last formal valuation of the scheme was performed as at 30 September 2011 by a professionally qualified actuary using the projected unit credit method. The market value of the scheme's assets at the latest valuation date was £1,527m. The valuation revealed a shortfall of assets compared to liabilities of £663m, equivalent to a funding level of 70%. The next full actuarial valuation has been carried out as at 30 September 2014 and we are awaiting the final results.

27. (b) Social housing pension scheme (continued)

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

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 Plan. The Trustee's current policy is that it only applies to employers with pre-October 2001 liabilities in the Plan. The debt is due in the event of the employer ceasing to participate in the Plan or the Plan winding up.

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

The leaving employer's share of the buyout debt is the proportion of the Plan's pre-October 2001 liability attributable to employment with the leaving employer compared to the total amount of the Plan's pre-October 2001 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 Plan liabilities, Plan investment performance, the liabilities in respect of current and former employees of the employer, financial conditions at the time of the cessation event and the insurance buyout market. The amounts of debt can therefore be volatile over time.

Flagship Housing Group has been notified by The Pensions Trust of the estimated employer debt on withdrawal from the Plan based on the financial position of the Plan as at 30 September 2015.

Estimated employer debt on withdrawal	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Pension scheme	38,337	34,624	38,337	34,624
Growth plan	54	60	54	60

27. (c) The plumbing & mechanical services (UK) industry pension scheme

The Group participates in the Plumbing & Mechanical Services (UK) Industry Pension Scheme (the Scheme). The Scheme is funded and is contracted out of the State Pension scheme.

It is not possible in the normal course of events to identify on a consistent and reasonable basis the share of underlying assets and liabilities belonging to individual participating employers. This is because the Scheme is a multi-employer scheme where the Scheme assets are co-mingled for investment purposes, and benefits are paid from total Scheme assets. Accordingly, due to the nature of the Scheme, the accounting charge for the period under FRS102 represents the employer contribution payable.

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

The last formal valuation of the Scheme was performed as at 5 April 2012 by a professionally qualified actuary using the Projected Unit Method and the actuary found that the assets were sufficient to cover 100% of the Scheme's liabilities.

The Scheme Actuary has prepared an Actuarial Report that provides an approximate update on the funding position of the Scheme as at 5 April 2013. Such a report is required by legislation for years in which a full actuarial valuation is not carried out. This shows that the assets covered liabilities by about 98% on an ongoing basis.

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Contributions	9	12	-	-

27. (d) Defined contribution pension schemes

The Group participates in a number of defined contribution pension schemes. From 1 February 2014 the Group offered auto-enrollment in a pension scheme for all staff. The scheme offered is a defined contribution workplace pension scheme. Contributions paid by the Group to the schemes were:

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Contributions	826	715	490	454

28. Directors' emoluments

The Directors are defined as the members of the Board and the Executive Directors. All the Executive Directors' remuneration was borne by Flagship.

The aggregate amount of emoluments (including pension contributions) with respect to service as Directors and paid to or receivable by the Directors in the Group during the year was Group: £950,532 (2015:£928,828). Retirement benefits are accruing to the Executive Directors under defined benefit schemes three members; (2015 – three members) and defined contribution schemes two members, (2015 – three members). The Chief Executive, who is also the highest paid Director, is an ordinary member of the Social Housing Pension Scheme (see Note 27b).

	Executive Directors £	2016 Non-Executive Directors £	Total £	Executive Directors £	2015 Non-Executive Directors £	Total £
Salary	703,663	83,861	787,524	695,938	78,583	774,521
Benefits	31,624	-	31,624	29,439	-	29,439
Total excluding pension contributions	735,287	83,861	819,148	725,377	78,583	803,960
Pension contributions	131,384	-	131,384	124,868	-	124,868
Aggregate total	866,671	83,861	950,532	850,245	78,583	928,828

Emoluments paid to the highest paid Director	2016 £	2015 £
Salary	186,617	186,359
Benefits	5,593	4,084
Total excluding pension contributions	192,210	190,443
Pension contributions	16,785	15,993
Aggregate total	208,995	206,436

29. Employee information

	Group 2016 Number	Group 2015 Number	Company 2016 Number	Company 2015 Number
The average full time equivalent number of persons (including Executive Directors) employed during the year was:	706	716	397	430
The full time equivalent number is calculated based on a 37 hour working week.				

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Wages and salaries (including redundancy costs)	21,352	19,729	12,544	11,673
Social Security costs	1,898	1,740	1,050	958
Pension costs	2,261	1,767	1,928	1,473
Total - excluding temporary staff costs	25,511	23,236	15,522	14,104
Temporary staff costs	364	596	303	520
Total	25,875	23,832	15,825	14,624

Salary Bands

Salary banding for all employees earning over £60,000 (including salaries and benefits in kind and compensation for loss of office, but excluding pension contributions paid by the employer):

	Group 2016 Number	Group 2015 Number	Company 2016 Number	Company 2015 Number
£60,000 to £70,000	5	5	5	5
£70,001 to £80,000	4	1	3	1
£80,001 to £90,000	4	1	4	-
£90,001 to £100,000	3	1	2	1
£100,001 to £110,000	1	-	1	-
£110,001 to £120,000	-	2	-	1
£120,001 to £130,000	-	3	-	3
£130,001 to £140,000	4	-	4	-
£180,001 to £190,000	-	-	-	-
£190,001 to £200,000	1	1	1	1
	22	14	20	12

30. Housing stock

Group and company	2016 Units	2015 Units
Housing accommodation	19,730	19,662
Housing accommodation at intermediate rent	317	212
Supported housing accommodation	371	370
Shared ownership accommodation	1,123	1,108
Keyworker properties	22	25
Housing accommodation let at market rent	160	111
Student accommodation	600	600
Total	22,323	22,088

31. Notes to the cash flow statement

Cash flow from operating activities	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Surplus for the year	27,343	20,930	27,360	21,183
Adjustment for non-cash items:				
Depreciation of housing properties	15,237	14,666	15,237	14,666
Depreciation of other fixed assets	2,365	2,111	1,135	1,004
Amortisation of intangible assets	307	249	307	249
(Increase) in inventories	(5,442)	(399)	(942)	(401)
(Increase) / decrease in debtors	(663)	3,558	(111)	4,717
(Increase) in current asset investments	(162)	(150)	(162)	(150)
(Decrease) / increase in creditors	(4,174)	285	(4,297)	(561)
(Decrease) / increase in provisions	(154)	(77)	(154)	(77)
Pension costs less contributions payable	(561)	2,036	(561)	2,036
Carrying amount of intangible asset disposals	2	53	2	53
Carrying amount housing property disposals	8,305	5,724	8,305	5,724
Carrying amount other fixed asset disposals	443	374	282	265
Carrying amount of investment disposals	-	150	-	150
(Increase) in fair value of investment property	(33)	(175)	(33)	(175)
Adjustments for investing or financing activities:				
Proceeds from the sale of housing properties	(7,641)	(7,918)	(7,641)	(7,918)
Proceeds from the sale of other fixed assets	(116)	(83)	-	-
Interest payable	25,041	25,641	25,041	25,641
Interest received	(915)	(1,042)	(2,224)	(2,030)
Net cash generated from operating activities	59,182	65,933	61,544	64,376

32. Financial instruments

The carrying value of the Group and Company's financial assets and liabilities are summarised by category below:

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Financial assets				
Measured at discounted amount receivable:				
• Rent arrears financing transactions (see note 15)	-	-	-	-
Measured at undiscounted amount receivable:				
• Rent arrears and other debtors (see note 15)	1,313	2,918	1,287	2,861
• Amounts due from related undertakings (see note 15)	-	-	1,607	1,017
• Unlisted investments	40,312	40,150	40,312	40,150
	41,625	43,068	43,206	44,028

Financial liabilities				
Measured at amortised cost:				
• Loans payable (see note 19)	589,441	591,904	589,441	591,904
• Obligations under finance leases (note 23)	17,165	17,354	17,165	17,354
• SHPS past service deficit (notes 17 and 18)	7,116	7,677	7,116	7,677
Measured at undiscounted amount payable:				
• Trade and other creditors (see note 17)	3,757	4,757	2,067	4,213
	617,479	621,692	615,789	621,148

The Group's income, expense, gains and losses in respect of financial instruments are summarised below:

	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Interest income and expense				
Total interest income for financial assets at amortised cost	915	1,042	2,224	2,030
Total interest expense for financial liabilities at amortised cost	(25,041)	(25,641)	(25,041)	(25,641)

Fair value gains and losses				
On financial assets measured at fair value through the statement of comprehensive income	1,476	(450)	1,476	(450)

33. Related parties

Flagship Housing Group Limited is the Parent entity in the Group and ultimate controlling party. The Group has taken advantage of the exemption available under Section 33 FRS 102 not to disclose transactions with wholly owned subsidiary undertakings.

Transactions with non-registered elements of the business

The Company provides management services to its subsidiaries. It also receives charges from its subsidiaries.

	2016 £'000	2015 £'000
Payable to Company from subsidiary		
RFT Repairs Limited – management charges	682	788
Flagship Housing Developments Limited – management charges	112	522

Payable by Company from subsidiary		
RFT Repairs Limited – provision of maintenance services	25,234	26,930
Flagship Housing Developments Limited – development of housing properties	13,468	15,443

34. First time adoption of FRS 102

		Reserves as at transition date:	Reserves as at:	Surplus for the year ended:
		1 April 2014 £'000	31 March 2015 £'000	31 March 2015 £'000
Group				
As previously stated under former UK GAAP		501,028	560,526	24,002
Transitional adjustments				
Revaluation to deemed cost of housing properties	a	12,986	(22,460)	726
Increase in depreciation of housing properties	b	-	(3,522)	(3,522)
Increase in amortisation of grants relating to housing properties	c	8,162	9,636	1,475
Inclusion of SHPS pension deficit payment liability	d	(5,642)	(7,516)	(1,874)
Reclassification of student accommodation leases	e	3,650	3,825	175
Revaluation to fair value of fixed asset investments	f	4,969	5,144	174
Reclassification of pension interest costs	g	-	-	(226)
As stated in accordance with FRS 102		525,153	545,633	20,930

34. First time adoption of FRS 102 (continued)

Company	Reserves as at transition date:		
	1 April 2014 £'000	31 March 2015 £'000	Surplus for the year ended: 31 March 2015 £'000
As previously stated under former UK GAAP	500,848	560,070	24,255
Transitional adjustments			
Revaluation to deemed cost of housing properties	a 15,357	(19,561)	726
Increase in depreciation of housing properties	b -	(3,522)	(3,522)
Increase in amortisation of grants relating to housing properties	c 8,162	9,636	1,475
Inclusion of SHPS pension deficit payment liability	d (5,642)	(7,516)	(1,874)
Reclassification of student accommodation leases	e 3,650	3,825	175
Revaluation to fair value of fixed asset investments	f 5,161	5,336	174
Reclassification of pension interest costs	g -	-	(226)
As stated in accordance with FRS 102	527,536	548,268	21,183

Explanation of changes to previously reported profit and equity:

- On transition to FRS102 the Board has elected to measure Housing properties classed as Property Plant & Equipment at depreciated historical cost. The Revaluation Reserve was therefore eliminated. It was also elected to measure stock transfer housing properties in the Group at fair value at the date of transition (at deemed cost.) The effect is to increase reserves and the carrying amount of fixed assets in the Company and Group. The costs of sales relating to fixed asset disposals were adjusted for the valuation element for the year ended 31 March 2015.
- The additional value to bring the asset up to deemed cost is depreciated over the remaining life of the structure and land components of the property. This equates to an additional depreciation charge of £5,306 for the year ended 31 March 2015.
- FRS102 requires that capital grant previously deducted from the cost of fixed assets, is treated as creditors where the fixed assets are carried at cost. The effect compared to current UK GAAP is an increase to the carrying cost of housing properties resulting in an increase in the depreciation at transition of £1,647k and an increase in the surplus for the year ended 31 March 2015 of £1,475k.
- FRS102 requires that a liability is recognised for the contributions that arise from an agreement to fund a deficit in a multi-employer pension scheme. The effect is that a liability for the SHPS payment plan has been recognised at the present value of the contributions payable using the discount rate specified in note 27. This has resulted in a decrease in reserves of £5,642k at transition and a decrease in the surplus in the year ended 31 March 2015 of £1874k.
- FRS102 requires the student accommodation leases to be classed as a finance lease, previously accounted for as operating leases.
- FRS102 requires that property where commercial rentals are earned is carried at fair value at the reporting date. The effect is that the value of the market rented properties has been recognised at transition Group £4,969, Company £5,161k, and the movement in the year to 31 March 2015 of £174k.
- FRS102 requires the recognition in the Statement of Comprehensive Income of a net interest cost (or income) on defined benefit pension schemes. This is calculated by multiplying the net pension liability (or asset) by the market yields on high quality corporate bonds. The effect of this, when compared to previous UK GAAP, has been to reduce reported surpluses because previous UK GAAP led to the recognition of finance income calculated by reference to the expected returns on the pension plan's specific assets be they equities, properties or bonds. The change has had no effect on reported equity as the measurement of the net defined pension scheme liability (or asset) has not changed. Instead, the decrease in reported profit is mirrored by an increase in actuarial gains which are presented within other comprehensive income.