housing21

# FINANCIAL STATEMENTS 2010 – 11

Housing 21 has a strong balance sheet and a growing asset base to support further growth. The Group finances its housing development programme by a combination of grant, bank loans and retained surpluses...

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# board, executive team and advisers

**Board**
David Grayson (Chair)
Matthew Harker
Heléna Herklots
Richard Humphries
Kenneth Jeffries (appointed 24 September 2010)
Peter Letley (retired 24 September 2010)
Pushpa Raguvaran (Chief Executive)
Sanaya Robinson
Sandra Robinson (Vice Chair) (retired 6 November 2010)
Michael Stansfield
Brian Ward-Jones (resigned 6 November 2010)

**Executive team**

| | |
|---|---|
| Tayo Bilewu | Director of Property Development |
| Peter Caley | Director of Human Resources (appointed 2 August 2010) |
| Stephen Perry | Director of Finance (appointed 14 June 2010) |
| Les Clarke | Director of Services |
| Pushpa Raguvaran | Chief Executive |
| Paul Richards | Director of Property Management |
| Dominic Rothwell | Director of Organisational Transformation |
| Nick Townend | Interim Director of Finance (resigned 16 July 2010) |

**Secretary and registered office**
Delyth Hampton, The Triangle, Baring Road, Beaconsfield, Bucks HP9 2NA

**Bankers**
Barclays Bank plc, Corporate Banking
Level 28, 1 Churchill Place, Canary Wharf, London E14 5HP

**Auditors**
BDO LLP, Emerald House, East Street, Epsom, Surrey KT17 1HS

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

**Registration of the Association**
The Association is incorporated under the Industrial and Provident Societies Act 1965 (Registered number 16791R) and under the Housing and Regeneration Act 2008 (Number L0055). Housing 21 is an exempt charity.



# report of the board

**Housing 21's Group of active companies (The Group)**
Housing 21 (the Parent) is an Industrial and Provident Society with exempt charitable status. As a Registered Provider of Social Housing it provides care and housing with associated amenities. It is registered with the Financial Services Authority and regulated by the Tenant Services Authority. Its constitution is contained in its Rule Book. The Group's main subsidiaries are as follows:

Housing 21 Property Services Ltd (H21PS) is a non-charitable private company limited by shares set up to manage the Group's development programme.

War Memorial Village Derby (WMVD) is a charitable member of the Housing 21 Group. It retains Housing 21 to act as managing agent for a scheme in Derby. It is registered with the Charities Commission.

H21 Guernsey LBG (H21G) is a private company limited by guarantee and incorporated under and subject to the law of the States of Guernsey. The purpose of this subsidiary is the management of a scheme for and on behalf of the States of Guernsey.

Oldham Retirement Housing Partnership Ltd (ORHP) is an Industrial and Provident Society with exempt charitable status. It is a special purpose vehicle set up under the Private Finance Initiative (PFI) to refurbish and manage stock in Oldham on behalf of Oldham Metropolitan Borough Council.

Kent Community Partnerships Ltd (KCP) is an Industrial and Provident Society with exempt charitable status. It is a special purpose vehicle set up under the PFI to build and manage stock in Kent.

Claimar Care Group Limited is a private company limited by shares. It is a subsidiary of Housing 21 but is also the holding company for a sub-group containing all former Claimar Group PLC subsidiaries.

Gharana Housing Association Limited (GHAL) is an Industrial and Provident Society with exempt charitable status and comprises two schemes in Northamptonshire. GHAL transferred into the group on the 31st March 2011.

**Principal activities and review of the business**
Details of the Group's activities, a review of activity for the year ended 31 March 2011 and its prospects are set out in the Group's Annual Review in the Chairman's statement.

**Creditor payment policy**
The Group agrees payment terms with its suppliers when it enters into binding contracts. It seeks to abide by these terms when it is satisfied that the supplier has provided the goods or services in accordance with agreed terms and conditions.

**Advancement of disabled persons**
Applications for employment from disabled persons are given full and fair consideration for all vacancies having regard to their particular aptitude and abilities. In the event of employees becoming disabled, every effort is made to retain them in order that their employment within the Group may continue.

**Employee involvement**
The Group continued its policy on consultation and communication with employees on matters affecting them and on the progress of the Group. Through the staff council, employees are consulted on various issues. Additionally, there are cascade briefings from the Executive Team, departmental and team meetings and other forms of communication such as newsletters, e-mail bulletins and the intranet.

**Health and safety and audit**
There is a health and safety policy and Housing 21 encourages its employees to take part in making decisions regarding the management of health and safety, creating a genuine partnership between management and employees. Consultation and promotion of health and safety is through the various forums of Staff Council, Staff Round Table meetings and the Health & Safety Working Group.

The Audit and Risk Management Committee oversees compliance with health and safety legislation and policies. It regularly reviews the strategy for ensuring that a positive health and safety culture is promoted within the Group, gaining the commitment of staff and providing sufficient and clear information about the benefits to the business.

**Insurance of directors and officers**
Directors are covered by Directors and Officers Liability insurance to an indemnity limit of £1m in respect of their duties as directors of the Group.

**Governance**
The Group is committed to exhibiting best practice in aspects of corporate governance. Throughout the year ended 31 March 2011 Housing 21 and its subsidiaries were in full compliance with all provisions of the Group's governance handbook which includes financial regulations, standing orders and respective roles and responsibilities. The governance handbook fully reflects the requirements advised by the National Housing Federation.

Each member of the Board brings varying experiences and skills to the operation of the Board and its subcommittees. The Board composition is kept under review and when a new appointment is to be made, consideration is given to the kind of experience that a potential new member could add to the existing mix.

The governance structure has been the subject of a voluntary review during the year and the performance of the Board and of its Members is regularly appraised.

**Directing the business**
The Board as a whole is collectively responsible for ensuring the success of the Group and ensuring its compliance with all legal and regulatory obligations by directing and supervising the Group's affairs. The Board:

- provides entrepreneurial leadership of the Group within a framework of prudent and effective controls which enable risk to be assessed and managed;
- sets the Group's strategic aims, ensures that the necessary financial and human resources are in place for the Group to meet its objectives, and reviews management performance; and
- sets the Group's values and standards and ensures that its legal and regulatory obligations are understood and met.

The work of the Board has the following key elements:

- Members constructively challenge and contribute to the development of the strategy of the Group;
- Scrutinise the performance of management of the Group in meeting agreed goals and objectives and monitoring the reporting of performance;
- Ensure financial information is fair and reasonable and that financial controls and systems of risk management are robust; and
- Determine appropriate levels of remuneration of executive members of the Board and the senior management team and have a prime role in appointing, and where necessary removing, senior management and in succession planning.

Board Members:

- Comply with the Group's policies, procedures and standing orders as set and amended from time to time by the Board, and with the Rule book of Housing 21 (the Rules);
- Act within the Rules;
- Uphold and promote the core policies, purpose, values of the Group
- Ensure the Group's objectives are reviewed and updated during the year;
- Contribute towards and share the responsibility for decisions of the Board and/or any Committee of the Board of which they are from time to time a member; and
- Uphold the Group's code of conduct.

The role of the Board is to exercise effective control over the Housing 21 Group and formulate the strategy both directly and through its committees:

**Audit and Risk Management Committee**
Sanaya Robinson – Chair
Heléna Herklots
Kenneth Jeffries

**Performance Committee**
Heléna Herklots – Chair
Pushpa Raguvaran (Chief Executive)
Peter Letley (retired 24 September 2010)
Sandra Robinson (Vice Chair) (retired 6 November 2010)
Michael Stansfield

**Personnel, Selection and Remuneration**
Heléna Herklots – Chair
David Grayson
Mike Stansfield

**Remuneration Committee**
Heléna Herklots – Chair
Michael Stansfield
David Grayson

**Nominations Committee**
Richard Humphries – Chair
Sanaya Robinson
Kenneth Jeffries
Pushpa Raguvaran

**The Personnel, Selection and Remuneration** (PSR) Committee was stood down on 25 March 2011, and replaced by a Remuneration Committee and a Nominations Committee on the same date.

**Housing Services Committee**
Board Members:
Kenneth Jeffries – Chair
Richard Humphries – Vice Chair

Resident Members:
John Dodd (resigned 20 April 2011)
Robert Perrin
Brian Horsman
Malcolm Gardiner
Maureen Hooley
William Moore
Lisa Rowe (appointed 1 December 2010)
Maureen Savage (resigned 23 April 2011)
George Spry
Keith Stacey
Derek Thorogood

Independent Members:
Jane Jolly (appointed 1 December 2010)
Janet Williams (appointed 1 December 2010)
Reginald Parkinson

Ex-Officio Committee Membership:
The Chairman David Grayson is an ex-officio member of all committees

**Recruitment of Board members**
The Board is elected by shareholding members. One third of the Board is retired and stands for re-election at each Annual General Meeting. The Board has the capacity to co-opt members. There is an open recruitment policy, with applications sought from candidates with a defined range of skills and experience, including those directly concerned with our client base.

The maximum term that any Board member can serve is three consecutive terms of three years (nine years in total). The Board has up to two places reserved for members who are also current residents.

**Roles and responsibilities of the Board**
To discharge its responsibilities for the direction of the Group, the Board as a whole will have or acquire a diverse range of skills, competencies, experience and knowledge. These should cover the following broad areas:

- providing leadership and working as an effective team to take strategic decisions for social results;
- direct knowledge of the needs and aspirations of the communities and people served;
- general business, financial and management skills;
- the external framework for Federation members including financial markets, political imperatives and the operating environment;
- other relevant or specialist skills, such as investment, risk management, legal, health, social services, property management and housing development;
- effective communication skills and an ability to focus on the key issues facing the Group, and
- the ability to foster a culture that enhances commitment, enthusiasm and excellent performance from staff.

**Policy for admitting shareholding members**
We have an open membership policy, whilst seeking to achieve a broad and balanced membership including residents and non-residents and corporate and individual members.

**Board Statement on internal control**
The Board has overall responsibility for establishing and maintaining the system of internal control and for reviewing its effectiveness. This applies in respect of all companies and subsidiaries in the 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, but not absolute, assurance that key business objectives and expected outcomes will be achieved.

The Board is satisfied that the Group's systems of internal controls to manage risks are adequate to give reasonable assurance on the effective operation of each business stream. Where weaknesses have been found, effective and timely remedial action is being taken to close control gaps, and staff continue to follow the internal controls.

Through the Audit and Risk Management Committee, the Board has ensured that an ongoing appraisal of the Group's system of internal control and risk management has continued throughout the year ended 31 March 2011.

Internal audit activity operates independently of management to review objectively the policies of the Board and operations of the Group and to consider the adequacy of internal controls. Audit reviews are planned on a risk-assessed basis and agreed actions are monitored with management through to completion.

For the year under review, a self-assessment process undertaken by senior managers has been initiated, which ensures managers are fully aware of the control environment and that controls are matched to risk levels. Where issues have come to light, effective action has been taken to close control weaknesses. Progress against action plans designed to close any control gaps is regularly reviewed by the Audit and Risk Management Committee.

**Combating fraud**
As part of its system of internal control, the Audit and Risk Management Committee has approved a clear and well-communicated anti-fraud strategy and policy. The policy defines fraud, and the strategy covers prevention and detection within the Group together with how it is reported. A clearly established whistle blowing policy is included in the arrangements.

The Group maintains a register of all detected incidents of fraud and attempted fraud. The Audit and Risk Management Committee receives a report at each meeting of any cases of fraud and attempted fraud, detailing the nature and extent of the fraud and any implications for the Group's internal control system.

**Risk management**
Housing 21 recognises that the achievement of its objectives will almost always involve the taking of a certain amount of risk. Hence a strategy based purely on risk avoidance could seriously inhibit the Group's performance. The Board therefore encourages a process promoting the management of risk that is as effective as possible. It sees such a process as a fundamental requirement.

The Board and management of the Group consider risk management to be of importance and ensure its profile is high across the business. The Board considers the actions being taken to mitigate risk at each meeting and reviews the overall progress twice a year.

There are many stakeholders in the Group – both internal and external parties. Their investment, financial or otherwise, is considerable. They need assurance that the governance activities of the Group are of a high standard. Good risk management is an important part of those activities.

The Group's Chief Executive and the Director of Finance have responsibility for implementation of the risk management strategy. The Group's Risk Management Facilitator reports to the Director of Finance and has responsibility for ensuring that the necessary activity is undertaken by management.

During the year a framework has operated which seeks to identify and manage down those risks which would prevent the Group from achieving its key objectives as specified in the Corporate Plan. The framework includes a regular review of the Board's appetite for risk and an ongoing assessment for each business area of the main risks affecting strategy and operations. Action plans have been developed for each area of the business and as a whole for the Group to manage down those risks considered to be outside the level of acceptability as determined by the Board. In particular, the framework includes:

- an integrated risk management strategy;
- a risk management policy including roles and responsibilities;
- risk management work shops to identify risks associated with key objectives;
- an alignment of risk assessment and planning processes; and
- a project risk management policy.

**Financial, operational and governance reporting**

The Audit and Risk Management Committee receives regular Risk Reports covering all areas of the business which specify:

- the progress made with managing recognised risks;
- new risks and those previously assessed as acceptable but which have moved above the line; and
- internal audit progress.

The report also contains details of Business Learning Incidents and fraud, those material events that have caused risks to crystallise within the Group, together with the action taken by management to ensure there is no recurrence.

Integrated risk reports are consolidated and presented regularly to the Audit and Risk Management Committee throughout the year and summarised annually for the Board.

**Auditors**

All of the current board members have taken steps to make themselves aware of any information needed by the Group's auditors and to establish that the auditors are aware of that information. The board members are not aware of any relevant information of which the auditors are unaware.

The effectiveness of the Group's external auditors is reviewed periodically. A full tendering exercise will be undertaken in respect of the 2012/13 financial year.

**By order of the Board**

D Hampton
Secretary
Date: 24 June 2011



# operating and financial review

The Group had a strong underlying performance with an operating surplus of £12.8m (2010: £12.0m) although with a lower overall operating margin than the prior year, as a result of reduced margins on some care services and a significant non-recurring item, totalling £2.7m, being redundancy costs on the expiry of a major 10 year care contract.

The Group has posted a reduced net surplus for the year against the background of an increasingly difficult trading environment in care and health services with many commissioners reducing spend on adult social care and with downward pressure on rates.

The year to 31 March 2011 saw the first full year of trading for the Claimar Care Group (Claimar) following its acquisition in September 2009. Claimar continued to perform in line with prior years and the Group's expectations. Goodwill arising on the acquisition of Claimar has been reviewed and found to be supported by its future cash flows and impairment was not considered necessary at 31 March 2011.

The Group's significant housing development programme contributed to an increase of 934 units for rent and shared ownership across 14 schemes (2010: 651 units) – see note 27 for a detailed breakdown.

The Group received £26.5m (2010: £36.8m) of grant funding from the Homes and Communities Agency (HCA) and continues to progress opportunities to provide new homes and expand its asset base. The Group is refocusing its development strategy to provide greater emphasis on non-Grant funded schemes and is also participating in the HCA's Affordable Homes Programme.

Investment in our properties has continued ensuring 100% compliance throughout the year with the Decent Homes Standard. The Group has defined its internal property standards in conjunction with the new TSA offer requirements and continued with a substantial investment programme which saw £19.1m of planned improvements to existing homes.

Private Finance Initiative (PFI) and Public Private Partnership (PPP) contracts continue to be a significant aspect of the Group's business. The Group's first PFI project in Oldham (in operation since January 2007) will complete the refurbishment and construction phase in 2011-12 in line with the contract timetable. In the longer-term the Group will continue to manage the refurbished properties which total 1,423 homes on behalf of Oldham Metropolitan Borough Council (OMBC). At 31 March 2011 the Group had completed the refurbishment and construction on 1,305 units. Building on the presence provided by the PFI contract, Housing 21 has also established a care service and is regularly commissioned by OMBC to provide home care for older people in Oldham.

Housing 21 also has a major PFI contract with Kent County Council (KCC) the construction phase of which has now completed. The PFI project is managed, through a special purpose vehicle, Kent Community Partnerships Ltd (KCP), which has delivered 340 units for older people and for people with learning disabilities and mental health needs. The Group will continue to manage the units.

Housing 21 is strongly positioned using the experience and expertise acquired in Oldham and Kent on future PFI opportunities.

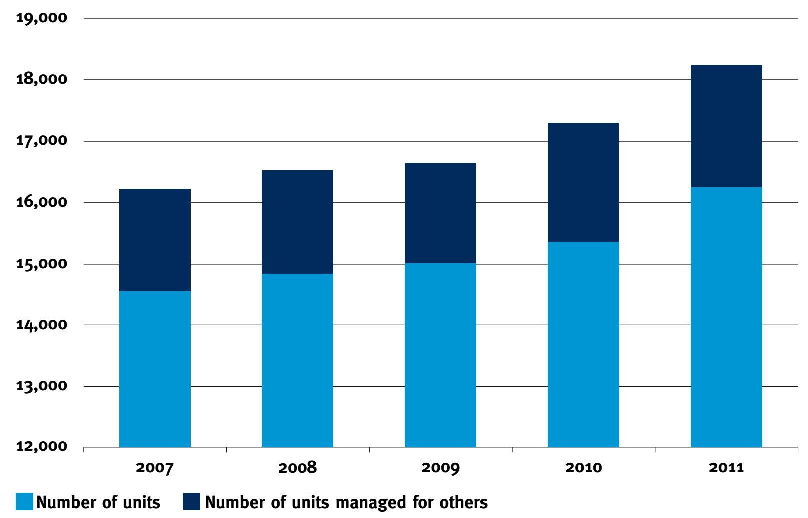
The Public Private Partnership project in Walsall has converted outdated residential care into extra care housing with supportive care services including the development of a state of the art dementia centre. The construction programme completed in the year with the delivery of the seventh site bringing the number of new units delivered to 222.

The Group's care and health services continued to expand primarily from the inclusion of a full year of trading from Claimar. The number of home care hours delivered increased by 1.7million or 47% to 5.3 million. During the year the Group has reviewed and either terminated or renegotiated a number of major care and health contracts.

In March 2011 the Group disposed of its Pharmacy business, Pharmassured Ltd (PAL) incurring a small loss on disposal. PAL incurred a deficit for the year of £349k. In October 2010 the Group acquired Easley

GRAPH 1

**Number of units owned and managed and managed for others over the last five years**




Health Limited (EHL) formerly a Surecare Services Limited franchise, from the franchisee. EHL has annualised turnover of £1.6m and delivers 70,000 home care hours per annum.

During the year 16 new contracts were won delivering care to service users in the community as well as in extra care schemes. The increase in the provision of dementia services continues with 11 contracts held at the end of the year.

As a provider of housing and of care and health services Housing 21 is subject to regulation by the Tenant Services Authority (TSA) and the Care Quality Commission (CQC). During the year, the Group commenced its response to recent changes in the regulatory approach which changes the focus for the regulator more to service user outcomes and involvement. This plays to our strengths, as Housing 21 has a history of strong tenant involvement and partnership; these engagement structures are being strengthened and broadened to encompass all service users.

**Financial Performance Review**

In the year ended 31 March 2011 Group Turnover increased by £41.8m to £208.2m (2010: £166.4m). Housing 21 Association Turnover increased by £9.1m to £142.9m.

The main activities of the Group are the provision of social housing lettings which contributed £79.3m or 38% of turnover (2010: £73.8m), and the provision of care and health services, which contributed £101.1m or 49% of the turnover (2010: £66.2m). Care and health services include a full year of trading from Claimar (2010: 6 months trading). Other activities contributed £27.8m or 13% of turnover (2010: £24.6m) and mainly comprises management services and sales of property.

Operating surplus for the year has increased to £12.8m (2010: £12.0m) against the background of increasingly difficult trading conditions in care and health services. Changes to operating margin are attributable to a decrease in volumes and margins on some care contracts where Housing 21 has continued to provide guaranteed hours to staff. Significant termination costs also arose at the end a major ten year home care contract resulting in £2.7m of redundancy costs being incurred.

Operating costs include continuing major repairs and stock improvement expenditure of £15.6m (net of £3.5m of capitalised major repairs, £19.1m in total) (2010: £16.9m) reflecting the Group's continuing commitment to improving the quality of its housing properties following the completion of works to comply with the Decent Homes standard in 2010.

**Housing Services**

Housing 21 has a strong balance sheet and a growing asset base to support further growth. The Group finances its housing development programme by a combination of grant, bank loans and retained surpluses.

Of the 934 increase in units in the year, the development programme delivered 659 units for rent and 241 units for shared ownership and outright sale, there was also a net increase of 34 properties brought into leasehold management and removed from stock for remodelling.

The Group records its housing properties at valuation based on forecasted rental income streams. Graph 1 above shows the number of units owned and managed and managed for others over the last five years. The number of units has grown by 2.3% per annum since 2007.

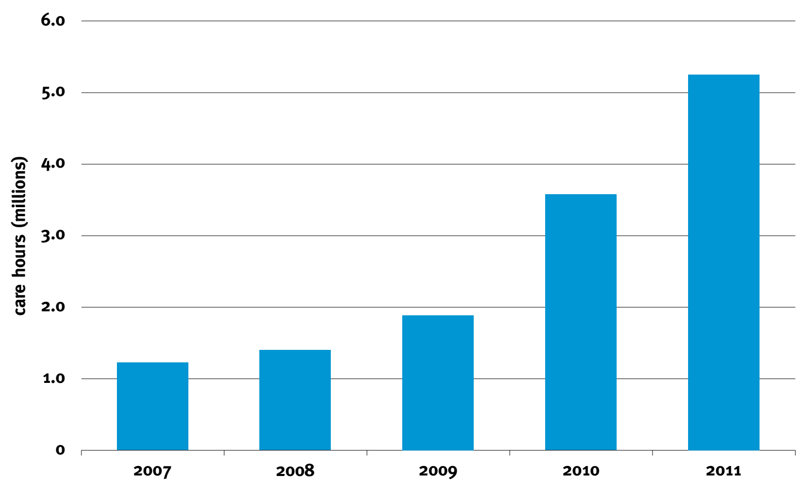
The development programme is scheduled to continue with £16.3m included in fixed and current assets at 31 March 2011 as housing properties under construction (2010: £30.8m). There are 741 new units under development (2010: 1,437), mainly for rent but also including 80 for shared ownership and outright sale. Funding for this programme continues to be obtained in grants from the HCA and also from the Department of Health.

In March 2011 the Gharana Housing Association, comprising 51 units, was transferred to Housing 21 from the Notting Hill Housing Group.



GRAPH 2

**Care hours delivered over the last five years**




**Care and Health Services**

The Group's care and health results reflect the first full year of trading from Claimar. Graph 2 above shows care hours delivered over the last five years which have grown by 44% per annum since 2007.

The trade and assets of Claimar's main home care business, Claimar Care Limited have been hived up into Housing 21 Association simplifying the Group's legal and tax structure.

The volume and breadth of care and health services increased substantially during the year as a result of including a full year's trading from Claimar. This comprised £34.2m in revenue from home care but also £1.0m in turnover from Surecare Services Ltd, a home care franchise business, £21.7m from the Complete Care Group delivering complex 24/7 care and £3.0m from a nursing agency, Paediatric Nursing Link, being businesses acquired with Claimar.

The Claimar group of businesses continues to perform strongly both in line with prior years and with the Group's expectations. The operating surplus of these entities before gift aid and exceptional items is £5.0m. The carrying value of goodwill arising on acquisition continues to be supported by future prospects and cash flows.

**Key business risks for Housing 21**

Housing 21 continues to experience major changes in its operating environment. These changes have a significant influence over the business, particularly the speed and direction of changes in public policy. In turn, this has led to changes in the risks the Group is required to assess.

**Housing**

The recession continues to impact the property market and the ability of prospective purchasers to sell their own homes. As Housing 21 has a number of outright sale and shared ownership homes in the pipeline there is a risk of delays in the receipt of sales income on these homes. As the percentage of for sale and shared ownership units is small, the effect of any delay in sales receipts on our financial plan and covenants is not expected to be significant. The options for hard to sell properties are kept under review including the option to convert to rent.

Income is also constrained by rent restructuring and is sensitive to voids. Housing 21 maintains waiting lists, liaises closely with local authorities in respect of tenant nominations and undertakes targeted marketing activities to manage the risk. Major repairs expenditure represents a long term commitment to the Group's own internal standards which exceeds the requirements of the Decent Homes Standard. The asset management strategy is reviewed every five years by external surveyors, the next review will be in 2012.

There are financial pressures in terms of building cost inflation and the Group competitively tenders for each scheme to manage costs. The Group's longer-term development strategy is to target sites that meet internal selection criteria and are not dependent upon grant funding, an offer has also been made to the HCA as part the Affordable Homes Programme.

**Care**

Future cuts in local authority (LA) budgets outlined in the Comprehensive Spending Review combined with the increasing use of electronic call monitoring and direct payments increases the pressure on care providers in an already highly competitive market. The need to pay higher wages to carers at the same time as LA's seek to re-negotiate contracts and are raising eligibility criteria to focus on those in acute need, will have a negative effect on margins and service volumes.

The health agenda continues to promote integration at a local level with a greater focus on prevention and on joint health and social care commissioning. The Group monitors and engages with the wider stakeholders as the landscape changes with greater involvement of both PCTs and GPs.

A drive towards localism and personalisation coincides with an emerging generation of older people as consumers with increasing expectations of quality, choice and control than previous generations. The provision of social care increasingly aims to put people in control of their care and to develop self-directed support through personal budgets. The number of older people receiving local authority funding is likely to decline over the next few years, despite the increasing number of older people, with increasing numbers therefore, either needing or choosing to fund their own care.

Housing 21 is well placed to respond to this changing environment providing a broad range of high quality services including a dementia centre of excellence, Housing 21 Dementia Voice. We continue to develop service streams that are funded either privately or through direct payments and to grow our live-in care operation.

We have a successful track record in the delivery of enablement services and have been able to demonstrate cost efficiencies to commissioners as a result of early enablement and have seen service user numbers in this area increasing beyond expectations. We constantly strive and to provide for evolving needs whether that be using assistive technology or tailoring services to meet the needs of older people from BME communities. The acquisition of Gharana is helping to shape how the Group develops services to respond to the increasing diversity and range of needs of older people.

During the year the Group has reviewed its longer term strategy and objectives against the changing economic and regulatory environment and has set challenging growth targets building on a strong reputation and broad reach into local communities through a national network of housing schemes and care branch offices.

**Funding**

The tendency for lenders to tighten access to facilities as a result of the credit crunch has been affecting the Housing Association sector however, Housing 21 has successfully raised new finance during the year, an increase in facilities of £115m.

**Treasury policy and objectives**

The Group has a centralised treasury function, charged with managing financing and treasury risks within the parameters of a treasury policy. Debt is managed through the Association with the exception of the PFI contracts managed through special purpose vehicles.

The objectives of the treasury policy have the following key principles:

- Effective and efficient use of financial resources;
- Security of financial assets;
- Provision of adequate liquidity to meet financial obligations;
- Compliance with statute, regulation, covenants and best practice; and
- Control and accountability in Treasury management procedures.

Treasury policy is subject to annual Board approval. The treasury operation is not a profit centre and speculative transactions are not allowed.

**Cash flow**

The net cash requirement for the year was £65.7m (2010: £102.6m). In the year ended 31 March 2011 £83.8m was spent on housing properties under construction (2010: £87.1m), offset by Social Housing Grant received of £32.7m (2010: £40.4m). The previous year included the acquisition of Claimar (£20.9m).

Operating cash inflow was £1.4m in 2011 against an outflow of £20.6m in 2010. The movement from operating surplus to operating cash flow includes an increase in debtors that reflects the increase in the PFI finance debtor. The year on year improvement represents the movement in housing properties and stock for sale.

Net debt at 31 March 2011 stood at £400.1m compared to £334.2m at 31 March 2010. Gross interest payable increased to £20.7m (2010: £15.4m) in line with the increase in net debt.

**Balance sheet debt and liquidity**

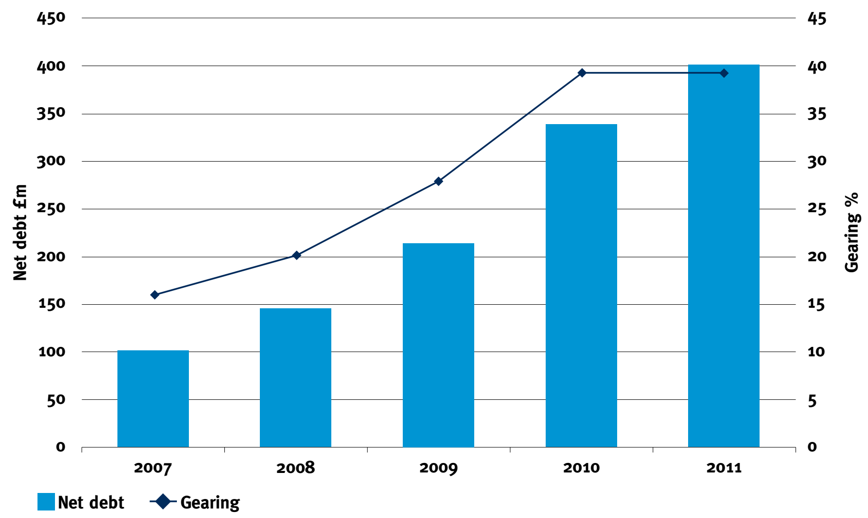
During the year the Group extended its available facilities by £115m representing a £50m term loan and a £65m revolving credit facility.

The Group's financial investments comprise cash, short-term deposits, bank and other borrowings. As a result of its strong and growing asset base, Housing 21 has significant unutilised security on its balance sheet and is able to increase its levels of net debt to invest in growth.

The focus of the Group is primarily medium to long term and the profile of net debt reflects this, with £368m (92%) falling due after more than five years (2010: £304m). Housing 21 has committed, but undrawn, facilities of £108.9m at 31 March 2011 (2010: £51.9m). The equivalent figures for ORHP are £9.8m (2010: £25.5m) and KCP £5.0m (2010: £5.0m) and are expected to be sufficient to complete the PFI projects for those subsidiaries.

GRAPH 3

**Movement in net debt and gearing over the last five years**




A key measure of the financial health of Housing 21 is the gearing ratio. This is defined as net debt (gross debt less cash and short-term investments) to net assets (reserves plus Social Housing Grant plus accumulated depreciation). As shown in the graph below, gearing at 31 March 2011 was in line with 2010 at 39%, which is relatively low for the sector and illustrates the strong balance sheet.

Of the total Group net debt of £400.1m (2010: £334.2m), the net debt of £250.6m within the Housing 21 Association includes £230.9m (2010: £178.2m) of gross loans that are secured on housing properties. The Group debt figure includes £161.0m of debt within the two SPV's relating to the Oldham and Kent PFI projects.

The movement in net debt and gearing over the last five years is set out in Graph 3 above.

The Group seeks to reduce its exposure to volatility in interest rates by balancing its loan book over fixed, floating and inflation-linked rates. As at 31 March 2011 the mix within the Group comprised 56% fixed, 22% floating and 22% index linked, and the mix within the Association comprised 29% fixed, 35% floating and 36% index linked.

The Group monitors the markets long term view of interest rates, and the finance raised during the year is on floating rates taking advantage of the opportunity presented by low long term rates to protect the Group's weighted average interest rate. The Association's weighted average rate at 31 March 2011 was 4.50% (2010: 4.21%).

Interest cover is a key banking covenant for the Group and the Association. For the Association it is calculated as net interest to operating surplus with depreciation added back. For the year ended 31 March 2011 interest cover ratio was 2.10 times operating surplus (2010: 2.32) representing substantial headroom on the interest cover covenants.

**Going concern**

After making enquiries, the directors of Housing 21 have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the going concern basis has been adopted in these financial statements.

**Accounting policies**

There are no changes to accounting policies in the year.

**Board members' responsibilities**

The board members are responsible for preparing the report of the board and the financial statements in accordance with applicable law and regulations.

Industrial and Provident Society law and social housing legislation require the board members to prepare financial statements for each financial year for the group and association in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Association and of the surplus or deficit of the Group and Association for that period.

In preparing these financial statements, the board members are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice: Accounting by registered social landlords (2010) have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Association will continue in business.

The board members are responsible for keeping adequate accounting records that are sufficient to show and explain the Association's transactions and disclose with reasonable accuracy at any time the financial position of the Association and enable them to ensure that the financial statements comply with the Industrial and Provident Societies Acts 1965 to 2002, the Industrial and Provident Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Requirements for Registered Social Landlords General Determination 2006. They are also responsible for safeguarding the assets of the Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The board is responsible for ensuring that the report of the board is prepared in accordance with the Statement of Recommended Practice: Accounting by registered social landlords (2010).

Financial statements are published on the group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the group's website is the responsibility of the board members. The board members' responsibility also extends to the ongoing integrity of the financial statements contained therein.



# independent auditor's report to the members of Housing 21

We have audited the financial statements of Housing 21 for the year ended 31 March 2011 which comprise the consolidated and association income and expenditure accounts, statements of total recognised surpluses and deficits and notes of historical cost surpluses and deficits; the consolidated and association balance sheets, the consolidated cash flow statement, 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).

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

**Respective responsibilities of the board and auditors**

As explained more fully in the statement of board member responsibilities, the board members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

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

**Opinion on financial statements**

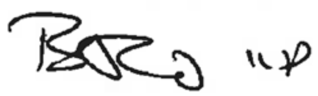
In our opinion the financial statements:

- give a true and fair view of the state of the group's and parent association's affairs as at 31 March 2011 and of the group's and parent association's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Industrial and Provident Societies Acts 1965 to 2002, the Industrial and Provident Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Requirements for Registered Social Landlords General Determination 2006.

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

We have nothing to report in respect of the following matters where we are required to report to you if, in our opinion:

- the information given in the Report of the Board for the financial year for which the financial statements are prepared is not consistent with the financial statements;
- adequate accounting records have not been kept by the parent association, or returns adequate for our audit have not been received from branches not visited by us; or
- a satisfactory system of control has not been maintained over transactions; or
- the parent association financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.



Donald Bawtree
BDO LLP, statutory auditor
Epsom, Surrey
United Kingdom
1 July 2011

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

# income and expenditure accounts

## **Consolidated Income and Expenditure account** for the year ended 31 March 2011

| | Notes | 2011 | 2010 |
|---|---|---|---|
| | | £000 | £000 |
| **Turnover** | 2 | 208,249 | 166,416 |
| Cost of sales | 2 | (7,269) | (6,699) |
| Operating costs | 2 | (185,386) | (147,751) |
| Exceptional items | 2 | (2,747) | – |
| **Operating surplus** | 2 | 12,847 | 11,966 |
| Deficit on disposal of housing properties | 4 | – | (721) |
| Deficit on disposal of other assets | 5 | – | (287) |
| Deficit on disposal of subsidiary company | 36 | (215) | – |
| Interest receivable and similar income | 8 | 6,548 | 3,556 |
| Interest payable and similar charges | 9 | (18,605) | (12,345) |
| Other finance costs | 10 | (51) | (69) |
| Surplus on ordinary activities before tax | 11 | 524 | 2,100 |
| Taxation on surplus on ordinary activities | 12 | 425 | (521) |
| **Surplus on ordinary activities after tax** | 22 | 949 | 1,579 |

All amounts relate to continuing activities.

During the year the Group acquired two subsidiaries, Easley Health Limited and Gharana Housing Association Limited and disposed of PharmAssured Limited. The results of these entities are not material to the Group and so have not been disclosed separately. Further details of these acquisitions and disposal are provided in notes 34 and 36.

## **Association Income and Expenditure account** for the year ended 31 March 2011

| | Notes | 2011 | 2010 |
|---|---|---|---|
| | | £000 | £000 |
| **Turnover** | 2 | 142,925 | 133,860 |
| Cost of sales | 2 | (7,193) | (6,699) |
| Operating costs | 2 | (122,515) | (114,621) |
| Exceptional items | 2 | (2,747) | – |
| **Operating surplus** | 2 | 10,470 | 12,540 |
| Deficit on disposal of housing properties | 4 | – | (721) |
| Deficit on disposal of other assets | 5 | – | (287) |
| Interest receivable and similar income | 8 | 2,696 | 1,298 |
| Interest payable and similar charges | 9 | (9,081) | (6,470) |
| Other finance costs | 10 | (51) | (69) |
| Surplus on ordinary activities before tax | 11 | 4,034 | 6,291 |
| Taxation on surplus on ordinary activities | 12 | – | (11) |
| **Surplus on ordinary activities after tax** | 22 | 4,034 | 6,280 |

All amounts relate to continuing activities.

The notes on pages 19 to 60 form part of the financial statements

## **Statement of total recognised surpluses and deficits** for the year ended 31 March 2011

| | Notes | Group | | Association | |
|---|---|---|---|---|---|
| | | 2011 | 2010 | 2011 | 2010 |
| | | £000 | £000 | £000 | £000 |
| Surplus on ordinary activities after tax | | 949 | 1,579 | 4,034 | 6,280 |
| Actuarial gains/(losses) on pension schemes | 31 | 1,606 | (2,433) | 1,606 | (2,433) |
| Unrealised surplus on revaluation of housing properties | 22 | 108,920 | 49,417 | 106,250 | 36,973 |
| **Total surpluses and deficits recognised since last annual report** | | 111,475 | 47,494 | 111,890 | 40,820 |

## **Note of historical cost surpluses and deficits** for the year ended 31 March 2011

| | Notes | Group | | Association | |
|---|---|---|---|---|---|
| | | 2011 | 2010 | 2011 | 2010 |
| | | £000 | £000 | £000 | £000 |
| Reported surplus on ordinary activities before tax | | 524 | 2,100 | 4,034 | 6,291 |
| Revaluation surplus released on disposal of housing properties | 22 | – | (320) | – | (320) |
| Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount | 22 | 3,376 | 3,120 | 3,043 | 2,861 |
| **Historical cost surplus for the year on ordinary activities before tax** | | 3,900 | 4,900 | 7,077 | 8,832 |
| Taxation | 12 | 425 | (521) | – | (11) |
| **Historical cost surplus for the year on ordinary activities after tax** | | 4,325 | 4,379 | 7,077 | 8,821 |

The notes on pages 19 to 60 form part of the financial statements

## Reconciliation of movement in capital and reserves

| | Group | | Association | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| | £000 | £000 | £000 | £000 |
| Reported surplus for the year | 949 | 1,579 | 4,034 | 6,280 |
| Negative Goodwill (see note 34) | 1,057 | – | – | – |
| Actuarial gain recognised in statement of realised surpluses and deficits | 1,606 | (2,433) | 1,606 | (2,433) |
| Other recognised surpluses and deficits relating to the year (net) | 108,920 | 49,417 | 106,250 | 36,973 |
| Net addition to reserves | 112,532 | 48,563 | 111,890 | 40,820 |
| Opening capital and reserves | 455,515 | 408,021 | 449,038 | 408,218 |
| Closing capital and reserves | 568,047 | 455,515 | 560,928 | 449,038 |

The notes on pages 19 to 60 form part of the financial statements

# balance sheets

## Balance sheets as at 31 March 2011

| | Notes | Group | | Association | |
|---|---|---|---|---|---|
| | | **2011** | **2010** | **2011** | **2010** |
| | | £000 | £000 | £000 | £000 |
| **Intangible assets** | | | | | |
| Goodwill | 35 | 32,827 | 36,152 | 16,869 | 2,615 |
| **Tangible fixed assets** | | | | | |
| Housing properties at valuation | 13 | 831,838 | 686,751 | 746,097 | 602,983 |
| Other fixed assets | 14 | 5,435 | 5,726 | 5,225 | 4,309 |
| Investments | 33 | – | – | 9,851 | 20,622 |
| | | 870,100 | 728,629 | 778,042 | 630,529 |
| **Current assets** | | | | | |
| Housing properties and stock for sale | 15 | 17,889 | 21,213 | 17,889 | 21,162 |
| Debtors: amounts falling due after one year | 16 | 111,171 | 91,042 | 32,500 | 28,721 |
| Debtors: amounts falling due within one year | 17 | 34,499 | 29,685 | 33,156 | 20,145 |
| Cash on short–term deposit | | 355 | 8,020 | 355 | 8,020 |
| Cash at bank and in hand | | 15,295 | 6,859 | 8,721 | 1,677 |
| | | 179,209 | 156,819 | 92,621 | 79,725 |
| Creditors: amounts falling due within one year | 18 | (81,184) | (81,899) | (55,663) | (58,870) |
| **Net current assets/(liabilities)** | | 98,025 | 74,920 | 36,958 | 20,855 |
| **Total assets less current liabilities** | | 968,125 | 803,549 | 815,000 | 651,384 |
| Creditors: amounts falling due after more than one year | 19 | 399,178 | 344,415 | 253,172 | 199,200 |
| Pension liability | 31 | 900 | 3,146 | 900 | 3,146 |
| Provision for liabilities and charges | 20 | – | 473 | – | – |
| **Capital and reserves** | | | | | |
| Share capital | 21 | – | – | – | – |
| Revaluation reserve | 22 | 444,127 | 338,583 | 427,736 | 324,529 |
| Negative goodwill | 34 | 1,057 | – | – | – |
| Revenue reserve | 22 | 122,863 | 116,932 | 133,192 | 124,509 |
| | | 568,047 | 455,515 | 560,928 | 449,038 |
| | | 968,125 | 803,549 | 815,000 | 651,384 |

In accordance with the rules of the Association, all shareholdings relate to non-equity interests as referred to in Note 21.

These financial statements were approved and authorised for issue by the Board on 24 June 2011 and are signed on behalf of the Board by:

David Grayson, Chairman

Sanaya Robinson, Director

Delyth Hampton, Secretary

The notes on pages 19 to 60 form part of the financial statements

# consolidated cash flow statement

## Consolidated cash flow statement for the year ended 31 March 2011

| | Notes | | Group 2011 | | Group 2010 |
|---|---|---|---|---|---|
| | | £000 | £000 | £000 | £000 |
| **Net cash inflow/(outflow) from operating activities** | 23 | | 1,399 | | (20,591) |
| **Return on investments and servicing of finance** | | | | | |
| Interest received | | 6,548 | | 3,556 | |
| Interest paid | | (20,249) | | (14,702) | |
| Interest element of finance lease payments | | (86) | | (87) | |
| **Net cash outflow for return on investments and servicing of finance** | | | (13,787) | | (11,233) |
| Taxation paid | | | (54) | | (48) |
| **Capital expenditure and financial investment** | | | | | |
| Housing properties under construction (including improvement to completed properties and property acquisitions) | | (83,786) | | (87,104) | |
| Social Housing Grants received | | 32,663 | | 40,391 | |
| Purchase of fixed assets | | (1,074) | | (1,084) | |
| Sale of fixed assets | | (2) | | 2 | |
| Sale of housing properties | | (135) | | 220 | |
| **Net cash outflow for capital expenditure** | | | (52,334) | | (47,575) |
| Purchase of subsidiaries | | | (931) | | (20,928) |
| **Net overdrafts acquired on acquisition** | | | – | | (2,207) |
| **Cash outflow before use of liquid resources and financing** | | | (65,707) | | (102,582) |
| **Management of liquid resources** | 24 | | 7,665 | | (5,259) |
| **Financing** | | | | | |
| Loans received | | 70,993 | | 139,716 | |
| Loans repaid | | (4,488) | | (25,258) | |
| Capital element of finance lease repaid | | (27) | | (27) | |
| **Net cash inflow from financing** | | | 66,478 | | 114,431 |
| **Increase in cash** | 25 | | 8,436 | | 6,590 |

The notes on pages 19 to 60 form part of the financial statements



# notes to the financial statements

## 1. Principal accounting policies

The accounts have been prepared in accordance with applicable Accounting Standards in the United Kingdom and comply with the Statement of Recommended Practice Accounting for Registered Social Landlords 2010 issued by the National Housing Federation, the Industrial and Provident Societies Acts 1965 to 2002, the Industrial and Provident Societies (Group Accounts) Regulations 1969, The Housing and Regeneration Act 2008 and with the Accounting Requirements for Registered Social Landlords General Determination 2006.

A summary of the more important accounting policies, which have been applied consistently, is set out below.

**Basis of accounting**

The accounts are prepared on the historical cost basis of accounting as modified to include housing properties at existing use value for social housing.

**Consolidation**

The consolidated income and expenditure account and balance sheet include the results of the Group and its subsidiaries, as listed in note 33, from the date of their acquisition. Intra-group transactions are eliminated on consolidation.

**Turnover**

Turnover represents rental and service charge income, Supporting People contract income, management fees, income from provision of care and health services, revenue based grants received from local authorities and from the Homes and Communities Agency (HCA), income from first tranche sales of shared ownership and outright sales property and other income.

Charges for services provided and Supporting People income are recognised as income when the Group has provided the service concerned. Grants made as contributions to revenue expenditure are credited to income in the period in which the related expenditure is incurred. Income from the sale of leasehold properties is recognised as turnover at the completion date of the sale of the property.

In respect of Kent Community Partnership turnover is received from the Housing Management agent (Housing 21) in the form of rents and service charges payable on all properties and from Kent County Council in the form of a fixed income per completed unit (Unitary Charge) for the contract period.

Under Statement of Standard Accounting Practice 9 "Stocks and Long Term Contracts", turnover is recognised with reference to the stage of completion of the project. The stage of completion for the project has been determined by reference to the proportion of the total projected costs, including finance costs, incurred to date.

In respect of Oldham Retirement Housing Partnership turnover is recognised by applying a fixed margin to operating costs over the contract period.

**Goodwill**

Goodwill arising on the purchase of the freehold of 17 leasehold schemes from James Butcher Housing Association represents the difference between the consideration paid and the fair value of the net assets acquired. It is amortised in the income and expenditure account on a straight line basis over 20 years, the maximum allowed under FRS 10 Goodwill and Intangible Assets.

Goodwill arising on the purchase of JBK Social Care Limited, a specialist care company operating in Westminster represents the difference between the consideration paid and the fair value of the net assets. It is amortised in the income and expenditure account on a straight line basis over 5 years as this is the average life of a care contract.

Goodwill arising on the acquisition of Claimar Care Group on 28 September 2009 represents the difference between the consideration paid and the fair value of the net assets acquired. It is amortised in the income and expenditure account on a straight line basis over 10 years as, in the opinion of the directors, this is the period it is expected the Group will recover the value of the original investment.

Goodwill arising on the acquisition of Easley Health Limited represents the difference between the consideration paid and the fair value of the net assets acquired. The goodwill is amortised in the income and expenditure account on a straight line basis over 20 years, its estimated useful life.

Negative goodwill arising on the acquisition of Gharana Housing Association Limited represents the excess of the fair value of net assets over the fair value of the consideration, and has been taken to reserves. The negative goodwill is amortised to the income and expenditure account over the expected remaining useful economic life, which is estimated to be 20 years.

**Housing properties**

Housing properties have been revalued as at the balance sheet date on an existing use for social housing basis (further detail is set out in note 13).

At the point of revaluation, the aggregate surplus or deficit arising, calculated as the difference between the cost of properties less Social Housing Grant (SHG) and the revalued amount, is transferred to a revaluation reserve. The basis of the valuation is explained in note 13.

Housing properties in the course of construction are stated at cost and are transferred to housing for rent on completion. At the balance sheet date, properties under construction include an accrual for all costs certified to date including the amount of the sum retained by the Group under the construction contract.

## 1. Principal accounting policies (continued)

**Capitalisation of interest**
Interest is capitalised on borrowings to finance developments, to the extent that it accrues in respect of the period of development, if it represents either interest on borrowings specifically financing the development programme after deduction of interest on SHG in advance or interest on borrowings of the Group as a whole after deduction of interest on SHG in advance to the extent that they can be deemed to be financing the development programme.

**Capitalisation of development department costs**
Development department costs are capitalised where they are directly attributable to bringing the properties into working condition for their intended use. Directly attributable costs are the labour costs of our employees arising directly from the construction or acquisition of the property and incremental costs that would have been avoided only if individual properties had not been constructed or acquired.

**Depreciation - housing properties**
Freehold land is not depreciated.

Housing under construction is not depreciated.

Completed freehold buildings are depreciated on a straight line basis over their remaining expected useful economic lives at the following rates:

- sheltered housing, 100 years
- general purpose housing, 90 years from development completion or acquisition date.

Properties held on long leases and under finance leases are depreciated over the remaining period of the lease.

The land value element (to separate land from buildings) of each property valuation is determined using guidance issued by the National Housing Federation.

A transfer is made from the revaluation reserve to the income and expenditure account of an amount equal to the difference between depreciation for the year calculated on the basis of the historical cost and the actual depreciation charge, which is calculated using the revalued amounts.

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

- leasehold office improvements, over the remaining period of the lease;
- freehold office buildings, 50 years;
- office furniture and equipment, 10 years;
- motor vehicles, 4 years;
- computer software, 5 years;
- computer hardware, 3 years.

**Impairment**
Housing properties are subject to impairment reviews on an annual basis.

Other assets are reviewed for impairment if there is an indication that impairment may have occurred.

**Low Cost Home Ownership and Staircasing.**
Under Low Cost Home Ownership (LCHO) arrangements, the Group disposes of a long lease on LCHO units to persons who occupy them at a share equal to between 25% and 75% of value, (the "first tranche"). The occupier has the right to purchase further proportions at the then current valuation up to 100% ("staircasing").

A shared ownership property comprises two assets: that to be disposed of in the first tranche sale, which is recorded as a current asset; and that retained by the Group, which is recorded as a fixed asset.

Proceeds of sale of first tranches are accounted for as turnover in the income and expenditure account, with the apportioned cost being shown within the operating results as a cost of sale.

Subsequent tranches sold ("staircasing sales") are disclosed in the income and expenditure account after operating results as a surplus or deficit on sale of fixed assets. Such staircasing sales may result in capital grant being deferred or abated and this is credited in the sale account in arriving at the surplus or deficit.

Social Housing Grant in respect of LCHO properties is allocated against the fixed asset element of the property and is treated as a deduction from fixed assets.

The fixed asset element of LCHO properties is included in housing properties at cost less provisions needed for impairment. These properties are not depreciated on the basis that the expected realisable value at the end of the expected useful life to the group is in excess of the historical cost.

**Properties developed for sale**
Completed properties and properties under construction for sale, either as first tranche LCHO sales or outright sale, are valued at the lower of cost and net realisable value. Cost comprises materials, direct labour and direct development overheads. Net realisable value is based on estimated sales prices after allowing for all further costs of completion and disposal.

Until sold these properties are held as current assets.

**Social housing grant (SHG) and other grants**
Where housing developments have been financed wholly or partly by grants, the cost has been reduced by the amount of the grant received.

SHG due from the HCA or received in advance is included as a current asset or liability.





## 1. Principal accounting policies (continued)

Where grant is received on items treated as revenue expenditure, it is treated as a revenue grant and credited to the income and expenditure account.

Where, following the sale of the property, SHG becomes repayable, to the extent that it is not subject to abatement, it is included as a liability until it is repaid or utilised.

**Sinking funds**
Sinking funds are maintained for each scheme with leasehold properties to cover future major repairs. These funds are managed through service charges to leaseholders.

**Donated land**
The valuation of land donated by local authorities is accounted for as a cost of development and also treated as a capital grant. It is included within the other grants receivable amounts in note 13 to these Financial Statements.

**Works to existing properties**
Expenditure on day to day and cyclical repairs and maintenance, together with health and safety work and service contract maintenance expenditure, is charged as incurred to the income and expenditure account. Also charged are the apportioned administration costs associated with this work.

Renewals of communal equipment, furniture and furnishings, and the replacement of refrigerators and cookers provided for tenants, are charged to the income and expenditure account on purchase and recovered through service charges.

The Group has undertaken a major stock improvement programme to achieve Decent Homes standard. Where the works result in an increase in the net rental income from the property and enhance the performance beyond the assessed level when the asset was first acquired or constructed, these amounts are capitalised.

**Work in progress**
Costs incurred in the construction and refurbishment of the sheltered housing properties in respect of one of the Private Finance Initiative (PFI) contracts (Oldham Retirement Housing Partnership Ltd) have been accounted for under Financial Reporting Standard (FRS) 5, "Reporting the Substance of Transactions" and are carried in the balance sheet as recoverable work in progress in debtors under the terms of the agreement with OMBC. Work in progress comprises direct payments to the contractor, attributable initial project costs and interest costs incurred over the construction period on borrowings to fund construction.

**Finance Debtor**
Under FRS 5, "Reporting the Substance of Transactions", when a property has been completed or refurbished, the work in progress balance is converted to a finance debtor representing an appropriate proportion of costs incurred. The debt is recovered via the unitary charge contract income over the remaining life of the contract. Until the debtor is fully recovered, an interest charge is released to the income and expenditure account which is based upon the value of the financial debt outstanding. This interest is included within interest receivable.

**Revaluation reserve**
The revaluation reserve records all appreciation in value of housing stock.

**Housing loans and other financial instruments**
Loans and other financial instruments are stated in the balance sheet at the amount of the net proceeds.

Finance costs, including incremental issue costs, are deducted from the loan and amortised over the first 5 years of the loan at a constant rate on the carrying value.

Where loans and other financial instruments are redeemed during the year, any redemption penalty is recognised in the income and expenditure account in the year in which redemption takes place.

**Leased assets**
Rentals paid under operating leases are charged to the income and expenditure account on the accruals basis.

The cost of assets held under finance leases is included under tangible assets and depreciation provided in accordance with the policy for the class of asset concerned. The corresponding obligations under these leases are shown as creditors. The finance charge element of rentals is charged to the income and expenditure account to produce, or approximate to, a constant periodic charge on the remaining balance of the outstanding obligations.

**Management services to leaseholders and other bodies**
In addition to managing housing for rent, the Group also provides management services to leaseholders and other bodies. The Group provides management services to leaseholders on a cost basis.

Charges which are made to leaseholders for decorations and major works within their schemes are held in sinking funds. These sinking funds are recorded within other creditors and shown in note 18 amounts falling due within one year of these Financial Statements.

The Group also provides property management services to other bodies for which a management fee is charged. Such services are provided primarily on an agency basis. All transactions relating to owned leasehold properties have been brought into the accounts.

**Pensions**
The difference between the fair value of the assets held in the defined benefit pension schemes and the schemes' liabilities

## 1. Principal accounting policies (continued)

measured on an actuarial basis using the projected unit method are recognised in the Group's balance sheet as a pension scheme asset or liability as appropriate.

The carrying value of any resulting pension scheme asset is restricted to the extent that the Group is able to recover the surplus either through reduced contributions in the future or through refunds from the scheme. The pension scheme balance is recognised net of any related deferred tax balance.

Changes in the defined benefit pension scheme asset or liability arising from factors other than cash contribution by the Group are charged to the income and expenditure account or the statement of total recognised surpluses and deficits in accordance with FRS17 "Retirement Benefits".

The annual costs of defined contribution, stakeholder and savings plan pension schemes are charged to the income and expenditure account on an accruals basis.

**Value Added Tax**
The majority of services supplied by the Group are exempt from VAT. However, management contracts and unitary charge income is chargeable to VAT which enables some recovery of input VAT under a basis of calculation agreed with HMRC.

Expenditure is shown inclusive of VAT and input tax recovered is recorded within non-social housing activities, other, as part of turnover; see note 2.

**Related parties**
The Group has taken advantage of the exemption allowed by FRS8, Related Party Disclosures, from disclosing transactions with its wholly owned subsidiaries.

**Taxation**
The Group is exempt from corporation tax on income and gains to the extent that these are applied to the Group's charitable objectives. Activity related to developing properties for outright sale will be subject to corporation tax. The tax charge in the year relates group companies that are subject to UK taxation in addition to the non exempt tax for Housing 21 Association.

**Deferred taxation**
Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that:
- deferred tax is not recognised on timing differences arising on revalued properties unless the group has entered into a binding sale agreement and is not proposing to take advantage of rollover relief; and
- the recognition of deferred tax assets is limited to the extent that the group anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

**Significant estimation techniques**
In the preparation of the financial statements, the Group makes estimates based on available information, expert advice and past experience. The financial statements contain the following significant estimates:
- Future sales proceeds on LCHO sales or outright sales based on previous sales.
- Carrying value on housing properties, based on the independent valuations prepared on the basis of existing use value for social housing using a discounted cash flow making allowances for outgoings against income receivable. No impairment is made on housing properties where the value of existing use value is lower than cost, the properties continue to satisfy the Group's charitable objectives.
- Carrying value of goodwill, based on forecast cash flows and a discount rate that reflects an appropriate risk premium on its weighted average interest rate. Growth rates are based on the specific market opportunity, the strength of the customer offer and investment in the business.
- Bad debt provisions based on previous experience, cash collected subsequent to the year end and financial viability of the customer.





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

| **Group** | **2011 Turnover** | **Cost of sales** | **Operating costs** | **Exceptional items** | **Operating surplus/ (deficit)** |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Social housing lettings (note 3) | 79,342 | – | (66,300) | – | 13,042 |
| **Other social housing activities** | | | | | |
| Supporting people | 2,542 | – | (2,856) | – | (314) |
| LCHO first tranche sales | 7,296 | (6,583) | – | – | 713 |
| Other | 385 | – | – | – | 385 |
| **Non-social housing activities** | | | | | |
| Outright sales | 625 | (610) | – | – | 15 |
| Management services | 16,317 | – | (7,654) | – | 8,663 |
| Care and Health services | 101,064 | – | (106,913) | (2,747) | (8,596) |
| Business development | – | – | (295) | – | (295) |
| Other | 678 | (76) | (1,368) | – | (766) |
| **Total** | 208,249 | (7,269) | (185,386) | (2,747) | 12,847 |

The exceptional item is a significant non-recurring item, totalling £2.7m, being redundancy costs on the expiry of a major 10 year care contract.

| **Group** | **2010 Turnover** | **Cost of sales** | **Operating costs** | **Exceptional items** | **Operating surplus/ (deficit)** |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Social housing lettings (note 3) | 73,776 | – | (63,396) | – | 10,380 |
| **Other social housing activities** | | | | | |
| Supporting people | 2,567 | – | (2,255) | – | 312 |
| LCHO first tranche sales | 4,638 | (4,382) | – | – | 256 |
| **Non-social housing activities** | | | | | |
| Outright sales | 2,352 | (2,317) | – | – | 35 |
| Management services | 14,442 | – | (10,116) | – | 4,326 |
| Care and Health services | 66,292 | – | (69,399) | – | (3,107) |
| Business development | – | – | (493) | – | (493) |
| Other | 2,349 | – | (2,092) | – | 257 |
| **Total** | 166,416 | (6,699) | (147,751) | – | 11,966 |

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

| Association | 2011 Turnover | Cost of sales | Operating costs | Exceptional items | Operating surplus/ (deficit) |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| **Social housing lettings** (note 3) | 78,735 | – | (65,406) | – | 13,329 |
| **Other social housing activities** | | | | | |
| Supporting people | 2,542 | – | (2,856) | – | (314) |
| LCHO first tranche Sales | 7,296 | (6,583) | – | – | 713 |
| Other | 385 | – | – | – | 385 |
| **Non-social housing activities** | | | | | |
| Outright sales | 625 | (610) | – | – | 15 |
| Management services | 10,250 | – | (7,699) | – | 2,551 |
| Care and Health services | 38,552 | – | (46,259) | (2,747) | (10,454) |
| Business development | – | – | (295) | – | (295) |
| Other | 655 | – | – | – | 655 |
| **Total pre gift aid** | 139,040 | (7,193) | (122,515) | (2,747) | 6,585 |
| Gift aid | 3,885 | – | – | – | 3,885 |
| **Total after gift aid** | 142,925 | (7,193) | (122,515) | (2,747) | 10,470 |

The exceptional item is a significant non-recurring item, totalling £2.7m, being redundancy costs on the expiry of a major 10 year care contract.

| Association | 2010 Turnover | Cost of sales | Operating costs | Exceptional items | Operating surplus/ (deficit) |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| **Social housing lettings** (note 3) | 73,176 | – | (61,863) | – | 11,313 |
| **Other social housing activities** | | | | | |
| Supporting people | 2,567 | – | (2,255) | – | 312 |
| LCHO first tranche Sales | 4,638 | (4,382) | – | – | 256 |
| **Non-social housing activities** | | | | | |
| Outright sales | 2,352 | (2,317) | – | – | 35 |
| Management services | 11,737 | – | (10,572) | – | 1,165 |
| Care and Health services | 35,164 | – | (39,437) | – | (4,273) |
| Business development | – | – | (494) | – | (494) |
| Other | 2,302 | – | – | – | 2,302 |
| **Total pre gift aid** | 131,936 | (6,699) | (114,621) | – | 10,616 |
| Gift aid | 1,924 | – | – | – | 1,924 |
| **Total after gift aid** | 133,860 | (6,699) | (114,621) | – | 12,540 |





## 3. Turnover, operating costs and operating surplus from social housing lettings

| Group | Housing for older people | General needs | Total 2011 | Total 2010 |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Rent receivable net of identifiable service charges | 52,004 | 2,737 | 54,741 | 50,554 |
| Service charges receivable | 24,313 | 288 | 24,601 | 23,222 |
| **Net rental income and turnover from social housing lettings** | 76,317 | 3,025 | 79,342 | 73,776 |
| Services | 23,075 | 260 | 23,335 | 20,614 |
| Management | 8,543 | 10 | 8,553 | 8,926 |
| Routine maintenance | 5,811 | 528 | 6,339 | 5,422 |
| Planned maintenance | 2,875 | 236 | 3,111 | 2,801 |
| Major repairs expenditure | 14,854 | 702 | 15,556 | 16,935 |
| Leasehold and other contributions | 3,103 | (915) | 2,188 | 1,547 |
| Bad debts | 130 | 2 | 132 | 257 |
| Depreciation on housing properties | 6,460 | 626 | 7,086 | 6,894 |
| **Operating costs on social housing lettings** | 64,851 | 1,449 | 66,300 | 63,396 |
| **Operating surplus on social housing lettings** | 11,466 | 1,576 | 13,042 | 10,380 |
| Rent losses from voids | (4,280) | (57) | (4,337) | (4,023) |

| Association | Housing for older people | General needs | Total 2011 | Total 2010 |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Rent receivable net of identifiable service charges | 50,692 | 3,437 | 54,129 | 50,000 |
| Service charges receivable | 24,318 | 288 | 24,606 | 23,176 |
| **Net rental income and turnover from social housing lettings** | 75,010 | 3,725 | 78,735 | 73,176 |
| Services | 22,914 | 251 | 23,165 | 20,402 |
| Management | 8,380 | – | 8,380 | 8,853 |
| Routine maintenance | 5,486 | 390 | 5,876 | 5,225 |
| Planned maintenance | 2,685 | 168 | 2,853 | 2,525 |
| Major repairs expenditure | 14,812 | 697 | 15,509 | 16,858 |
| Leasehold and other contributions | 3,490 | 401 | 3,891 | 2,529 |
| Bad debts | 130 | 2 | 132 | 256 |
| Depreciation on housing properties | 5,296 | 304 | 5,600 | 5,215 |
| **Operating costs on social housing lettings** | 63,193 | 2,213 | 65,406 | 61,863 |
| **Operating surplus on social housing lettings** | 11,817 | 1,512 | 13,329 | 11,313 |
| Rent losses from voids | (4,271) | (55) | (4,326) | (4,017) |

## 4. Deficit on disposal of existing rental housing properties and undeveloped land

| | Group and Association | |
|---|---|---|
| | **2011** | **2010** |
| | £000 | £000 |
| Proceeds of sale | – | 221 |
| Less costs of sale at carrying value | – | (942) |
| Deficit on disposal | – | (721) |

The above disposals are in respect of subsequent tranche sales of LCHO properties and other disposals of properties that are not viable for long term retention or investment. They include the costs associated with a property that was demolished and a new scheme subsequently built on the same site.

## 5. Disposal of other assets

| | Group and Association | |
|---|---|---|
| | **2011** | **2010** |
| | £000 | £000 |
| Proceeds of sale | (2) | 2 |
| Less cost | – | (1,303) |
| Add accumulated depreciation | 2 | 1,014 |
| Loss on disposal | – | (287) |

## 6. Directors' emoluments

The directors of Housing 21 are defined as members of the Board and the Executive team. There were 15 directors during the year.

Both the board and management team received emoluments during the year.

| | **2011** | **2010** |
|---|---|---|
| | £000 | £000 |
| Non-executive directors emoluments | 104 | 87 |
| Executive directors: Emoluments | 657 | 1,121 |
| Benefits in kind | 7 | 9 |
| Pension contributions | 63 | 94 |
| Total | 727 | 1,224 |

Emoluments payable to the highest paid director, Pushpa Raguvaran Chief Executive:

| | | |
|---|---|---|
| Emoluments | 187 | 171 |
| Pension contributions | 21 | 24 |
| Total | 208 | 195 |

Pushpa Raguvaran was appointed as Chief Executive in January 2010. The comparative includes nine months remuneration as the Group Finance Director.





## 6. Directors' emoluments (continued)

Melinda Phillips:

| | **2011** | **2010** |
|---|---|---|
| | £000 | £000 |
| Emoluments | – | 177 |
| Pension contributions | – | 30 |
| Executive directors benefits in kind | – | 174 |
| Executive directors pension contributions | – | 126 |
| Total | – | 507 |

Melinda Phillips resigned as chief executive in January 2010. Further pension contributions were made in April 2010 of £80k.

One of the former directors, Brian Ward-Jones, was a resident of the Association during the year. His tenancy was on the same terms and conditions as other residents. He was unable to use his position as Board member to any advantage in his relationship with the Association as a resident. One of the directors, Kenneth Jeffries, is a resident of the Association during the year. His tenancy is on the same terms and conditions as other residents. He is unable to use his position as Board member to any advantage in his relationship with the Association as a resident.

## 7. Employee information

The number of people employed (full time equivalents) at the end of March was:

| | Group | | Association | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| Management and administration | 890 | 897 | 604 | 556 |
| Court managers | 422 | 440 | 420 | 405 |
| Care and ancillary | 5,407 | 5,271 | 2,233 | 2,041 |
| | 6,719 | 6,608 | 3,257 | 3,002 |

| Staff costs (for the above persons) | Group | | Association | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| | £000 | £000 | £000 | £000 |
| Wages and salaries | 103,435 | 65,668 | 58,098 | 50,681 |
| Social security costs | 7,712 | 4,881 | 4,126 | 3,738 |
| Pension costs (see note 31) | 1,648 | 3,670 | 1,605 | 2,319 |
| | 112,795 | 74,219 | 63,829 | 56,738 |

notes to the financial statements

## 8. Interest receivable and similar income

| | Group | | Association | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| | £000 | £000 | £000 | £000 |
| Interest received on cash deposits | 30 | 58 | 11 | 55 |
| Finance asset interest | 5,677 | 3,456 | 197 | – |
| Intercompany loans | 416 | (383) | 2,063 | 818 |
| HACO interest | 42 | 42 | 42 | 42 |
| Equity bridge-loans | 383 | 383 | 383 | 383 |
| | 6,548 | 3,556 | 2,696 | 1,298 |

**Finance asset interest**

Within PFI and PPP contracts, the Group does not own the asset. Once a property is completed or refurbished, costs related to the property are transferred from work in progress to the finance debtor and shown in debtors over more than one year. The finance debtor is recovered via the unitary charge contract income and amortised over the remaining life of the contract. Until the debtor is fully amortised, an interest charge is released to the income and expenditure account, which is based upon the value of the debtor outstanding. This interest is included within interest receivable.

## 9. Interest payable and similar charges

| | Group | | Association | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| | £000 | £000 | £000 | £000 |
| **On loans from local authorities:** | | | | |
| Repayable wholly or partly in more than 5 years | 28 | 26 | 28 | 26 |
| **On loans from other lenders:** | | | | |
| Interest payable on loans | 20,066 | 14,611 | 10,009 | 6,797 |
| Less: capitalised interest | (2,067) | (3,100) | (1,384) | (844) |
| Interest payable on finance leases | 86 | 87 | 86 | 87 |
| Other interest payable | 492 | 721 | 342 | 404 |
| | 18,605 | 12,345 | 9,081 | 6,470 |

## 10. Other finance costs

| | Group | | Association | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| | £000 | £000 | £000 | £000 |
| On pension liability (Note 31) | (51) | (69) | (51) | (69) |
| | (51) | (69) | (51) | (69) |

## 11. Surplus on ordinary activities before tax

| | Group | | Association | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| | £000 | £000 | £000 | £000 |
| Surplus on ordinary activities before tax is after charging: | | | | |
| Depreciation – owned assets | 9,286 | 8,428 | 7,025 | 6,460 |
| – leased assets | 7 | 1 | 7 | – |
| Amortisation of goodwill | 3,717 | 2,003 | 238 | 238 |
| Interest element of finance lease payments | 86 | 87 | 86 | 87 |
| Payments under operating leases | 764 | 306 | 58 | 13 |
| Auditors' remuneration (including VAT and expenses): | | | | |
| • In their capacity as auditors | 157 | 209 | 50 | 83 |
| • In respect of other services | 130 | 50 | 139 | 31 |

## 12. Taxation

War Memorial Village Derby (see note 33) is a registered charity and is therefore exempt from Corporation Tax on its income and gains to the extent that these are applied to its charitable objectives.

The Association, Kent Community Partnership Limited and Oldham Retirement Housing Partnership Limited have charitable status, and therefore are exempt from Corporation Tax on their income and gains to the extent that these are applied to their charitable objectives.

Housing 21 Guernsey Limited by Guarantee – the Administrator of Income Tax in Guernsey has agreed that the company's profits will not be subject to tax. The Administrator has decided to treat the company as exempt from Guernsey tax due to its charitable activities. The company will be managed in such a way that it will be treated as having UK tax residency and therefore it will be subject to UK tax.

Housing 21 Property Services Limited is subject to UK corporation tax at the prevailing rate.

The following Companies were acquired by Housing 21 on 28 September 2009 and all are subject to UK Corporation tax at the prevailing rate:

- Claimar Care Group Ltd
- Claimar Care Ltd
- MK Homecare Ltd
- Surecare Community Services Ltd
- Firstcall Community Services Ltd
- Primary Care Services Ltd
- Jemma Care Ltd
- Acorn Homecare Ltd
- Stockwell Care Services Ltd
- Twenty4seven Homecare Services Ltd
- Lynks Care Ltd
- Boundary Care Services Ltd
- Complete Care Holdings Ltd
- Complete Personal Assistance Ltd
- Complete Training Ltd
- Complete Case Management Holdings Ltd
- Paediatric Nursing Link Ltd
- Complete Independent Living Services Ltd
- Complete Ability Ltd
- Ravenscroft One Ltd
- Homelink Ltd
- Practicare Ltd
- Pharmassured Ltd

Housing 21 Group Limited, Housing 21 Care Options Ltd, Dementia Voice Ltd and JBK Social Care Ltd are dormant and therefore have no taxable income or gains.

## 12. Taxation (continued)

The UK taxation charge for the year is analysed as follows:

| | Group | | Association | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | £000 | £000 | £000 | £000 |
| **Current taxation** | | | | |
| UK Corporation Tax | 35 | 41 | – | – |
| Deferred Tax | (438) | 473 | – | – |
| Adjustments in respect of prior years | (22) | 7 | – | 11 |
| | (425) | 521 | – | 11 |

**Current tax reconciliation**

The tax charge differs from the standard rate of corporation tax in the UK. A reconciliation is shown below:

| | Group | | Association | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | £000 | £000 | £000 | £000 |
| Surplus on ordinary activities before taxation | 524 | 2,100 | 4,034 | 6,291 |
| Tax at the standard rate of tax of 28% (2010 – 28%) | 147 | 588 | 1,130 | 1,762 |
| Effects of: | | | | |
| Expenses not deductible for tax | 164 | 11 | – | – |
| Capital allowances in excess of depreciation | 28 | (1) | – | – |
| Group relief | – | – | (4) | – |
| Exemption for charitable activities | (1,050) | (77) | (1,126) | (1,751) |
| Other timing differences | (400) | – | – | – |
| Losses carried forward | 61 | – | – | – |
| Gift aid (deduction in prior year) | 647 | – | – | – |
| Adjustments in respect of prior years | (22) | – | – | – |
| Total current tax charge | (425) | 521 | – | 11 |

Deferred Tax arises due to timing differences on gift aid that did not crystalise.





## 13. Housing properties at valuation

| Group | Freehold land and buildings | | | Leasehold buildings | | | Finance lease buildings | Housing under construction | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Housing for older people | Housing for general needs | Shared owner-ship | Housing for older people | Housing for general needs | Shared owner-ship | Freehold land and buildings | Housing for older people | Housing for general needs | Shared owner-ship | |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Cost or valuation** | | | Valuation | | | Valuation | Valuation | | | Cost | |
| At 1 April 2010 | 486,593 | 38,740 | 2,230 | 127,076 | 15,130 | 362 | 1,276 | 10,985 | – | 4,359 | 686,751 |
| Additions: works to existing properties | 2,714 | 144 | – | 518 | – | 205 | 12 | – | – | – | 3,593 |
| Additions: new properties | – | – | – | – | – | – | – | 71,126 | – | 18,428 | 89,554 |
| Transfers in | 1,803 | – | – | – | – | – | – | – | – | – | 1,803 |
| Completed projects cost | 51,997 | – | 17,275 | 32,133 | – | 12,256 | – | (84,130) | – | (29,531) | – |
| Transfer to cost of sales | – | – | (10,256) | – | – | (7,094) | – | – | – | 10,066 | (7,284) |
| Completed projects SHG and other grant | (23,791) | – | (9,180) | (11,138) | – | (7,361) | – | 34,929 | – | 16,541 | – |
| SHG and other grant received in the year | (4,681) | – | (742) | – | – | – | – | (21,522) | – | (16,541) | (43,486) |
| Surplus on revaluation | 59,526 | (869) | 3,819 | 28,669 | – | 9,544 | 218 | – | – | – | 100,907 |
| At 31 March 2011 | 574,161 | 38,015 | 3,146 | 177,258 | 15,130 | 7,912 | 1,506 | 11,388 | – | 3,322 | 831,838 |
| **Depreciation** | | | | | | | | | | | |
| At 1 April 2010 | – | – | – | – | – | – | – | – | – | – | – |
| Charge for the year on revalued amounts | 4,981 | 385 | 15 | 2,515 | – | 42 | 45 | – | – | – | 7,983 |
| Transfers in | – | – | – | – | – | – | – | – | – | – | – |
| Eliminated on revaluation | (4,981) | (385) | (15) | (2,515) | – | (42) | (45) | – | – | – | (7,983) |
| At 31 March 2011 | – | – | – | – | – | – | – | – | – | – | – |
| **Net book value at 31 March 2011** | 574,161 | 38,015 | 3,146 | 177,258 | 15,130 | 7,912 | 1,506 | 11,388 | – | 3,322 | 831,838 |
| **Net book value at 31 March 2010** | 486,593 | 38,740 | 2,230 | 127,076 | 15,130 | 362 | 1,276 | 10,985 | – | 4,359 | 686,751 |
| **Net book value at 31 March 2011 is represented by:** | | | | | | | | | | | |
| Gross cost | 565,634 | 22,313 | 19,131 | 175,689 | 15,130 | 6,841 | 2,483 | 34,555 | – | 3,322 | 845,098 |
| Less: | | | | | | | | | | | |
| SHG and other grants | (321,992) | (287) | (18,772) | (58,394) | – | (8,600) | (95) | (23,167) | – | – | (431,307) |
| Less: | | | | | | | | | | | |
| Accumulated depreciation | (18,214) | (1,700) | (149) | (5,606) | – | (48) | (363) | – | – | – | (26,080) |
| Add: | | | | | | | | | | | |
| Accumulated surplus/ (deficit) on revaluation | 348,733 | 17,689 | 2,936 | 65,569 | – | 9,719 | (519) | – | – | – | 444,127 |
| Total | 574,161 | 38,015 | 3,146 | 177,258 | 15,130 | 7,912 | 1,506 | 11,388 | – | 3,322 | 831,838 |

notes to the financial statements

## 13. Housing properties at valuation (continued)

| Association | Freehold land and buildings | | | Leasehold buildings | | | Finance lease buildings | Housing under construction | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Housing for older people | Housing for general needs | Shared ownership | Housing for older people | Housing for general needs | Shared ownership | Freehold land and buildings | Housing for older people | Housing for general needs | Shared ownership | |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Cost or valuation** | | | Valuation | | | Valuation | Valuation | | | Cost | |
| At 1 April 2010 | 482,773 | 37,242 | 2,230 | 62,442 | – | 362 | 1,276 | 12,299 | – | 4,359 | 602,983 |
| Additions: works to existing properties | 2,686 | 134 | – | 518 | – | 205 | 12 | – | – | – | 3,555 |
| Additions: new properties | – | – | – | – | – | – | – | 71,859 | – | 18,428 | 90,287 |
| Completed projects cost | 51,997 | – | 17,275 | 32,133 | – | 12,256 | – | (84,130) | – | (29,531) | – |
| Transfer to cost of sales | – | – | (10,256) | – | – | (7,094) | – | – | – | 10,066 | (7,284) |
| Completed projects SHG and other grant | (23,791) | – | (9,180) | (11,138) | – | (7,361) | – | 34,929 | – | 16,541 | – |
| SHG and other grant received in the year | (4,681) | – | (742) | – | – | – | – | (21,522) | – | (16,541) | (43,486) |
| Surplus on revaluation | 59,307 | (838) | 3,819 | 27,992 | – | 9,544 | 218 | – | – | – | 100,042 |
| At 31 March 2011 | 568,291 | 36,538 | 3,146 | 111,947 | – | 7,912 | 1,506 | 13,435 | – | 3,322 | 746,097 |
| **Depreciation** | | | | | | | | | | | |
| At 1 April 2010 | – | – | – | – | – | – | – | – | – | – | – |
| Charge for the year on revalued amounts | 5,065 | 174 | 72 | 814 | – | 42 | 45 | – | – | – | 6,212 |
| Eliminated on revaluation | (5,065) | (174) | (72) | (814) | – | (42) | (45) | – | – | – | (6,212) |
| At 31 March 2011 | – | – | – | – | – | – | – | – | – | – | – |
| **Net book value at 31 March 2011** | 568,291 | 36,538 | 3,146 | 111,947 | – | 7,912 | 1,506 | 13,435 | – | 3,322 | 746,097 |
| **Net book value at 31 March 2010** | 482,773 | 37,242 | 2,230 | 62,442 | – | 362 | 1,276 | 12,299 | – | 4,359 | 602,983 |
| **Net book value at 31 March 2011 is represented by:** | | | | | | | | | | | |
| Gross cost | 558,023 | 21,256 | 19,131 | 119,578 | – | 6,841 | 2,483 | 36,602 | – | 3,322 | 767,236 |
| Less: | | | | | | | | | | | |
| SHG and other grants | (316,330) | (282) | (18,772) | (58,394) | – | (8,600) | (95) | (23,167) | – | – | (425,640) |
| Less: | | | | | | | | | | | |
| Accumulated depreciation | (18,203) | (1,700) | (149) | (2,772) | – | (48) | (363) | – | – | – | (23,235) |
| Add: | | | | | | | | | | | |
| Accumulated surplus/(deficit) on revaluation | 344,801 | 17,264 | 2,936 | 53,535 | – | 9,719 | (519) | – | – | – | 427,736 |
| Total | 568,291 | 36,538 | 3,146 | 111,947 | – | 7,912 | 1,506 | 13,435 | – | 3,322 | 746,097 |

Transfers in relates to assets transferred on the acquisition of Gharana Housing Association Limited on 31 March 2011.



## 13. Housing properties at valuation (continued)

Residential properties were valued by Drivers Jonas Deloitte, Chartered Surveyors, on the basis of Existing Use Value for Social Housing (EUV-SH), as at 31 March 2011. The basis of valuation assumes that the properties will continue to be owned by a Registered Provider of Social Housing, for letting at affordable rents, and will be managed in accordance with the Performance Standards published by the Tenant Services Authority.

The valuation was undertaken in accordance with the RICS Valuation Standards, PS 5.1. In determining the valuation, the valuer made use of the discounted cash flow methodology. Assumptions were made concerning the key factors of: the level of future rents, tenant turnover rates, management and maintenance costs, bad debt and void levels, and future discount rates. The spread of discount rates used was from 5.75% to 7% depending on the scheme's location.

The valuation provided by Drivers Jonas Deloitte for the Group totalled £811,770,000 for completed properties (2010: £671,407,000)

The values of completed developments moved into housing stock from housing under construction during the year included capitalised interest (rates applied during year: 4.2% on debit balances and 0.5% on credit balances) of £2,067,000 (2010: £3,100,000). The cumulative value of capitalised interest is not available.

## Analysis of completed housing properties at valuation

| | Group 2011 | Group 2010 | Association 2011 | Association 2010 |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Freeholds | 615,322 | 527,563 | 607,975 | 522,245 |
| Long leaseholds | 200,300 | 142,568 | 119,859 | 62,804 |
| Short leaseholds | 1,506 | 1,276 | 1,506 | 1,276 |
| | 817,128 | 671,407 | 729,340 | 586,325 |

## Capital grants

| Group | Completed schemes | Schemes in the course of construction | Total |
|---|---|---|---|
| | £000 | £000 | £000 |
| **Social Housing Grant** | | | |
| 1 April 2010 | 291,034 | 18,779 | 309,813 |
| Acquisitions in year | – | – | – |
| Receivable in year | 421 | 26,095 | 26,516 |
| Completed projects | 37,492 | (37,492) | – |
| At 31 March 2011 | 328,947 | 7,382 | 336,329 |
| **Other grants** | | | |
| 1 April 2010 | 59,355 | 18,653 | 78,008 |
| Receivable in year | 5,000 | 11,970 | 16,970 |
| Completed projects | 13,980 | (13,980) | – |
| At 31 March 2011 | 78,335 | 16,643 | 94,978 |
| **Total** | | | |
| 1 April 2010 | 350,389 | 37,432 | 387,821 |
| Acquisitions in year | – | – | – |
| Receivable in year | 5,421 | 38,065 | 43,486 |
| Completed projects | 51,472 | (51,472) | – |
| **At 31 March 2011** | 407,282 | 24,025 | 431,307 |

## 13. Housing properties at valuation (continued)

Within the figure for 'Other Grants, receivable in the year' is a total of £476k (2010 £1,810k) relating to land donated by local authorities. The valuation of this land, covering one scheme, has been accounted as a cost of development and also treated as a capital grant.

## Capital grants

| Association | Completed schemes | Schemes in the course of construction | Total |
|---|---|---|---|
| | £000 | £000 | £000 |
| **Social Housing Grant** | | | |
| 1 April 2010 | 291,029 | 18,779 | 309,808 |
| Disposals | | | |
| Receivable in year | 421 | 26,095 | 26,516 |
| Completed projects | 37,492 | (37,492) | – |
| At 31 March 2011 | 328,942 | 7,382 | 336,324 |
| **Other grants** | | | |
| 1 April 2010 | 53,693 | 18,653 | 72,346 |
| Receivable in year | 5,000 | 11,970 | 16,970 |
| Completed projects | 13,980 | (13,980) | – |
| At 31 March 2011 | 72,673 | 16,643 | 89,316 |
| **Total** | | | |
| 1 April 2010 | 344,722 | 37,432 | 382,154 |
| Disposals | – | – | – |
| Receivable in year | 5,421 | 38,065 | 43,486 |
| Completed projects | 51,472 | (51,472) | – |
| At 31 March 2011 | 401,615 | 24,025 | 425,640 |

| Social Housing Grant | Group | | Association | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| | £000 | £000 | £000 | £000 |
| Capital grants deducted from housing properties – cost | 431,307 | 387,821 | 425,640 | 382,154 |
| Add: cumulative amount credited to income and expenditure account | 72 | 72 | 72 | 72 |
| Total Social Housing Grant receivable to date | 431,379 | 387,893 | 425,712 | 382,226 |





## 14. Other fixed assets

| Group | Leasehold office improvements | Freehold offices | Long lease property | Office equipment | Motor vehicles | Computer equipment | Total |
|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Cost** | | | | | | | |
| At 1 April 2010 | 238 | 3,512 | 199 | 1,131 | 27 | 10,139 | 15,246 |
| Transfers in | – | – | – | 16 | – | – | 16 |
| Additions | 2 | 20 | 7 | 130 | – | 903 | 1,062 |
| Disposals | – | – | – | (223) | (14) | (1) | (238) |
| At 31 March 2011 | 240 | 3,532 | 206 | 1,054 | 13 | 11,041 | 16,086 |
| **Depreciation** | | | | | | | |
| At 1 April 2010 | 210 | 492 | 12 | 724 | 3 | 8,079 | 9,520 |
| Transfers in | – | – | – | – | – | – | – |
| Charge for the year | 7 | 66 | 39 | 193 | 8 | 997 | 1,310 |
| Disposals | (2) | – | – | (170) | (6) | (1) | (179) |
| At 31 March 2011 | 215 | 558 | 51 | 747 | 5 | 9,075 | 10,651 |
| **Net book value at 31 March 2011** | 25 | 2,974 | 155 | 307 | 8 | 1,966 | 5,435 |
| Net book value at 31 March 2010 | 28 | 3,020 | 187 | 407 | 24 | 2,060 | 5,726 |

| Association | Leasehold office improvements | Freehold offices | Office equipment | Motor vehicles | Computer equipment | Total |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| **Cost** | | | | | | |
| At 1 April 2010 | 199 | 3,312 | 730 | – | 9,223 | 13,464 |
| Transfers in | 227 | 200 | 562 | 87 | 1,417 | 2,493 |
| Additions | 2 | 20 | 4 | – | 840 | 866 |
| Disposals | – | – | – | – | – | – |
| At 31 March 2011 | 428 | 3,532 | 1,296 | 87 | 11,480 | 16,823 |
| **Depreciation** | | | | | | |
| At 1 April 2010 | 171 | 489 | 657 | – | 7,838 | 9,155 |
| Transfers in | 71 | – | 401 | 78 | 1,075 | 1,625 |
| Charge for the year | 7 | 66 | 23 | – | 724 | 820 |
| Disposals | (2) | – | – | – | – | (2) |
| At 31 March 2011 | 247 | 555 | 1,081 | 78 | 9,637 | 11,598 |
| **Net book value at 31 March 2011** | 181 | 2,977 | 215 | 9 | 1,843 | 5,225 |
| Net book value at 31 March 2010 | 28 | 2,823 | 73 | – | 1,385 | 4,309 |

## 15. Housing properties and stock for sale

| | Group | | Association | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | £000 | £000 | £000 | £000 |
| Low Cost Home Ownership Properties for sale | 12,315 | 4,772 | 12,315 | 4,772 |
| Low Cost Home Ownership properties under construction | 1,565 | 13,958 | 1,565 | 13,958 |
| Outright sale properties for sale | 4,009 | 932 | 4,009 | 932 |
| Outright sale properties under construction | – | 1,500 | – | 1,500 |
| Other stock for sale | – | 51 | – | – |
| | 17,889 | 21,213 | 17,889 | 21,162 |

## 16. Debtors: amounts falling due after one year

| | Group | | Association | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | £000 | £000 | £000 | £000 |
| Work in progress recoverable | 4,724 | 9,556 | – | 2,741 |
| Finance debtor | 106,447 | 81,486 | 6,520 | – |
| Amount owing from subsidiaries | – | – | 25,980 | 25,980 |
| | 111,171 | 91,042 | 32,500 | 28,721 |

The increase in the finance debtor is as a result of the continuing construction of sites in Oldham for OMBC. This will be amortised over the life of the contract.

## 17. Debtors: amounts falling due within one year

| | Group | | Association | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | £000 | £000 | £000 | £000 |
| Rental debtors | 2,595 | 2,715 | 2,585 | 2,693 |
| Less provision for bad debts | (706) | (713) | (706) | (696) |
| | 1,889 | 2,002 | 1,879 | 1,997 |
| Trade debtors | 13,855 | 15,475 | 10,469 | 3,380 |
| Other debtors | 18,755 | 12,173 | 12,287 | 10,468 |
| Deferred tax asset | – | 35 | – | – |
| Amount owing from subsidiaries | – | – | 8,521 | 4,300 |
| | 34,499 | 29,685 | 33,156 | 20,145 |





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

| | Group | | Association | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | £000 | £000 | £000 | £000 |
| Housing loans | 16,581 | 4,667 | 3,238 | 3,934 |
| Obligations under finance leases | 37 | 34 | 37 | 32 |
| Amount owing to subsidiaries | – | – | 8,876 | 2,391 |
| Trade creditors | 4,606 | 7,288 | 3,599 | 2,545 |
| SHG and other grants received in advance | 3,463 | 14,283 | 3,463 | 14,283 |
| Corporation Tax | 60 | 63 | 3 | – |
| Other creditors including PAYE and social security | 9,662 | 12,160 | 9,293 | 9,410 |
| Accruals and deferred income | 46,775 | 43,404 | 27,154 | 26,275 |
| | 81,184 | 81,899 | 55,663 | 58,870 |

## 19. Creditors: amounts falling due after more than one year

| | Group | | Association | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | £000 | £000 | £000 | £000 |
| **Loans** | | | | |
| Local Authority residual loans | 173 | 173 | 173 | 173 |
| Government loans | 11,119 | 10,949 | 10,912 | 10,949 |
| Debenture stock | 14,000 | 14,000 | 14,000 | 14,000 |
| Bank loans | 333,296 | 263,610 | 172,275 | 115,672 |
| Amounts due to Parent company | – | – | – | – |
| Other secured loans | 57,500 | 60,000 | 57,500 | 60,000 |
| Sub total | 416,088 | 348,732 | 254,860 | 200,794 |
| Debenture stock – premium on issue | 271 | 313 | 271 | 313 |
| | 416,359 | 349,045 | 255,131 | 201,107 |
| Less: funding costs to be amortised | (3,061) | (2,461) | (1,182) | (471) |
| | 413,298 | 346,584 | 253,949 | 200,636 |
| Less: amounts falling due within one year | (16,581) | (4,667) | (3,238) | (3,934) |
| **Total loans due after one year** | 396,717 | 341,917 | 250,711 | 196,702 |
| **Finance leases** | | | | |
| Finance leases | 2,498 | 2,530 | 2,498 | 2,530 |
| Less: amounts falling due within one year | (37) | (32) | (37) | (32) |
| **Total finance leases due after one year** | 2,461 | 2,498 | 2,461 | 2,498 |
| | 399,178 | 344,415 | 253,172 | 199,200 |

## 19. Creditors: amounts falling due after more than one year (continued)

Details of obligations under finance leases can be found in note 29.

Loans are secured by charges on the assets of the Association including specific charges on certain housing properties. The weighted average interest rate is 4.50% (2010: 4.21%).

The loans are due as follows:

| | Group | | Association | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | £000 | £000 | £000 | £000 |
| **Loan stocks and bank loans** | | | | |
| Repayable as follows: | | | | |
| In one year or less | 16,581 | 4,667 | 3,238 | 3,934 |
| In more than one year and less than two years | 7,594 | 16,473 | 3,243 | 3,239 |
| In more than two years and less than five years | 23,417 | 23,168 | 11,164 | 10,446 |
| In five years or more | 368,496 | 304,424 | 237,215 | 183,175 |
| | 416,088 | 348,732 | 254,860 | 200,794 |

## 20. Provisions for Liabilities and Charges

| | Group | | Association | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | £000 | £000 | £000 | £000 |
| Deferred Tax | – | 473 | – | – |

## 21. Share capital

| | 2011 | 2010 |
|---|---|---|
| | £ | £ |
| Allotted, issued and fully paid at 1 April 2010 | 31 | 29 |
| Issued during the year | – | 7 |
| Surrendered during the year | – | (5) |
| At 31 March 2011 | 31 | 31 |

Each member of the Association holds a non equity share of £1 in the Association.

The shares carry no right to dividends. The shares are cancelled on the resignation of members from the Association. The shares carry the right to vote at meetings of the Association on the basis of one share one vote. No rights to participate in the net assets of the Association in the event of a winding up are conferred by the shares.



notes to the financial statements

## 22. Reserves

| | Group | | | Association | |
|---|---|---|---|---|---|
| | Revenue Reserve | Negative Goodwill | Revaluation Reserve | Revenue Reserve | Revaluation Reserve |
| | £000 | £000 | £000 | £000 | £000 |
| At 1 April 2010 | 116,932 | – | 338,583 | 124,509 | 324,529 |
| Acquisition of Gharana (see note 34) | – | 1,057 | – | – | – |
| Surplus for the year | 949 | – | – | 4,034 | – |
| Revaluation of properties | – | – | 108,920 | – | 106,250 |
| Actuarial gain on pension scheme liability | 1,606 | – | – | 1,606 | – |
| Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount | 3,376 | – | (3,376) | 3,043 | (3,043) |
| At 31 March 2011 | 122,863 | 1,057 | 444,127 | 133,192 | 427,736 |

## 23. Reconciliation of operating surplus to net cash inflow from operating activities

| | 2011 | 2010 |
|---|---|---|
| | £000 | £000 |
| **Operating surplus** | 12,847 | 11,966 |
| Depreciation | 9,293 | 8,429 |
| Amortisation of goodwill | 3,717 | 2,003 |
| Amortisation of loan costs | (348) | (222) |
| Pension schemes subject to FRS 17, current service cost | 317 | 195 |
| Pension schemes subject to FRS 17, contributions paid | (238) | (269) |
| Pension schemes subject to FRS 17, past service cost | (824) | – |
| Pension schemes subject to FRS 17, settlements and curtailments | 54 | – |
| Movement in Housing Properties and Stock for Sale | 3,324 | (17,614) |
| Increase in debtors | (24,943) | (28,465) |
| Decrease in creditors | (1,800) | 3,386 |
| **Net cash inflow/(outflow) from operating activities** | 1,399 | (20,591) |

## 24. Analysis of the management of liquid resources

| | 2011 | 2010 |
|---|---|---|
| | £000 | £000 |
| Increase/(decrease) in short term deposits | 7,665 | (5,259) |

## 25. Analysis of the changes in net debt

| | At 1 April 2010 £000 | Cash flows £000 | Acquisitions £000 | Non-cash items £000 | At 31 March 2011 £000 |
|---|---|---|---|---|---|
| Cash | 6,859 | 8,436 | – | – | 15,295 |
| Bank loans due within 1 year | (4,667) | 4,667 | – | (16,581) | (16,581) |
| Bank loans due after 1 year | (341,917) | (71,177) | (204) | 16,581 | (396,717) |
| Finance leases due within 1 year | (32) | 32 | – | (37) | (37) |
| Finance leases due after 1 year | (2,498) | – | – | 37 | (2,461) |
| | (342,255) | (58,042) | (204) | – | (400,501) |
| Cash on short term deposit | 8,020 | (7,665) | – | – | 355 |
| Total | (334,235) | (65,707) | (204) | – | (400,146) |

## 26. Reconciliation of the movement in net debt

| | 2011 £000 | 2010 £000 |
|---|---|---|
| **Increase in cash in the period** | 8,436 | 6,590 |
| Cash inflow from increase in debt | (66,505) | (114,459) |
| Loans acquired | (204) | (18,050) |
| Movement in short term deposits | (7,665) | 5,259 |
| **Changes in net debt resulting from cash flows** | (65,938) | (120,660) |
| Finance leases | 32 | 25 |
| **Movement in net debt in the year** | (65,906) | (120,635) |
| **Net debt at 1 April 2010** | (334,240) | (213,605) |
| **Net debt at 31 March 2011** | (400,146) | (334,240) |





## 27. Housing Accommodation

The number of units of accommodation at 31 March 2011 was:

| | Group 2011 | Group 2010 | Association 2011 | Association 2010 |
|---|---|---|---|---|
| **Owned and managed** | | | | |
| Housing for older people | 13,901 | 13,322 | 13,851 | 13,272 |
| General needs | 580 | 626 | 580 | 580 |
| Leased | 1,379 | 1,096 | 1,344 | 1,061 |
| Staff accommodation | 292 | 296 | 291 | 295 |
| **Owned but managed by others** | | | | |
| General needs | 94 | 48 | 48 | 48 |
| **Managed for others** | | | | |
| Housing for older people | 1,969 | 1,900 | 281 | 166 |
| General needs | 5 | 4 | 51 | 50 |
| Staff accommodation | 8 | 2 | 4 | 3 |
| **Total** | 18,228 | 17,294 | 16,450 | 15,475 |
| **Units in development** | | | | |
| For rent | 662 | 1,114 | 662 | 1,114 |
| For shared ownership | 79 | 298 | 79 | 298 |
| For outright sale | – | 31 | – | 31 |
| **Total** | 741 | 1,443 | 741 | 1,443 |

## 28. Capital commitments

| | Group 2011 £000 | Group 2010 £000 | Association 2011 £000 | Association 2010 £000 |
|---|---|---|---|---|
| Capital expenditure contracted but not provided for | 66,759 | 162,532 | 63,156 | 142,294 |
| Capital expenditure approved but not contracted for | 134,010 | 55,493 | 134,010 | 55,493 |

Capital expenditure contracted but not provided for represents the amount committed to development sites for which the Group has a a contractual obligation. Capital expenditure approved but not contracted represents potential commitments to development schemes for which funding has been allocated and form part of the corporate plan approved by the board. A formal investment appraisal is conducted on each development scheme before the Group enters a contractual obligation.

notes to the financial statements

## 29. Financial commitments

**Finance leases:**

The Association entered into two finance lease agreements, commencing January 1997, for groups of properties located in Bexhill and Felixstowe. These agreements are 35 years in duration and are full repairing and insuring leases, with an option for reversion during the 35th year.

Under the terms of the lease contract, the Association has an obligation to make rental payments increasing at a compound rate of 3.5% per annum over the 35 year lease duration.

Obligations due under the leases are payable as follows (excluding interest):

| | Group and Association | |
|---|---|---|
| | 2011 | 2010 |
| | £000 | £000 |
| In one year or less | 37 | 32 |
| Between one and two years | 42 | 37 |
| Between two and five years | 164 | 145 |
| In five years or more | 2,254 | 2,316 |
| | 2,497 | 2,530 |

## 30. Commitments under operating leases

The group and association had annual commitments under operating leases as set out below:

| | Group | | Association | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | £000 | £000 | £000 | £000 |
| **On land and buildings:** | | | | |
| In one year or less | 128 | 94 | 110 | 74 |
| In two – five years | 563 | 339 | 488 | 144 |
| In five or more years | 312 | 329 | 312 | 196 |
| **On other assets:** | | | | |
| In one year or less | 8 | 20 | 3 | 13 |
| In two – five years | 189 | 221 | 165 | 116 |

## 31. Pension liability

Several pension schemes are operated by the Group. The major schemes and their respective deficits are:

| | Group and Association | |
|---|---|---|
| | 2011 | 2010 |
| | £000 | £000 |
| London Borough of Redbridge | (97) | (127) |
| London Borough of Lewisham | (124) | (241) |
| London Borough of Barnet | (679) | (2,778) |
| | (900) | (3,146) |

The movement on the pension scheme liabilities is scheduled below:

| | Total | London Borough of Redbridge | London Borough of Lewisham | London Borough of Barnet |
|---|---|---|---|---|
| **Year ended 31 March 2011** | £000 | £000 | £000 | £000 |
| Deficit at the beginning of the year | 3,146 | 127 | 241 | 2,778 |
| Current service cost, charged to operating surplus | 317 | – | 12 | 305 |
| Other finance costs, charged to surplus (note 10) | 51 | 1 | 8 | 42 |
| Past service cost | (824) | (36) | (35) | (753) |
| Actuarial losses, charged to the statement of recognised surpluses and deficits | (1,606) | 5 | (93) | (1,518) |
| Contribution paid | (238) | – | (9) | (229) |
| Settlements and Curtailments | 54 | – | – | 54 |
| Deficit at the end of the year | 900 | 97 | 124 | 679 |

| | Total | London Borough of Redbridge | London Borough of Lewisham | London Borough of Barnet |
|---|---|---|---|---|
| **Year ended 31 March 2010** | £000 | £000 | £000 | £000 |
| Deficit at the beginning of the year | 718 | 72 | 128 | 518 |
| Current service cost, charged to operating surplus | 195 | – | 7 | 188 |
| Other finance (costs, charged to surplus (note 10) | 69 | 7 | 10 | 52 |
| Past service cost | – | – | – | – |
| Actuarial losses, charged to the statement of recognised surpluses and deficits | 2,433 | 48 | 104 | 2,281 |
| Contribution paid | (269) | – | (8) | (261) |
| Deficit at the end of the year | 3,146 | 127 | 241 | 2,778 |

## 31. Pension liability (continued)

The actuarial gains and losses charged to the statement of total recognised surpluses and deficits are analysed as follows:

| Year ended 31 March 2011 | Total £000 | London Borough of Redbridge £000 | London Borough of Lewisham £000 | London Borough of Barnet £000 |
|---|---|---|---|---|
| Actuarial gains / (losses) | 1,606 | (5) | 93 | 1,518 |
| Charged to the statement of recognised surpluses and deficits | 1,606 | (5) | 93 | 1,518 |

| Year ended 31 March 2010 | Total £000 | London Borough of Redbridge £000 | London Borough of Lewisham £000 | London Borough of Barnet £000 |
|---|---|---|---|---|
| Actuarial losses | (2,433) | (48) | (104) | (2,281) |
| Charged to the statement of recognised surpluses and deficits | (2,433) | (48) | (104) | (2,281) |

Analysis of projected pension expense for the year to 31 March 2011

| Year ended 31 March 2011 | Total £000 | London Borough of Redbridge £000 | London Borough of Lewisham £000 | London Borough of Barnet £000 |
|---|---|---|---|---|
| Projected current service cost | 317 | – | 12 | 305 |
| Interest obligation | 538 | 23 | 19 | 496 |
| Expected return on plan assets | (492) | (22) | (16) | (454) |
| Past service cost | (789) | (36) | – | (753) |
| Losses on curtailments and settlements | 54 | – | – | 54 |
| Total | (372) | (35) | 15 | (352) |





## 32. Pensions

Disclosures are required in respect of Financial Reporting Standard 17 (Retirement Benefits) including the Association's share of the surplus/deficit and assets/liabilities (as at the balance sheet date) of any defined benefit scheme to which the Association contributes on behalf of its employees.

**Social Housing Pension Scheme (administered by The Pensions Trust)**
The Board decided to close the scheme to new employees at 30 June 2002 and to existing employees at 31 December 2002. From those dates employees have been offered the opportunity to join the group stakeholder pension plan.

Housing 21 accounts for less than 1% of SHPS total membership.

The following disclosure has been provided by the administrators:

Housing 21 participates in the Social Housing Pension Scheme (SHPS). The Scheme is funded and is contracted out of the state scheme.

SHPS is a multi-employer defined benefit scheme. Employer participation in the Scheme is subject to adherence with the employer responsibilities and obligations as set out in the "SHPS House Policies and Rules Employer Guide".

The Scheme operated a single benefit structure, final salary with a 1/60th accrual rate, to March 2007. From April 2007 there are three benefit structures available, namely:

- Final salary with a 1/60th accrual rate.
- Final salary with a 1/70th accrual rate.
- Career average revalued earnings with a 1/60th accrual rate.

From April 2010 there are a further two benefit structures available, namely

- Final salary with a 1/80th accrual rate.
- Career average revalued earnings with a 1/80th accrual rate.

An employer can elect to operate different benefit structures for their active members (as at the first day of April in any given year) and their new entrants. An employer can only operate one open benefit structure at any one time. An open benefit structure is one which new entrants are able to join.

Housing 21 has elected to operate the final salary with a 1/60th accrual rate, benefit structure for active members. This does not reflect any benefit structure changes made from April 2010.

The Trustee commissions an actuarial valuation of the Scheme every 3 years. The main purpose of the valuation is to determine the financial position of the Scheme in order to determine the level of future contributions required, in respect of each benefit structure, so that the Scheme can meet its pension obligations as they fall due. From April 2007 the split of the total contribution rate between member and employer is set at individual employer level, subject to the employer paying no less than 50% of the total contribution rate. From 1 April 2010 the requirement to pay at least 50% of the total contribution no longer applies.

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

During the accounting period Housing 21 paid contributions at the rate of 17.1%. Members' contributions varied between 6.4% and 8.4% depending on their age.

As at the balance sheet date there were 106 active members of the Scheme employed by Housing 21. Housing 21 has closed the Scheme to new entrants.

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 the total scheme assets. Accordingly, due to the nature of the Plan, 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 2008 by a professionally qualified actuary using the Projected Unit Method. The market value of the Scheme's assets at the valuation date was £1,527 million. The valuation revealed a shortfall of assets compared with the value of liabilities of £663 million, equivalent to a past service funding level of 70%.

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

| | % pa |
|---|---|
| • Valuation discount rates: | |
| Pre retirement | 7.8 |
| Non pensioner post retirement | 6.2 |
| Pensioner post retirement | 5.6 |
| • Pensionable earnings growth | 4.7 |
| • Price inflation | 3.2 |
| • Rate of pension increases | |
| Pre 88 GMP | 0.0 |
| Post 88 GMP | 2.8 |
| Excess over GMP | 3.0 |

Expenses for death in service insurance, administration and PPF levy are included in the contribution rate.

## 32. Pensions (continued)

The valuation was carried out using the following demographic assumptions:

Mortality pre retirement – PA92 Year of Birth, long cohort projection, minimum improvement 1% pa.

Mortality post retirement – 90% of SIPA Year of Birth, long cohort projection, minimum improvement 1% pa.

The long-term joint contribution rates that will apply from April 2010 required from the employers and members to meet the cost of future benefit accruals were assessed at:

| Benefit structure | |
|---|---|
| Long-term joint contribution rate (% of pensionable salaries) | |
| Final salary with a 1/60th accrual rate | 17.8 |
| Final salary with a 1/70th accrual rate | 15.4 |
| Career average revalued earnings with a 1/60th accrual rate | 14.9 |
| Final salary with a 1/80th accrual rate | 13.5 |
| Career average revalued earnings with a 1/80th accrual rate | 11.9 |

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

Following consideration of the results of the actuarial valuation it was agreed that the shortfall of £663 million would be dealt with by the payment of deficit contributions of 7.5% of pensionable salaries, increasing each year in line with salary growth assumptions, from 1 April 2010 to 20 September 2020, dropping to 3.1% from 1 October 2020 to 20 September 2023. Pensionable earnings at 30 September 2008 are used as the reference point for calculating these deficit contributions. These deficit contributions are in addition to the long–term joint contribution rates set out in the above table.

Employers that participate in the Scheme on a non-contributory basis pay a joint contribution rate (i.e. a combined employer and employee rate).

Employers that have closed the Scheme to new entrants, including Housing 21, are required to pay an additional employer contribution loading of 3.0% to reflect the higher costs of a closed arrangement.

A small number of employers are required to contribute at a different rate to reflect the amortisation of a surplus or deficit on the transfer of assets and past service liabilities from another pension scheme into the SHPS Scheme.

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

A copy of the recovery plan, setting out the level of deficit contributions payable and the period for which they will be payable, must be sent to the Pensions Regulator. The Regulator has the power under Part 3 of the Pensions Act 2004 to issue scheme funding directions where it believes that the actuarial valuation assumptions and / or recovery plan are inappropriate. For example the Regulator could require that the Trustee strengthens the actuarial assumptions (which would increase the scheme liabilities and hence impact on the recovery plan) or impose a schedule of contributions on the Scheme (which would effectively amend the terms of the recovery plan). The Regulator is currently in the process of reviewing the recovery plan for the SHPS Scheme in respect of the September 2008 actuarial valuation. A response from the Regulator is expected in due course.

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

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

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

Housing 21 has been notified by The Pensions Trust of the estimated employer debt on withdrawal from the Social Housing Pension Scheme based on the financial position of the Scheme as at 30 September 2009. As of the date the estimated employer debt for Housing 21 was £39,438,000.

**Group Stakeholder Plan with Axa Sun Life**
Following the closure of the SHPS scheme to new members, employees have been offered the opportunity to join the Group Stakeholder Plan. This is a defined contribution scheme. The pension cost of





## 32. Pensions (continued)

this scheme for the Association in the year was £508k (2010: £457k). There were 309 employee members at the year end (2010: 279). The Association contributes at a rate of 5% (if the employee contributes 3%) or 9% (if the employee contributes at 5%).

**Group Stakeholder Plan with Scottish Equitable**
This is a defined contribution scheme. This scheme is operated by CCG and the pension cost of this scheme for the Company in the six months from acquisition was £26k (2010: £51k). There were 1 employee members at the year end (2010: 4). The Company contributes at a rate of 10% or 6% dependent on position (regardless of whether the employee has opted to make any contribution).

**Prudential Group Savings Plan**
This scheme has been closed to new members since 1997.

The Prudential Group Savings Plan is a defined contribution scheme. The pension cost of this scheme for the Association was £43k (2010: £62k) with 18 employee members at the year end (2010: 31).

The contribution rate of the Association is 10% or 15% of pensionable salary and nil for employees.

**Local Authority Pension Schemes**
Due to the TUPE transfer of staff, the Association participates in the following multi employer defined benefit pension schemes:

**City of Westminster Pension Fund**
The City of Westminster scheme is a defined benefit scheme. However Housing 21's liability in relation to its employees is capped at 12% and 17%. The scheme is therefore accounted for as a defined contribution scheme in accordance with FRS 17 as the charge in the income and expenditure account represents the employer contribution payable.

During the accounting period Housing 21 paid contributions at 12% and 17% totalling £241k (2010: £265k). There were 111 employee members at the year end (2010: 123 employees). Employee contributions were 5.5 % or 7.5 % (2010: 5.5% or 7.5%).

**Oldham Metropolitan Borough Council Pension Fund**
Oldham Metropolitan Borough Council scheme is a defined benefit scheme. However Housing 21's liability in relation to its employees is capped at 20%. The scheme is therefore accounted for as a defined contribution scheme in accordance with FRS 17 as the charge in the income and expenditure account represents the employer contribution payable.

During the accounting period Housing 21 paid contributions at 14.2% totalling £43k (2010: £41k). There were 14 employee members at the year end (2010:15). Employee contributions were 5.5% or 7.5% (2010: 5.5% or 7.5%).

**Walsall Metropolitan Borough Council Pension Fund**
Walsall Metropolitan Borough Council scheme is a defined benefit scheme. However Housing 21's liability in relation to its employees is capped at 14.7%. The scheme is therefore accounted for as a defined contribution scheme in accordance with FRS 17 as the charge in the income and expenditure account represents the employer contribution payable.

During the accounting period Housing 21 paid contributions at 14.7% totalling £464k (2010: £520k). There were 197 employee members at the year end (2010: 242). Employee contributions were between 5.5% and 7.5%.

**London Borough of Sutton Pension Scheme**
London Borough of Sutton pension scheme is a defined benefit scheme. However Housing 21's liability in relation to its employees is capped at 20%. The scheme is therefore accounted for as a defined contribution scheme in accordance with FRS 17 as the charge in the income and expenditure account represents the employer contribution payable.

During the accounting period Housing 21 paid contributions at 20% totalling £15k (2010: £17k). There were 5 employee members at the year end (2010: 5). Employee contributions were between 5.5% and 7.5%.

**London Borough of Camden Pension Scheme**
London Borough of Camden scheme is a defined benefit scheme. However Housing 21's liability in relation to its employees is capped at 22%. The scheme is therefore accounted for as a defined contribution scheme in accordance with FRS 17 as the charge in the income and expenditure account represents the employer contribution payable.

During the accounting period Housing 21 paid contributions at 19.2% totalling £102k (2010: £113k). There were 26 (2010: 31) employee members at the year end. Employee contributions were between 5.5% and 7.5%.

**Suffolk County Council Pension Scheme**
The Association is an admitted body to the Suffolk County Council Pension Scheme (the fund) which is administered by Suffolk County Council. Suffolk County Council Scheme is a defined benefit scheme. However Housing 21's liability in relation to its employees is capped at 20.8%. The scheme is therefore accounted for as a defined contribution scheme in accordance with FRS 17 as the charge in the income and expenditure account represents the employer contribution payable.

During the accounting period Housing 21 paid contributions at 20.8% totalling £45k (2010: £39k). There were 17 (2010: 18) employee members at the year end. Employee contributions were between 5.5% and 7.5%.

## 32. Pensions (continued)

**London Borough of Redbridge Pension Scheme**

The Association is an admitted body to the London Borough of Redbridge Pension Scheme (the Fund) which is administered by the London Borough of Redbridge under the regulations governing the Local Government Pension Scheme (LGPS), a defined benefit scheme.

The last formal valuation of the Fund was at 31 March 2010 with the next formal valuation due as at 31 March 2013. An actuarial valuation has been prepared as at 31 March 2011 on behalf of Housing 21 (the Employer). For this purpose the value of the Fund as at 31 March 2011 has been estimated based upon the latest split of investments by category which was at 28 February 2011. The value of the Fund's liabilities as at 31 March 2011 was assessed by rolling forward the value of the Employer's liabilities reported as at the latest valuation.

The main financial assumptions underlying the above valuation at 31 March are as follows:

| | %pa 2011 | %pa 2010 | % pa 2009 | % pa 2008 | % pa 2007 |
|---|---|---|---|---|---|
| Inflation rate | 2.8 | 3.8 | 3.1 | 3.6 | 3.2 |
| Discount rate | 5.5 | 5.5 | 6.9 | 6.9 | 5.4 |
| Expected rate of salary increases | 4.6 | 5.3 | 4.6 | 5.1 | 4.7 |
| Rate of pension increases | 2.8 | 3.8 | 3.1 | 3.6 | 3.2 |

Mortality

The life expectancy is based on the SAPS year of birth tables, with improvements from 2007 in line with the medium cohort and a 1% p.a. underpin. Based on these assumptions, the average future life expectancies age 65 are summarised below:

| | Males | Females |
|---|---|---|
| Current pensioners | 21.9 years | 24.7 years |
| Future pensioners | 23.8 years | 26.5 years |

Investment Returns

The return on the Fund in market value terms for the year to 31 March 2011 is estimated based on actual Fund returns as provided by the Administering Authority and index returns where necessary. Details are given below:

| | |
|---|---|
| Actual return for period from 1 April 2010 to 31 December 2010 | 7.6% |
| Estimated return for period from 1 April 2010 to 31 March 2011 | 8.3% |

The expected rates of return of each category of assets held by the Fund for the ensuing year as at 31 March were as follows:

| | % pa 2011 | % pa 2010 | % pa 2009 | % pa 2008 | % pa 2007 |
|---|---|---|---|---|---|
| Equities | 7.5 | 7.8 | 7.0 | 7.7 | 7.8 |
| Bonds | 4.9 | 5.0 | 5.4 | 5.7 | 4.9 |
| Property | 5.5 | 5.8 | 4.9 | 5.7 | 5.8 |
| Cash | 4.6 | 4.8 | 4.0 | 4.8 | 4.9 |

The values for each main category of assets held on behalf of Housing 21 within the Fund as at 31 March were as follows:

| | 2011 £000 | 2010 £000 | 2009 £000 | 2008 £000 | 2007 £000 |
|---|---|---|---|---|---|
| Equities | 215 | 199 | 138 | 205 | 277 |
| Bonds | 126 | 115 | 109 | 110 | 144 |
| Property | 15 | 10 | 12 | 18 | 26 |
| Cash | 15 | 13 | 35 | 29 | 43 |
| | 371 | 337 | 294 | 362 | 490 |





## 32. Pensions (continued)

| | 31 March 2011 £000 | 31 March 2010 £000 | 31 March 2009 £000 | 31 March 2008 £000 | 31 March 2007 £000 |
|---|---|---|---|---|---|
| Estimated employer assets | 371 | 337 | 292 | 361 | 488 |
| The present value of scheme liabilities | (468) | (464) | (366) | (385) | (516) |
| Deficit related to Housing 21 | (97) | (127) | (74) | (24) | (28) |

Reconciliation of defined benefit contributions

| Year Ended | 31 March 2011 £000 | 31 March 2010 £000 |
|---|---|---|
| Opening defined benefit obligation | 464 | 366 |
| Interest cost | 23 | 24 |
| Actuarial losses/(gains) | 101 | 101 |
| Past Service Costs / (Gains) | (36) | – |
| Estimated benefits paid | (30) | (27) |
| **Closing defined benefit obligation** | 522 | 464 |

Reconciliation of fair value of assets employed

| Year Ended | 31 March 2011 £000 | 31 March 2010 £000 |
|---|---|---|
| Opening fair value of assets employed | 337 | 292 |
| Expected return on assets | 22 | 17 |
| Actuarial gains/(losses) | 42 | 55 |
| Benefits paid | (30) | (27) |
| Closing fair value of assets employed | 371 | 337 |

Amounts for current and previous accounting periods

| | 2011 £000 | 2010 £000 | 2009 £000 | 2008 £000 | 2007 £000 |
|---|---|---|---|---|---|
| Fair value of assets employed | 371 | 337 | 292 | 361 | 488 |
| Present value of defined benefit obligations | (468) | (464) | (366) | (385) | (516) |
| Deficit | (97) | (127) | (74) | (24) | (28) |
| Experience gains/(losses) on assets | 42 | 55 | (67) | (132) | (4) |
| Experience gains/(losses) on liabilities | (26) | – | – | 104 | – |
| Cumulative actuarial gains/(losses) | (38) | (33) | 13 | 61 | 62 |

The pension cost of this scheme to the Association for the year was £nil (2010: £nil). There were no employee members during the year.

The estimated employer's contributions for the year to 31 March 2012 are £32,000.

## 32. Pensions (continued)

**London Borough of Lewisham Pension Scheme**

The Association is an admitted body to the London Borough of Lewisham Pension Scheme (the Fund) which is administered by the London Borough of Lewisham under the regulations governing the Local Government Pension Scheme (LGPS), a defined benefit scheme.

The latest formal valuation of the Fund was at 31 March 2010 with the next formal valuation due as at 31 March 2013. An actuarial valuation has been prepared as at 31 March 2011 on behalf of Housing 21 (the Employer). For this purpose the value of the Fund as at 31 March 2010 has been estimated based upon the latest split of investments by category which was at 31 December 2010. The value of the Fund's liabilities as at 31 March 2011 was assessed by rolling forward the value of the Employer's liabilities reported as at the latest valuation.

The main financial assumptions underlying the above valuation at 31 March are as follows:

| | % pa | % pa | % pa | % pa | % pa |
|---|---|---|---|---|---|
| | 2011 | 2010 | 2009 | 2008 | 2007 |
| Inflation rate | 3.8 | 3.8 | 3.1 | 3.6 | 3.2 |
| Discount rate | 5.5 | 5.5 | 6.9 | 6.9 | 5.4 |
| Expected rate of salary increases | 5.1 | 5.3 | 4.6 | 5.1 | 4.7 |
| Rate of pension increases | 3.8 | 3.8 | 3.6 | 3.6 | 3.2 |

Mortality

The life expectancy is based on the SAPS year of birth tables, with improvements from 2007 in line with the medium cohort and a 1% p.a. underpin. Based on these assumptions, the average future life expectancies age 65 are summarised below:

| | Males | Females |
|---|---|---|
| Current pensioners | 21.0 years | 23.8 years |
| Future pensioners | 22.9 years | 25.7 years |

Investment Returns

The return on the Fund in market value terms for the year to 31 March 2011 is estimated based on actual Fund returns as provided by the Administering Authority and index returns where necessary. Details are given below:

| | |
|---|---|
| Actual return for period from 1 April 2010 to 31 December 2010 | 5.2% |
| Estimated return for period from 1 April 2010 to 31 March 2011 | 6.4% |

The expected rates of return of each category of assets held by the Fund for each year as at 31 March were as follows:

| | % pa | % pa | % pa | % pa | % pa |
|---|---|---|---|---|---|
| | 2011 | 2010 | 2009 | 2008 | 2007 |
| Equities | 7.5 | 7.8 | 7.0 | 7.7 | 7.8 |
| Bonds | 4.9 | 5.0 | 5.6 | 5.7 | 4.9 |
| Property | 5.5 | 5.8 | 4.9 | 5.7 | 5.8 |
| Cash | 4.6 | 4.8 | 4.0 | 4.8 | 4.9 |

The values for each main category of assets held on behalf of Housing 21 within the Fund as at 31 March were as follows:

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Equities | 168 | 223 | 154 | 208 | 198 |
| Bonds | 36 | 50 | 42 | 52 | 39 |
| Property | 20 | 21 | 18 | 31 | 26 |
| Cash | 2 | 3 | 7 | 4 | 8 |
| Total | 226 | 297 | 221 | 295 | 271 |





## 32. Pensions (continued)

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Estimated employer assets | 226 | 297 | 221 | 295 | 272 |
| The present value of scheme liabilities | (350) | (538) | (349) | (351) | (321) |
| Deficit related to Housing 21 | (124) | (241) | (128) | (56) | (49) |

Reconciliation of defined benefit contributions

| Year Ended | 31 March 2011 | 31 March 2010 |
|---|---|---|
| | £000 | £000 |
| Opening defined benefit obligation | 538 | 349 |
| Current service costs | 12 | 7 |
| Interest cost | 28 | 24 |
| Contributions by members | 3 | 3 |
| Actuarial losses/(gains) | 167 | 168 |
| Past service costs | (35) | – |
| Estimated benefits paid | (29) | (13) |
| **Closing defined benefit obligation** | 684 | 538 |

Reconciliation of fair value of assets employed

| Year Ended | 31 March 2011 | 31 March 2010 |
|---|---|---|
| | £000 | £000 |
| Opening fair value of assets employed | 297 | 221 |
| Expected return on assets | 20 | 14 |
| Contributions by members | 3 | 3 |
| Contributions by employers | 9 | 8 |
| Actuarial gains/(losses) | (74) | 64 |
| Benefits paid | (29) | (13) |
| Closing fair value of assets employed | 226 | 297 |

Amounts for current and previous accounting periods

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Fair value of assets employed | 226 | 297 | 221 | 295 | 272 |
| Present value of defined benefit obligations | (350) | (538) | (349) | (351) | (321) |
| Deficit | (124) | (241) | (128) | (56) | (49) |
| Experience gains/(losses) on assets | (74) | 64 | (92) | 6 | 3 |
| Experience gains/(losses) on liabilities | 140 | – | – | (63) | 1 |
| Cumulative actuarial gains/(losses) | (22) | (71) | 33 | 98 | 105 |

The pension cost of this scheme to the Association for the year was £12k (2010: £7k).
There were 3 employee members at the end of the year (2010: 4). The contribution rate of the Association for the year ended 31 March 2011 was 18.5% (2010: 18.5%) and for employees 5% or 6%.

The estimated employer's contributions for the year to 31 March 2012 are £9k.

## 32. Pensions (continued)

**London Borough of Barnet Pension Scheme**

The Association is an admitted body to the London Borough of Barnet's Pension Scheme (the Fund) which is administered by the London Borough of Barnet under the regulations governing the Local Government Pension Scheme (LGPS), a defined benefit scheme.

The latest formal valuation of the Fund was at 31 March 2010. An actuarial valuation has been prepared as at 31 March 2011 on behalf of Housing 21 (the Employer). For this purpose the value of the Fund as at 31 March 2011 has been estimated based upon the latest split of investments by category which was at 31 March 2010. The value of the Fund's liabilities as at
31 March 2011 was assessed by rolling forward the value of the Employer's liabilities reported as at the latest valuation.

The main financial assumptions underlying the above valuation at 31 March are as follows:

| | % pa 2011 | % pa 2010 | % pa 2009 | % pa 2008 | % pa 2007 |
|---|---|---|---|---|---|
| Inflation rate | 3.5 | 3.9 | 3.0 | 3.6 | 3.2 |
| Discount rate | 5.5 | 5.5 | 6.7 | 6.9 | 5.4 |
| Expected rate of salary increases | 5.0 | 5.4 | 4.5 | 5.1 | 4.7 |
| Rate of pension increases | 2.7 | 3.9 | 3.0 | 3.6 | 3.2 |

Mortality

The post retirement mortality tables adopted were the S1PA heavy tables allowing for long cohort projection, with a minimum 1% improvement and a 90% scaling factor.

The assumed life expectancy at age 65 are:

| | Males | Females |
|---|---|---|
| Retiring Today | 20.0 | 24.0 |
| Retiring in 20 years | 22.0 | 25.9 |

Investment Returns

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2011 is estimated to be 4.3%. This is based on the estimated fund value used at the previous accounting date and the estimated Fund value used at the accounting date. The actual return on Fund assets over the year may be different.

The expected rates of return of each category of assets held by the Fund for the ensuing year as at 31 March were as follows:

| | % pa 2011 | % pa 2010 | % pa 2009 | % pa 2008 | % pa 2007 |
|---|---|---|---|---|---|
| Equities | 7.5 | 7.6 | 7.1 | 7.8 | 7.8 |
| Gilts | 4.4 | 4.5 | 4.0 | 5.7 | 4.9 |
| Bonds | 5.5 | 5.5 | 6.5 | 5.7 | – |
| Property | 5.4 | 5.5 | 6.6 | 5.7 | 5.8 |
| Cash | 3.0 | 3.0 | 3.0 | 4.8 | 4.9 |

The values for each main category of assets held on behalf of Housing 21 within the Fund as at 31 March were as follows:

| | 2011 £000 | 2010 £000 | 2009 £000 | 2008 £000 | 2007 £000 |
|---|---|---|---|---|---|
| Equities | 4,181 | 4,226 | 2,879 | 3,811 | 3,959 |
| Bonds | 2,613 | 1,499 | 1,224 | 941 | 713 |
| Property | 299 | 273 | 253 | 354 | 550 |
| Cash | 373 | 818 | 703 | 534 | 331 |
| Total | 7,466 | 6,816 | 5,059 | 5,640 | 5,553 |





## 32. Pensions (continued)

| | 2011 £000 | 2010 £000 | 2009 £000 | 2008 £000 | 2007 £000 |
|---|---|---|---|---|---|
| Estimated employer assets | 7,466 | 6,816 | 5,059 | 5,640 | 5,553 |
| The present value of scheme liabilities | (8,145) | (9,594) | (5,577) | (5,470) | (5,982) |
| Deficit related to Housing 21 | (679) | (2,778) | (518) | 170 | (429) |

Reconciliation of defined benefit contributions

| Year Ended | 31 March 2011 £000 | 31 March 2010 £000 |
|---|---|---|
| Opening defined benefit obligation | 9,594 | 5,577 |
| Current service costs | 305 | 188 |
| Interest cost | 496 | 379 |
| Contributions by members | 80 | 91 |
| Actuarial losses/(gains) | (1,492) | 3,488 |
| Losses/(gains) on curtailments | 54 | – |
| Past service costs | (753) | – |
| Estimated benefits paid | (139) | (129) |
| **Closing defined benefit obligation** | 8,145 | 9,594 |

Reconciliation of fair value of assets employed

| Year Ended | 31 March 2011 £000 | 31 March 2010 £000 |
|---|---|---|
| Opening fair value of assets employed | 6,816 | 5,059 |
| Expected return on assets | 454 | 327 |
| Contributions by members | 80 | 91 |
| Contributions by employers | 229 | 261 |
| Actuarial gains/(losses) | 26 | 1,207 |
| Benefits paid | (139) | (129) |
| Closing fair value of assets employed | 7,466 | 6,816 |

Amounts for current and previous accounting periods

| | 2011 £000 | 2010 £000 | 2009 £000 | 2008 £000 | 2007 £000 |
|---|---|---|---|---|---|
| Fair value of assets employed | 8,145 | 9,594 | 5,577 | 5,640 | 5,553 |
| Present value of defined benefit obligations | (7,466) | (6,816) | (5,059) | (5470) | (5,982) |
| (Deficit)/surplus | (679) | (2,778) | (518) | 170 | (429) |
| Experience gains/(losses) on assets | 26 | 1,207 | (1,242) | (418) | 31 |
| Experience gains/(losses) on liabilities | 1031 | – | – | 62 | (4) |
| Cumulative actuarial gains/(losses) | (570) | (2,088) | 193 | 938 | 358 |

The pension cost of this scheme to the Association for the year was £305k (2010: £188k). At the end of the year there were 77 employee members (2010: 81).

The contribution rate of the Association for the year ended 31 March 2011 was 17.9% (2010: 17.9%) and for employees 5.5% to 7.5%.

The estimated employer's contributions for the year to 31 March 2012 are £216k.

notes to the financial statements

## 33. Investments and subsidiary undertakings

| | Group £000 | Association £000 |
|---|---|---|
| **Cost** | | |
| At 1 April 2010 | | |
| Reclassification to Goodwill | – | 20,622 |
| Hive up of Claimar Care Ltd | – | (14,492) |
| | | 3,721 |
| **At 31 March 2011** | – | 9,851 |

The following comprise the subsidiary undertakings for incorporation into the consolidated accounts for the Group in accordance with the Industrial and Provident Societies Acts and Financial Reporting Standards.

| Name and principal activity | Country of registration / Status | Basis of control |
|---|---|---|
| **The War Memorial Village – Derby** (Management of social housing) | England and Wales Private company limited by guarantee | Housing 21 is a member and controls the composition of the Board |
| **Kent Community Partnership Limited** (Building and managing stock in Kent) | England and Wales Industrial and provident society | Housing 21 is a member and controls the composition of the Board |
| **Housing 21 Guernsey LBG** (Development and management of housing properties and the provision of care services) | Guernsey Private company limited by guarantee | Housing 21 Guernsey LBG is wholly under the control of Housing 21 |
| **Oldham Retirement Housing Partnership Limited** (Management of sheltered housing stock in Oldham) | England and Wales Industrial and provident society | Housing 21 is a member and controls the composition of the Board |
| **Housing 21 Property Services Limited** (Building stock in Walsall) | England and Wales Private limited company | Ownership of two £1 shares being 100% of the issued share capital |
| **Claimar Care Group Ltd** (Holding company providing Management Services to its Subsidiary undertakings) | England and Wales Private limited company | Housing 21 is a member and controls the composition of the Board |
| **Claimar Care Ltd** (Supply of home care services to both private individuals and social services.) | England and Wales Private limited company | Housing 21 is a member and controls the composition of the Board |
| **Surecare Community Services Ltd** (Supply and sale of franchises within the domiciliary care sector) | England and Wales Private limited company | Housing 21 is a member and controls the composition of the Board |
| **First Call Community Services Ltd** (Provision of domiciliary care) | England and Wales Private limited company | Housing 21 is a member and controls the composition of the Board |
| **Primary Care Services Ltd** (Supply of training within the healthcare sector) | England and Wales Private limited company | Housing 21 is a member and controls the composition of the Board |
| **Complete Care Holdings Ltd** (Provision of health care packages to severely disabled individuals) | England and Wales Private limited company | Housing 21 is a member and controls the composition of the Board |
| **Paediatric Nursing Link Ltd** (Provider of agency nurses.) | England and Wales Private limited company | Housing 21 is a member and controls the composition of the Board |

## 33. Investments and subsidiary undertakings (continued)

| Name and principal activity | Country of registration / Status | Basis of control |
|---|---|---|
| **Easley Health Ltd** (Provision of domiciliary care) | England and Wales Private limited company | Housing 21 is a member and controls the composition of the Board |
| **Gharana Housing Association Ltd** (Provision of sheltered accommodation for the elderly) | England and Wales Industrial and Provident Society | Housing 21 is a member and controls the composition of the Board |

The following Companies are dormant

| Name | Country of registration / Status | Basis of control |
|---|---|---|
| JBK Social Care Limited | England and Wales Private limited company | Ownership of 1,000 £1 shares being 100% of the issued share capital |
| Housing 21 Group Limited | England and Wales Private limited company | Ownership of two £1 shares being 100% of the issued share capital |
| Housing 21 Care Options Limited | England and Wales Private limited company | Ownership of 1,000 £1 shares being 100% of the issued share capital |
| Dementia Voice | | |
| A + D Care Plus Limited | England and Wales Private limited company | Ownership of two £1 shares being 100% of the issued share capital |
| Abbeydale Homecare Limited | England and Wales Private limited company | Ownership of two £1 shares being 100% of the issued share capital |
| Acorn Homecare Limited | England and Wales Private limited company | Ownership of 5,567 £1 shares being 100% of the issued share capital |
| Boundary Care Services Limited | England and Wales Private limited company | Ownership of 100 £1 shares being 100% of the issued share capital |
| BR Care Group Limited | England and Wales Private limited company | Ownership of 4 £1 shares being 100% of the issued share capital |
| Central Care Services Limited | England and Wales Private limited company | Ownership of 2 £1 shares being 100% of the issued share capital |
| Complete Personal Assistance Ltd | England and Wales Private limited company | Ownership of 10,000 £1 shares being 100% of the issued share capital |
| Complete Training Ltd | England and Wales Private limited company | Ownership of 100 £1 shares being 100% of the issued share capital |
| Complete Case Management Holdings Ltd | England and Wales Private limited company | Ownership of 67,500 £1 shares being 100% of the issued share capital |
| Complete Independent Living Services Ltd | England and Wales Private limited company | Ownership of 100 £1 shares being 100% of the issued share capital |

## 33. Investments and subsidiary undertakings (continued)

| Name and principal activity | Country of registration / Status | Basis of control |
|---|---|---|
| Complete Ability Ltd | England and Wales<br>Private limited company | Ownership of 100 £1 shares being 100% of the issued share capital |
| Everycare (Bradford) Limited | England and Wales<br>Private limited company | Ownership of 2 £1 shares being 100% of the issued share capital |
| First Call Response Limited | England and Wales<br>Private limited company | Ownership of 100 £1 shares being 100% of the issued share capital |
| Jemma Care Limited | England and Wales<br>Private limited company | Ownership of 100 £1 shares being 100% of the issued share capital |
| Lynks Care Limited | England and Wales<br>Private limited company | Ownership of 200 £1 shares being 100% of the issued share capital |
| Medgal Care Limited | England and Wales<br>Private limited company | Ownership of 100 £1 shares being 100% of the issued share capital |
| MK Homecare Limited | England and Wales<br>Private limited company | Ownership of 100 £1 shares being 100% of the issued share capital |
| Practicare Limited | England and Wales<br>Private limited company | Ownership of 100 £1 shares being 100% of the issued share capital |
| Ravenscroft One Limited | England and Wales<br>Private limited company | Ownership of 6 £1 shares being 100% of the issued share capital |
| Ravenscroft Homelink Limited | England and Wales<br>Private limited company | Ownership of 100 £1 shares being 100% of the issued share capital |
| Stockwell Care Services Ltd | England and Wales<br>Private limited company | Ownership of 1,000 £1 shares being 100% of the issued share capital |
| Twenty 4 seven Homecare Services Ltd | England and Wales<br>Private limited company | Ownership of 2 £1 shares being 100% of the issued share capital |
| Walsall Homecare Limited | England and Wales<br>Private limited company | Ownership of 50,000 £1 shares being 100% of the issued share capital |



notes to the financial statements

## 34. Acquisitions

On 30 September 2010 the Group acquired 100% of the ordinary share capital of Easley Health Ltd for a total consideration of £758k. The book value is agreed to be the fair value.

| | £000 |
|---|---|
| Consideration paid (cash plus acquisition costs of £17,167) | 758 |
| Net assets acquired | (366) |
| Goodwill arising on acquisition (see note 35) | 392 |

The results of Easley Health Ltd prior to its acquisition were as follows:

**Profit and Loss Account**

| | 5 months to 30 September 2010 £000 | Year Ended 30 April 2010 £000 |
|---|---|---|
| Turnover | 611 | 1,255 |
| Operating profit | 95 | 198 |
| Exceptional items | (240) | – |
| (Loss)/profit on ordinary activities before taxation | (145) | 198 |
| Taxation on (loss)/profit from ordinary activities | (19) | (46) |
| (Loss)/Profit for the year | (164) | 152 |

**Cash flows**

The net outflow of cash arising from the acquisition of Easley Health Ltd was as follows:

| | £000 |
|---|---|
| Cash consideration | 683 |
| Cash Balances acquired | (290) |
| Net outflow of cash | 393 |

## 34. Acquisitions (continued)

On 31 March 2011 the Group acquired 100% of the ordinary share capital of Gharana Housing Association Ltd for a total consideration of £nil plus the refinancing of financial liabilities.

In calculating the goodwill arising on acquisition, the fair value of the net assets of Gharana Housing Association Ltd have been assessed and adjustments to book value have been made where necessary. The details of the transactions are shown in the table below:

| | Book value £000 | Adjustment £000 | Fair value £000 |
|---|---|---|---|
| Tangible fixed assets | 909 | 910 | 1,819 |
| Debtors | 28 | – | 28 |
| Cash at bank and in hand | 100 | – | 100 |
| Total assets | 1,037 | 910 | 1,947 |
| Creditors falling due within one year | (29) | – | (29) |
| Creditors falling due after one year | (861) | – | (861) |
| Total liabilities | (890) | – | (890) |
| Net assets | 147 | 910 | 1,057 |

| | £000 |
|---|---|
| Consideration | – |
| Net assets acquired | (1,057) |
| Negative Goodwill arising on acquisition (see note 22) | (1,057) |

The results of Gharana Housing Association Ltd prior to its acquisition were as follows:

| **Profit and Loss Account** | Year Ended 31 March 2011 £000 | Year Ended 31 March 2010 £000 |
|---|---|---|
| Turnover | 330 | 478 |
| Operating profit | 109 | 22 |
| Net interest | (51) | (30) |
| Profit on ordinary activities before taxation | 58 | (8) |
| Taxation on profit from ordinary activities | (–) | – |
| Profit for the year | 58 | (8) |

**Cash flows**

The net outflow of cash arising from the acquisition of Gharana Housing Association Ltd was as follows:

| | £000 |
|---|---|
| Cash consideration | – |
| Cash balances acquired | (100) |
| Loans due after one year | 861 |
| Net outflow of cash | 761 |





## 35. Goodwill

On 28 February 2007 the Association purchased the leasehold management business of 17 housing schemes from James Butcher Housing Association for £3m. An intangible asset, goodwill, has arisen on the difference between the price paid for the business and the fair value of the net assets and is being amortised over 20 years in accordance with FRS 10. The goodwill amortised in the year was £153k (2010: £153k).

On 18 July 2007 the Association purchased JBK Social Care Limited, a specialist care company based in Westminster for £400k. An intangible asset, goodwill, has arisen on the difference between the price paid for the business and the fair value of the net assets and is being amortised over 5 years. The goodwill amortised in the year was £85k (2010: £86k).

On 28 September 2009 the Association purchased Claimar Care Group PLC for £20,624k. An intangible asset, goodwill, has arisen on the difference between the price paid for the business and the fair value of the net assets and is being amortised over 10 years. The goodwill amortised in the year was £3,480k (2010: £1,740k).
On 30 September 2010 Surecare Community Services Ltd purchased Easley Health Ltd for £758k. An intangible asset, goodwill, has arisen on the difference between the price paid for the business and the fair value of the net assets and is being amortised over 20 years. The goodwill amortised in the year was £10k (2010: £Nil).

On 31 March 2011 the Group purchased Gharana Housing Association Ltd for nil consideration. Negative goodwill has arisen on the difference between the price paid for the business and the fair value of the net assets.

| | Group 2011 £000 | Group 2010 £000 | Association 2011 £000 | Association 2010 £000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 April | 38,777 | 3,475 | 3,475 | 3,475 |
| Purchased in the year | 392 | 35,302 | – | – |
| Hive up of Claimar Care Ltd | – | – | 14,492 | – |
| At 31 March | 39,169 | 38,777 | 17,967 | 3,475 |
| **Amortisation** | | | | |
| At 1 April | (2,625) | (622) | (860) | (622) |
| Amortised during the year | (3,717) | (2,003) | (238) | (238) |
| At 31 March | (6,342) | (2,625) | (1,098) | (860) |
| **Total 31 March 2011** | 32,827 | 36,152 | 16,869 | 2,615 |

The Group has assessed goodwill using discounted cash flows and considers the carrying value to be appropriate. The discount rate of 8% reflects a risk premium on the Group's weighted average interest rate. The growth assumptions are ahead of national predictions and reflect the unique market in which the Group operates, the strong customer offer and significant investment in the businesses. The trade and assets of Claimar Care Limited were hived up into Housing 21 Association Ltd on 31 March 2011.

## 36. Disposal of Subsidiary

On 31 March 2011 the group disposed of 100% of the ordinary share capital of PharmAssured Limited for a net consideration of £1. The loss on disposal recorded on the income and expenditure account is £215k being the net asset value on 31 March 2011. No further disclosures have been provided on the grounds of materiality.

## 37. Contingent Liabilities

There is a negligence claim against a subsidiary company which is as yet unquantified. The company has a legally verified right of recourse should litigation arise.

## 38. Legislative Provisions

The Association is incorporated under the Industrial and Provident Societies Act 1965 (Registered number 16791R) and is registered under the Housing and Regeneration Act 2008 (Number L0055).

## 39. Related Party Transactions

One of the Group's directors is also a director of HACO, an organisation which provides some of the Group's funding. All transactions between the Group and HACO are on an arm's length basis and on normal terms. The funding provision commenced in the year to 31 March 2004 and is due for settlement in 2017. Interest only is paid during the year in the sum of £1,488k (2010: £1,488k) at a rate of 10.625%. The balance at the year end was £14m (2010: £14m).

No related party transactions have been entered into during the year, other than those disclosed in the Financial Statements, which might reasonably affect any decision made by the users of these Consolidated Financial Statements.

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