housing21

Financial statements 2007/08

ing21

Contents

Board, management team and advisers

Board

David Grayson, CBE (Chair and ex-offico member of all committees)
Sandra Robinson, (Vice Chair)
Matthew Harker
Heléna Herklots
Peter A Letley
Melinda Phillips, (Chief Executive)
Pushpa Raguvaran, (Deputy Chief Executive and Commercial Director)
James Robinson
Michael Stansfield
Brian Ward-Jones

Management team

Melinda Phillips, Chief Executive
Pushpa Raguvaran, Deputy Chief Executive and Commercial Director
Tayo Bilewu, Director of New Business and Development
Jackie Carter, Director of Corporate Services
Les Clarke, Director of Older Peoples Services
Paul Richards, Director of Property and Customer Support

Secretary and registered office

Jim Farmer
The Triangle
Baring Road
Beaconsfield
Bucks HP9 2NA

Auditors

BDO Stoy Hayward LLP
Emerald House
East Street
Epsom
Surrey KT17 1HS

Bankers

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

Principal solicitors

Devonshires
Salisbury House
London Wall
London
EC2M 5QY

Registration of the Association

The Association is incorporated under the Industrial and Provident Societies Act 1965 (Registered number 16791R) and under the Housing Act 1996 (Number L0055). It is also affiliated to the National Housing Federation.

Housing 21 is an exempt charity.

Housing 21's Group of active companies

Housing 21, a registered social landlord and housing association.

War Memorial Village Derby (WMVD) is a charitable member of the Housing 21 Group. It is a company limited by guarantee which does not have share capital. Housing 21 acts as managing agent for WMVD.

Housing 21 Guernsey is registered in Guernsey and limited by guarantee. It is a subsidiary working solely in Guernsey.

Oldham Retirement Housing Partnership Limited (ORHP) is an industrial and provident society with charitable status set up to refurbish and manage stock in Oldham on behalf of Oldham Metropolitan Borough Council.

Kent Community Partnership Limited (KCP) is an industrial and provident society with charitable status set up to build and manage stock in Kent.

Housing 21 Property Services Limited is a company limited by shares set up to manage the Group's development programme. This company was dormant in the financial year.

Principal activities and review of the business

Details of the Group's activities, a review of activity for the year ended 31 March 2008 and its prospects are included in the Annual Review.

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.

It is Group policy that training, career development and promotion be available to all employees.

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, staff are consulted on various issues. Additionally, there are cascade briefings from the management team, departmental and team meetings and other forms of communication such as newsletters and e-mail bulletins.

Health and safety and audit

There is a health and safety policy which is regularly reviewed by the staff council and the property services forum.

The Risk Management and Audit Committee oversees compliance with health and safety legislation and policies. It regularly reviews the strategy for ensuring 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

The directors of Housing 21 are defined as the Board and the management team. Directors are covered under the National Housing Federation's Directors and Officers Liability insurance policy in respect of their duties as directors of Group companies.

The directors and officers are also covered under the Group's own additional liability insurance policy.

Governance

The Group is committed to exhibiting best practice in aspects of corporate governance. Throughout the year ended 31 March 2008 Housing 21 and its subsidiaries were in full compliance with all provisions of the Housing Corporation's Regulatory Code and the Group's governance handbook which includes financial regulations, standing orders and respective roles and responsibilities. The governance handbook fully reflects the requirements laid down by the Housing Corporation Regulatory Code and advised by the National Housing Federation and has continued to be updated and revised throughout the year.

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 is the subject of ongoing review and the performance of the Board members individually and collectively is regularly appraised.

The Board is remunerated in line with regulatory guidance and best practice and only where there is a sufficient business case to do so.

Statement of Board's responsibilities

The Board is required to prepare the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice, for each financial year, which give a true and fair view of the state of affairs of the Group and the surplus or deficit of the Group for that period. In preparing those financial statements the Board is required to:

- select appropriate accounting policies and then apply them consistently;
- make judgements and estimates which are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material disclosures, disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Board is responsible for keeping proper accounting records which disclose the financial position of the Group and to enable it to ensure that the financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom, the Industrial and Provident Societies Acts 1965 to 2002, the Industrial and Provident Societies (Group Accounts)

Regulations 1969, Schedule 1 to the Housing Act 1996 and with the Accounting Requirements for Registered Social Landlords General Determination 2006. The Board is responsible for instituting adequate systems of internal control and safeguarding the assets and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 as amended by shareholders at the general meeting on 27th July 2007 (the Rules);
- act within the Rules;
- uphold and promote the core policies, purpose, values and objectives of the Group 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

Peter Letley – Chair
Matthew Harker
Heléna Herklots
James Robinson

Performance committee

Peter Letley – Chair
James Robinson
Sandra Robinson
Melinda Phillips
Pushpa Raguvaran
Michael Stansfield

Personnel, selection and remuneration committee

David Grayson – Chair
Peter Letley
Sandra Robinson

Housing services committee

Brian Ward-Jones – Chair (tenant Board member)
Sandra Robinson – Vice Chair

Non Board Members
Rob Barclay (non tenant member)
Alan Bird
Martin Dean (non tenant member)
John Dodd
Harry Hirst
Maureen Hooley
Brian Horsman (leasehold resident member)
George Lambert
William Moore
Maureen Savage (alternate tenant Board member)
George Spry
Vernon Tattersall (non tenant member)
Derek Thorogood
Denis Wise

Recruitment of Board members

The Board is elected by shareholding members. One third of the Board is elected 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 Chief Executive and Deputy Chief Executive/Commercial Director serve on the Board as representatives of the executive management team. Their term of office is commensurate with their term of employment.

Policy for admitting shareholding members

We have an open membership policy, whilst seeking to achieve a broad and balanced membership including tenants and non tenants and corporate and individual members.

Group internal controls assurance

The Board has overall responsibility for the Group's systems of internal control which are designed to reduce the risk of failing against agreed business objectives. Management is responsible for implementing Board policy. The resultant systems of control cannot eliminate loss but can provide reasonable assurance to mitigate it.

Through the Audit and Risk Management Committee, the Board has ensured that an ongoing appraisal of the Group's internal control systems and risk management processes has continued throughout the year ended 31 March 2008.

The Group employs a professional internal audit team, independent of business management, to review objectively the policies of the Board and operations of the Group and to consider the adequacy of internal controls used to effectively manage the risks. Audit reviews are planned on a risk-assessed basis and agreed actions that are fundamental are followed up with management to completion. Where issues have come to light, effective action has been taken to close control weaknesses as they have arisen. Progress against action plans designed to close any control gaps has been reviewed as a matter of course by the Audit and Risk Management Committee.

In addition to the annual internal audit plan, management, in conjunction with the internal audit function, separately review the effectiveness of the internal control system, the outcome of which is considered by the Board.

There have been no significant control weaknesses reported during the year under review which have not been effectively actioned and closed.

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 both internally and externally, and its expectations on the recovery of assets. A clearly established whistle blowing policy is included in the arrangements.

The Group maintains a register of all incidents of fraud and attempted fraud detected. The Audit and Risk Management Committee receives a report at each meeting of all 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 accepts the need for a process of management of risk that is as effective as possible. It sees such a process as a fundamental requirement.

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, the Director of Corporate Services and the Head of Audit, Risk and Regulation (ARR) have responsibility for implementation of the risk management strategy. The Group's risk management officer reports to the Head of ARR 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 being 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 integrated risk reports covering all areas of the business which specifies:

- 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, those material events that have caused risks to crystallise within the Group, together with the action taken by management to ensure that recurrence does not happen. Integrated risk reports are consolidated and presented regularly to Audit and Risk Management Committee throughout the year and summarised annually for the Board.

The Board is satisfied that the Group's systems of control are operating effectively and that where weaknesses have been found, effective and timely remedial action is being taken to close control gaps.

Auditors

All of the current board members have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Group's auditors for the purposes of their audit 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.

A resolution to reappoint BDO Stoy Hayward LLP as auditors will be proposed at the next annual general meeting.

By order of the Board

J. Farmer.

Mr J Farmer

Secretary

27 June 2008

Operating and financial review

It has been a busy and successful year for the Housing 21 Group in terms of business growth and organisational development.

The housing development programme delivered 288 new units for rent and shared ownership and during the year, the Group ensured a healthy pipeline of new units by securing a record level of grant funding from the Housing Corporation. The programme includes a significant number of units for shared ownership and outright sales. This activity is relatively new to the organisation but expected to be a key part of the future housing development strategy. During the year, the Group strengthened its capability to manage this activity.

The Group's care activities increased substantially during the year. A significant number of new contracts were secured to deliver care to service users in the community as well as in extra care schemes. Of particular significance is the success in relation to contracts for the provision of dementia services. During the year Housing 21 merged Dementia Voice, previously a wholly owned subsidiary, into Housing 21's core business. Housing 21 is now well positioned as a leading expert in dementia services.

Key new developments in the year included the financial closure on 5th October 2007 of the Group's second major PFI project in Kent and the development of a significant PPP project in Walsall. The project in Kent "Better Homes Active Lives", is being delivered through a special purpose vehicle, KCP (a wholly owned subsidiary), to build and manage 340 new units for older people and for people with learning disabilities and mental health needs. The construction phase of the contract commenced in October 2007 and is proceeding according to plan.

The PPP project contract in Walsall was signed on 9th April 2008; this is a ground breaking project which will re-provide outdated residential care into extra care housing with supportive care services; the re-provision includes the development of a state of the art dementia centre.

The Group's first PFI project in Oldham, in operation since January 2007, is proceeding according to plan to refurbish and redevelop 1,647 homes for Oldham Metropolitan Borough Council. The inclusion of this contract has a significant impact on the Group's results.

During the year, the Group started the implementation of some significant organisational changes. Departments have been restructured to achieve a greater focus on an integrated model of service delivery, performance and customer support. Recently, further restructuring has brought together various aspects of property management to enhance overall asset management and achieve optimum value and returns.

The Group has continued to invest in delivering its ICT strategy which underpins the Group's plans to transform its operating structure, improve customer support and achieve efficiencies. A major milestone was reached with the implementation of an organisation wide converged network which provides voice and data communication over the same network. This was a substantial and complex implementation connecting Housing 21's courts, care sites and offices. As well as achieving substantial direct cost savings, this development has considerable potential for further efficiencies and flexible working.

Financial performance review

In the year ended 31 March 2008, group turnover increased by 12% to £92.5m. The main focus of the Group is the provision of social housing lettings, which contributed £60.4m or 65% of the turnover and the provision of care services, which contributed £25.1m, or 27%, of the total turnover.

The total income from social housing lettings is generated from three core areas: rental income, service charges receivable and charges for support services.

Housing 21 is subject to regulation on rental income on its sheltered housing courts and can only increase rents annually by a maximum of RPI+0.5%, plus a further £2 per week, where current rents are below target rent levels established by a Government formula linking rents to local property values and wage levels. Service charges are the recharge to tenants of relevant expenditure such as cleaning and court manager costs. Housing 21 does not generate a surplus on this income. The income from charges for support services is derived from local government administering authorities for preventative support for older people.

Care service income represents the income generated from the care contracts in place from the care services offered to over 5,800 people around the country, up from 4,900 last year.

Operating surplus has increased from £7.3m in the year ended 31 March 2007 to £7.9m in the year ended 31 March 2008. This can be attributed to three factors: the increase in turnover, offset by increases across the whole operating cost matrix; a conservative approach adopted to the accounting for major repairs; and the consolidation at a group level of our two PFI companies, ORHP and KCP.

Of particular relevance in the operating cost matrix is the continued major repairs and stock improvement expenditure of £12.7m, which reflects our determination to bring all our courts up to Decent Homes standards. Non urgent routine maintenance activities are now scheduled to take place alongside major repairs expenditure to reduce disruption to tenants and increase efficiencies.

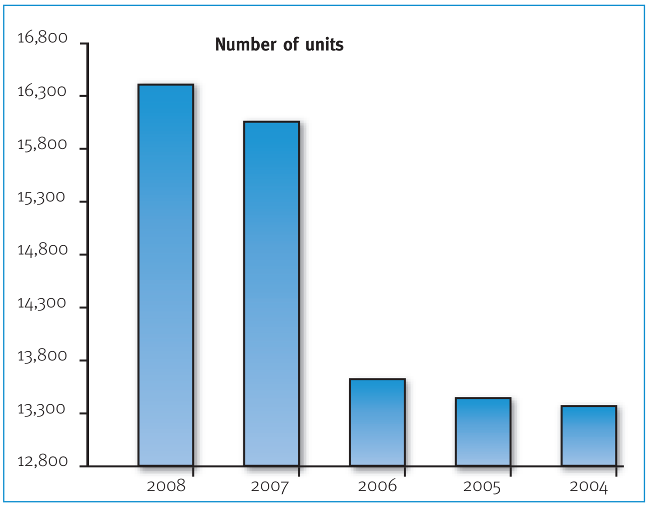
Capital structure

The Group relies on its strong balance sheet and growing asset base to support further growth.

Housing 21 is not able to raise equity funding and hence finances its operations by a combination of government grants, housing loans from commercial banks and retained surpluses.

Key to the balance sheet is the value of the housing properties. The Group records the housing properties at valuation, based on forecasted rental income streams. The number of units and the valuation of the housing properties have grown over the past five years.

The table below sets out the number of units owned and managed and managed for others over the last five years.



The investment programme is scheduled to continue with £19.8m included on the balance sheet at 31 March 2008 as housing properties under construction up from £4.1m in 2007. There are over 600 new units in the pipeline, under development for rental shared ownership and outright sale. Funding for this programme continues to be obtained from the Housing Corporation in the form of Social Housing Grant and Department of Health grants.

Housing 21 is focused on achieving Decent Homes standard by 2010, resulting in more spend allocated to existing housing properties. During the year the group spent £24.6m on major repairs and maintenance, of which £6.8m has been capitalised.

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.

Key business risks for Housing 21

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

The tendency for lenders to tighten access to facilities following the US Sub Prime Loans crisis, and the problems of Northern Rock in the UK, otherwise known as the “credit crunch” has been affecting the Housing Association sector in the UK in various ways. New deals have been “pulled” just prior to expected signing dates, loan pricing is more expensive, and loan portfolios are being consolidated. Despite these difficulties extensive new loan facilities for the Group have been offered by both Barclays and Dexia Banks and are expected to be finalised shortly.

A further effect of the credit crunch is that the property sales market has slowed down somewhat, and as Housing 21 has a number of outright sale and shared ownership schemes in the pipeline there is a risk of delays to sales receipts on these schemes. We are considering various mitigating actions to manage the risks including the possibility of retaining these units in our rental portfolio. As the percentage of sales units is relatively small, the effect on our financial plan and covenants is not expected to be significant.

Income is constrained by rent restructuring. Operational costs are running ahead of RPI and there remains a competitive environment for staff recruitment and retention. There are financial pressures in terms of interest rate rises and building cost inflation and concerns about pension provision.

The care business is most vulnerable, still largely commissioned on the basis of short term three to five year contracts, and faces pressure from the need to pay higher wages to carers at the same time as local council financial settlements are leading to squeezes in contract prices and a focus on those in acute need. Growing concern about the funding of social care continues.

The pace of technological change continues. There are many opportunities available to harness these developments to modernise our Group to enable provision of more efficient, cost effective, customer focused services.

Significant changes in the field of public policy mean that the markets in which Housing 21 operates in health, social care and housing, are all reshaping rapidly. Understanding the impact of these changes is crucial to Housing 21’s future plans.

Government continues to see the reform of public services as a key priority and the agenda has intensified given the new demands from an increasingly ageing population with rising expectations. A Comprehensive Spending Review (CSR) in 2007 committed the Government to step up reform of public services to deliver:

- Better outcomes for people.
- Better value for money.
- Excellent personal experiences for all with people able to shape services.

The Darzi review of health care, which is about improving patient care focuses on providing more convenient accessible integrated care in the most appropriate settings including care at home and in new community clinics. The health agenda continues to develop integration at local level with a greater focus on prevention and on joint health and social care commissioning, and with PCTs as significant local commissioners.

Social care funding remains a significant problem for older people and providers alike with many independent reports highlighting shortfalls in provision and lack of funding. A Government led debate on the future of social care has now begun and social care is already changing substantively through the Government’s transformation agenda which aims to put people in control of their care and develop self-directed support through personal budgets.

With the development of the new Homes and Communities Agency and the new regulatory regime in the form of the Office for Tenants and Social Landlords due to be established in 2009, changes to the social housing sector will be accelerated with expectations that housing associations will have a greater role as community agencies and further streamlining of delivery. Larger associations have been welcomed for their efficiencies and mergers will continue apace, fuelled by maximising the production of social housing, but there is also a call for, and expectation of, greater local accountability to customers and communities. Competition has also intensified especially with the private sector playing a growing role in the delivery of social housing.

Treasury policy and objectives

The Group has identified the following treasury risks:

- Interest rate sensitivity.
- Investment.
- Inflation and deflation.
- Liquidity and funding.
- Counterparty credit risk.
- Fraud and error.
- System failure.

The Group has a centralised treasury function, charged with managing these risks within the parameters of the treasury policy. In formulating the policy to address these risks reference is made to the Chartered Institute of Public Finance and Accountancy Code of Practice for Treasury Managers, National Housing Federation – Financial Risk Management: Focus on Treasury, the Housing Corporation – circular R2-04/99 Treasury Management Regulatory Policy and the Financial Services Authority Handbook.

The objectives of the treasury policy has 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.
- Control and accountability in treasury management procedures.

Treasury policy is subject to Board approval.

The treasury operation is not a profit centre and speculative transactions are not allowed.

Cash flow

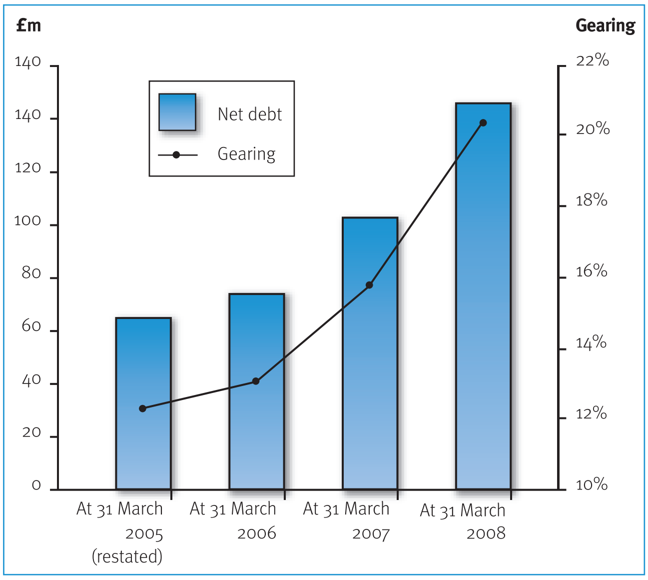
The net cash requirement for the year ended 31 March 2008 was £41.7m (2007: £24.7m), this change reflects an increase in capital spend funded by a reduction in cash and additional loans received. In the year ended 31 March 2008 £55.9m was spent on housing properties under construction, offset by Social Housing Grant received of £22.0m.

The operating cash flow was (£2.7m) in 2008 compared to £2.1m in year ended 31 March 2007, mainly reflecting the ORHP finance debtor.

Net debt at 31 March 2008 stood at £143.6m compared to £101.9m at 31 March 2007. Broadly in line with this increase in net debt over the year, interest paid increased to £9.4m compared to the year ended 31 March 2007 of £5.9m.

Balance sheet debt and liquidity

The Group's financial investments comprise cash, short-term deposits and bank and other borrowings. As a result of its strong and growing asset base Housing 21 is able to increase its levels of net debt in order to invest in growth. The focus of the Group is primarily medium to long term and the profile of net debt reflects this, with £115.8m (79%) falling due after more than five years. Housing 21 has committed, but undrawn, facilities of £68.5m at 31 March 2008, sufficient for the projected development programme for the next 12 months. The figures for ORHP are £67.1m and KCP £97.8m, and are also expected to be sufficient to complete the PFI projects for those subsidiaries.



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). Whilst gearing for the year ended 31 March 2008 at 15% has increased slightly compared to prior year it is still relatively low for the sector, illustrating the strong balance sheet.

Of the total Group net debt of £143.6m just £84m of gross loans are secured on the Association's housing properties.

Housing 21 seeks to reduce its exposure to volatility in interest rates by balancing its loan book over fixed rate, floating rate and inflation linked interest rate. In these volatile times an increase in the weighted average interest was not unexpected. At the year ended 31 March 2008 it stood at 7.68% compared to 7.18% at 31 March 2007.

Interest cover is a key banking covenant for the Group. For the Association it is calculated as net interest to operating surplus with depreciation added back. For the year ended 31 March 2008 the interest cover ratio was 1.73 times operating surplus. This is lower than the previous year, reflecting a tighter operating environment.

Accounting policies and prior year adjustments

The Group has adopted Financial Reporting Standard 10 'Goodwill and intangible assets' (FRS 10) with respect to its acquisition of the leasehold management business of James Butcher Housing Association.

Additionally accounting policies have been introduced for work in progress and finance debtors which specifically relate to the ORHP and the treatment of the refurbishment and construction costs.

Save for that there are no changes to accounting policies in the year, and no prior year adjustments.

Housing 21 will be adopting the revised SORP "Accounting by registered social landlords 2008" in its accounts for the year ended 31 March 2009.

Statement of compliance

Housing 21 has adopted ASB Reporting Standard 1: Operating and Financial Review and has fully complied with requirements of that standard.

Report of the independent auditors to the members of Housing 21

We have audited the financial statements of Housing 21 for the year ended 31 March 2008 which comprise the Income and Expenditure Accounts and the Balance Sheets for the Group and Association, the Consolidated Cash Flow Statement, the Statement of Total Recognised Surpluses and Deficits, Note of Historical Cost Surpluses and Deficits and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of the Board and auditors

As described in the Statement of Board Responsibilities the Board is responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002, the Industrial & Provident Societies (Group Accounts) Regulations 1969, the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2006. We also report to you if, in our opinion, the Report of the Board is not consistent with the financial statements, a satisfactory system of control over transactions has not been maintained, if the Group has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read other information contained in the Report of the Board and consider whether it is consistent with the audited financial statements. This other information comprises of only the Operating and Financial Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of Schedule 1 paragraph 16 to the Housing Act 1996 and Section 9 of the Friendly and Industrial and Provident Societies Act 1968 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the above statutes or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group and Association's affairs as at 31 March 2008 and of the results for the year then ended; and
- the financial statements have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002, the Industrial & Provident Societies (Group Accounts) Regulations 1969, the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2006.

BDO Stoy Hayward LLP
Chartered Accountants and Registered Auditors
Epsom, Surrey
30th June 2008

Income and expenditure account for the year ended 31 March 2008

	Notes	Group		Association	
		2008	2007	**2008**	2007
		£000	£000	**£000**	£000
Turnover	2	**92,513**	82,454	**90,936**	83,129
Operating costs	2	**(84,627)**	(75,174)	**(82,704)**	(74,648)
Operating surplus	2	**7,886**	7,280	**8,232**	8,481
Surplus on sale of housing properties	4	**4,730**	513	**4,730**	513
Surplus on disposal of other assets	5	**–**	–	**–**	–
Interest receivable and similar income		**852**	218	**147**	191
Interest payable and similar charges	8	**(8,336)**	(6,523)	**(7,448)**	(6,523)
Other finance income/(costs)	9	**77**	57	**77**	57
Surplus on ordinary activities before tax	10	**5,209**	**1,545**	**5,738**	**2,719**
Taxation on surplus on ordinary activities	11	(27)	–	–	–
Surplus on ordinary activities after tax	19	**5,182**	1,545	**5,738**	2,719

All amounts relate to continuing activities.

The notes of pages 15 to 42 form part of the financial statements

Statement of total recognised surpluses and deficits for the year ended 31 March 2008

	Group		Association	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Reported surplus for the year	**5,182**	1,545	**5,738**	2,719
Actuarial gain on pension scheme	**572**	394	**572**	394
Unrealised surplus on revaluation of housing properties	**29,171**	29,695	**28,866**	26,431
Total surpluses and deficits recognised since the last annual report	**34,925**	31,634	**35,176**	29,544

Note of historical cost surpluses and deficits for the year ended 31 March 2008

	Group		Association	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Reported surplus on ordinary activities before tax	**5,209**	1,545	**5,738**	2,719
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	**2,007**	1,445	**1,972**	1,411
Historical cost surplus for the year on ordinary activities	**7,216**	2,990	**7,710**	4,130

Reconciliation of movement in capital and reserves

	Group		Association	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Reported surplus for the year	**5,182**	1,545	**5,738**	2,719
Actuarial gain recognised in statement of realised surpluses and deficits	**572**	394	**572**	394
Other recognised surpluses and deficits relating to the year (net)	**29,171**	29,695	**28,866**	26,431
Net addition to reserves	**34,925**	31,634	**35,176**	29,544
Opening capital and reserves	**343,205**	311,571	**339,572**	310,028
Closing capital and reserves	**378,130**	343,205	**374,748**	339,572

The notes of pages 15 to 42 form part of the financial statements

Balance sheets at 31 March 2008

	Notes	Group		Association	
		2008	2007	**2008**	2007
		£000	£000	**£000**	£000
Intangible assets					
Goodwill	31	**3,092**	2,761	**3,092**	2,761
Tangible fixed assets					
Housing properties at valuation	12	**505,106**	447,309	**488,444**	442,848
Other fixed assets	13	**5,517**	5,489	**5,510**	5,481
		513,715	455,559	**497,046**	451,090
Current assets					
Debtors: amounts falling due after one year	14	**38,506**	12,009	**–**	–
Debtors: amounts falling due within one year	15	**10,929**	6,606	**8,203**	5,777
Cash on short-term deposit		**3,986**	2,763	**3,986**	2,464
Cash at bank and in hand		**2,032**	509	**7**	52
		55,453	21,887	**12,196**	8,293
Creditors: amounts falling due within one year	16	**(45,042)**	(30,243)	**(35,465)**	(27,195)
Net current assets/(liabilities)		**10,411**	(8,356)	**(23,269)**	(18,902)
Pension asset	27	**170**	–	**170**	–
Total assets less current liabilities		**524,296**	447,203	**473,947**	432,188
Financed by:					
Creditors: amounts falling due after more than one year	17	**146,087**	103,494	**99,120**	92,112
Pension liability	27	**79**	504	**79**	504
Capital and reserves					
Called up share capital	18	**–**	–	**–**	–
Revaluation reserve	19	**265,217**	238,053	**261,576**	234,682
Revenue reserve	19	**112,913**	105,152	**113,172**	104,890
		378,130	343,205	**374,748**	339,572
		524,296	447,203	**473,947**	432,188

In accordance with the rules of the Association, all shareholdings relate to non-equity interest as referred to in Note 18.

These financial statements were approved for issue by the Board on 27 June 2008 and are signed on behalf of the Board by:

David R. Grayson

David Grayson, CBE
Chairman of the Board

James Robinson
Board member

J. Farmer.

Jim Farmer
Secretary

The notes of pages 15 to 42 form part of the financial statements

Consolidated cash flow statement for the year 31 March 2007

	Notes	Group		Association	
		2008		2007	
		£000	£000	£000	£000
Net cash (outflow)/inflow from operating activities	20		**(2,694)**		2,067
Return on investments and servicing of finance					
Interest received		**852**		217	
Interest paid		**(9,449)**		(5,993)	
Interest element of finance lease payments		**(89)**		(89)	
Tax		**(27)**		–	
Net cash outflow for return on investments and servicing of finance			**(8,713)**		(5,865)
Capital expenditure and financial investment					
Housing properties under construction (including improvement to completed properties and property acquisitions)	12	**(54,428)**		(39,969)	
Social Housing Grants received		**20,943**		21,914	
Purchase of other fixed assets	13	**(1,357)**		(968)	
Acquisitions		**(592)**		(3,000)	
Sale of housing properties		**5,329**		1,082	
Net cash outflow for capital expenditure			**(30,105)**		(20,941)
Cash (outflow)/inflow before use of liquid resources and financing			**(41,512)**		(24,739)
Management of liquid resources	21		**(1,223)**		(1,692)
Financing					
Loans received		**52,626**		33,383	
Loans repaid		**(9,500)**		(6,287)	
Capital element of finance lease repaid		**(18)**		(14)	
Net cash inflow from financing			**43,108**		27,082
Increase in cash	22		**373**		651

The notes of pages 15 to 42 form part of 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 by Registered Social Landlords Update 2005 issued by the National Housing Federation, the Industrial and Provident Societies Acts 1965 to 2002, the Industrial and Provident Societies (Group Accounts) Regulations 1969, Schedule 1 to the Housing Act 1996 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 29, from the date of their acquisition. Intra-group transactions are eliminated on consolidation.

Turnover

Turnover represents rental and service charge income, management fees, income from provision of care services, revenue based grants received from local authorities and the Housing Corporation and other income.

Housing properties

Housing properties have been revalued as at the balance sheet date.

At the point of revaluation, the aggregate surplus or deficit arising, calculated as the difference between the cost of properties less Social Housing Grant and the revalued amount, is transferred to a revaluation reserve. The basis of the valuation is explained in note 12.

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

Capitalisation of interest

Interest on an appropriate proportion of total borrowings is capitalised during the period of development.

Capitalisation of development costs

Development 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.

Goodwill

Goodwill arising on the purchase 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 released to the income and expenditure account on a straight line basis over 20 years.

Goodwill arising on the purchase of JBK 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 released to the income and expenditure account on a straight line basis over five years.

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; and
- 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.

Sale of housing properties
The gain or loss arising on the disposal of housing properties held as fixed assets is accounted for on the face of the income and expenditure account.

Properties developed for sale
Completed properties for 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.

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.

Grants may be repayable in certain circumstances, even where it has been treated as a revenue grant for accounting purposes.

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.

Housing 21 is undertaking a major stock improvement programme to bring stock to decent home standard. Where the works result in an increase in the net rental income from the property and enhance the performance beyond the previously assessed level, these amounts are capitalised.

Work in progress
Costs incurred in the construction and refurbishment of the sheltered housing properties in respect of the PFI contract have been accounted for under Financial Reporting Standard 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 Oldham Metropolitan Borough Council. 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 Financial Reporting Standard 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. Therefore the finance debtor is 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 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 five 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.

Pensions
The Group has fully adopted the accounting standard FRS17 'Retirement Benefits' during the year. The impact of this standard has been reflected throughout the financial statements. Prior year comparisons have been restated where appropriate.

The difference between the fair value of the assets held in the defined benefit pension schemes and the schemes' liabilities 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 accrual basis.

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 as part of note 16 amounts falling due within one year.

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.

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 by H.M Customs & Excise.

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. The new business activity related to developing properties for outright sale will be subject to corporation tax. The tax charge in the year relates to Housing 21 Guernsey which is subject to UK corporation tax.

2. Turnover, operating costs and operating surplus

Group	2008			2007		
	Turnover	**Operating costs**	**Operating surplus**	Turnover	Operating costs	Operating surplus
	£000	**£000**	**£000**	£000	£000	£000
Social housing lettings (note 3)	**60,358**	**(52,758)**	**7,600**	55,938	(48,272)	7,666
Other social housing activities						
Supporting people	**2,374**	**(2,442)**	**(68)**	2,380	(2,798)	(418)
Non-social housing activities						
Management services	**3,968**	**(4,048)**	**(80)**	1,504	(1,520)	(16)
Care services	**25,146**	**(24,509)**	**637**	22,131	(21,836)	295
Business development	**–**	**(661)**	**(661)**	–	(415)	(415)
Other	**667**	**(209)**	**458**	501	(333)	168
Total	**92,513**	**(84,627)**	**7,886**	82,454	(75,174)	7,280

Association	2008			2007		
	Turnover	**Operating costs**	**Operating surplus**	Turnover	Operating costs	Operating surplus
	£000	**£000**	**£000**	£000	£000	£000
Social housing lettings (note 3)	**59,906**	**(52,406)**	**7,500**	55,804	(48,118)	7,686
Other social housing activities						
Supporting people	**2,374**	**(2,442)**	**(68)**	2,380	(2,798)	(418)
Non-social housing activities						
Management services	**3,466**	**(3,341)**	**125**	1,817	(1,544)	273
Care services	**24,484**	**(24,102)**	**382**	22,093	(21,773)	320
Business development	**–**	**(204)**	**(204)**	–	(415)	(415)
Other	**706**	**(209)**	**497**	1,035	–	1,035
Total	**90,936**	**(82,704)**	**8,232**	83,129	(74,648)	8,481

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

Group

	Housing for older people £000	General needs £000	Total 2008 £000	Total 2007 £000
Rent receivable net of identifiable service charges	40,766	2,972	43,738	40,374
Service charges receivable	16,594	26	16,620	15,564
Net rental income and turnover from social housing lettings	57,360	2,998	60,358	55,938
Services	17,602	75	17,677	17,092
Management	10,823	834	11,657	10,509
Routine maintenance	3,904	276	4,180	4,123
Planned maintenance	1,942	75	2,017	1,794
Major repairs expenditure	12,597	94	12,691	10,756
Bad debts	243	19	262	135
Depreciation on housing properties	3,832	442	4,274	3,866
Operating costs on social housing lettings	50,943	1,815	52,758	48,272
Operating surplus on social housing lettings	6,417	1,183	7,600	7,666
Less: rent losses from voids	(1,894)	(67)	(1,961)	(2,488)

Association

	Housing for older people £000	General needs £000	Total 2008 £000	Total 2007 £000
Rent receivable net of identifiable service charges	40,567	2,838	43,405	40,250
Service charges receivable	16,475	26	16,501	15,554
Net rental income and turnover from social housing lettings	57,042	2,864	59,906	55,804
Services	17,454	75	17,529	17,080
Management	10,752	800	11,552	10,472
Routine maintenance	3,902	276	4,178	4,065
Planned maintenance	1,931	86	2,017	1,794
Major repairs expenditure	12,558	94	12,652	10,756
Bad debts	241	19	260	135
Depreciation on housing properties	3,796	422	4,218	3,816
Operating costs on social housing lettings	50,634	1,772	52,406	48,118
Operating surplus on social housing lettings	6,408	1,092	7,500	7,686
Less: rent losses from voids	(1,826)	(67)	(1,893)	(2,399)

4. Surplus on sale of existing rental housing properties and undeveloped land

	Group and Association	
	2008	2007
	£000	£000
Proceeds of sale	**5,329**	1,082
Less costs of sale at carrying value	**(599)**	(569)
Gain on disposal	**4,730**	513

5. Disposal of other assets

	Group and Association	
	2008	2007
	£000	–
Proceeds of sale	**–**	–
Less cost	**(10)**	–
Add accumulated depreciation	**10**	–
Loss on disposal	**–**	–

6. Directors' emoluments

The directors of Housing 21 are defined as the Board and the management team. There were 22 directors during the year. Both the Board and management team received emoluments during the year.

	2008	2007
	£	£
Non-executive directors emoluments	**82,166**	81,719
Expenses reimbursed to non-executive directors not chargeable to United Kingdom taxation.	**8,264**	13,235

The aggregate amount payable to directors (including pension contribution and benefit in kind) was £764k (2007: £721k). Emoluments payable to the highest paid director excluding pension costs were £163k (2007: £157k).

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

7. Employee information

The average number of people employed (including management team) (full time equivalent) was:

	Group		Association	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Management and administration	**358**	353	**358**	347
Court managers	**446**	353	**444**	352
Care and ancillary	**1,263**	1,084	**1,241**	1,079
	2,067	1,790	**2,043**	1,778

Staff costs (for the above persons)

	Group		Association	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Wages and salaries	**34,461**	30,476	**34,168**	30,278
Social security costs	**2,762**	2,223	**2,744**	2,202
Pension costs (see note 28)	**1,639**	1,512	**1,639**	1,506
	38,862	34,211	**38,551**	33,986

8. Interest payable and similar charges

	Group		Association	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
On loans from local authorities:				
Repayable wholly or partly in more than five years	**29**	29	**29**	29
On loans from other lenders:				
Interest payable on loans	**8,991**	6,625	**7,539**	6,493
Less capitalised interest	**(1,046)**	(377)	**(483)**	(245)
Interest payable on finance leases	**88**	92	**88**	92
Other interest payable	**274**	154	**275**	154
	8,336	6,523	**7,448**	6,523

9. Other finance income

	Group		Association	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
On pension liability, income/(costs)	**77**	57	**77**	57

10. Surplus on ordinary activities before tax

	Group		Association	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Operating surplus is after charging:				
Depreciation	**5,604**	5,193	**5,545**	5,127
Amortisation of goodwill	**260**	145	**260**	145
Auditors' remuneration (including VAT and expenses):				
• In their capacity as auditors	**96**	72	**84**	57
• In respect of other services	**–**	–	**–**	–

11. Taxation

War Memorial Village Derby (see note 29) is a registered charity and is therefore exempt from Corporation Tax on their income and gains to the extent that these are applied to their charitable objectives.

The Association, Kent Community Partnership and Oldham Retirement Housing Partnership have charitable status, 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 – 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 Ltd, Housing 21 Group Ltd and Housing 21 Care Options Ltd are dormant and therefore have no taxable income or gains.

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

	2008	2007
Current Taxation	**£000**	**£000**
UK Corporation Tax	27	–
Adjustments in respect of prior years	–	–
Current taxation	27	–

Current tax reconciliation

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

	2008	2007
	£000	**£000**
Surplus on ordinary activities before taxation	**5,209**	**5,738**
Tax at the standard rate of tax of 30% (2007 – 30%)	**1,563**	**1,721**
Effects of:		
Depreciation on non-qualifying assets	7	–
Capital allowances in excess of depreciation	–	–
Decrease in tax losses	(15)	–
Exemption for charitable activities	(1,528)	(1,721)
Total current tax charge	27	–

12. Housing properties at valuation

Group	Freehold land and buildings £000 (Valuation)	Leasehold buildings £000 (Valuation)	Finance lease buildings £000 (Valuation)	Housing under construction £000 (Cost)	Total £000
Cost or Valuation					
At 1 April 2007	396,412	45,656	1,125	4,116	**447,309**
Disposals	(599)	–	–	–	**(599)**
Additions: works to existing properties	6,329	411	122	–	**6,862**
Proceeds from first tranche sales	(1,480)	–	–	–	**(1,480)**
Additions: new properties	–	–	–	50,093	**50,093**
Completed projects cost	41,200	–	–	(41,200)	**–**
Completed projects SHG etc	(28,740)	–	–	28,740	**–**
SHG etc received in the year	–	–	–	(21,977)	**(21,977)**
Surplus on revaluation	21,863	2,892	143	–	**24,898**
At 31 March 2008	**434,985**	**48,959**	**1,390**	**19,772**	**505,106**
Depreciation					
At 1 April 2007	–	–	–	–	**–**
Charge for the year on revalued amounts	3,846	392	37	–	**4,275**
Eliminated on revaluation	(3,846)	(392)	(37)	–	**(4,275)**
At 31 March 2008	–	–	–	–	**–**
Net book value at 31 March 2008	**434,958**	**48,958**	**1,390**	**19,772**	**505,106**
Net book value at 31 March 2007	396,412	45,656	1,125	4,116	**447,309**
Net book value at 31 March 2008 is represented by:					
Gross cost	464,973	67,190	4,213	38,253	**574,628**
Less SHG and other grants	(265,127)	(35,784)	(97)	(18,480)	**(319,488)**
Less accumulated depreciation	(13,455)	(1,549)	(249)	–	**(15,253)**
Add accumulated surplus/(deficit) on revaluation	248,594	19,102	(2,477)	–	**265,219**
	434,985	**48,959**	**1,390**	**19,772**	**505,106**

12. Housing properties at valuation continued

Association	Freehold land and buildings £000 (Valuation)	Leasehold buildings £000 (Valuation)	Finance lease buildings £000 (Valuation)	Housing under construction £000 (Cost)	Total £000
Cost or Valuation					
At 1 April 2007	391,951	45,656	1,125	4,116	**442,848**
Disposals	(599)	–	–	–	**(599)**
Additions: works to existing properties	6,165	411	122	–	**6,698**
Proceeds from first tranche sales	(1,480)	–	–	–	**(1,480)**
Additions: new properties	–	–	–	38,305	**38,305**
Completed projects cost	41,200	–	–	(41,200)	**–**
Completed projects SHG etc	(28,740)	–	–	28,740	**–**
SHG etc received in the year	–	–	–	(21,977)	**(21,977)**
Surplus on revaluation	21,614	2,892	143	–	**24,649**
At 31 March 2008	**430,112**	**48,959**	**1,390**	**7,984**	**488,444**
Depreciation					
At 1 April 2007	–	–	–	–	**–**
Charge for the year on revalued amounts	3,789	392	37	–	**4,217**
Eliminated on revaluation	(3,789)	(392)	(37)	–	**(4,217)**
At 31 March 2008	–	–	–	–	**–**
Net book value at 31 March 2008	**430,112**	**48,959**	**1,390**	**7,984**	**488,444**
Net book value at 31 March 2007	391,951	45,656	1,125	4,116	**442,848**
Net book value at 31 March 2008 is represented by:					
Gross cost	457,917	67,190	4,213	28,464	**557,784**
Less SHG and other grants	(259,460)	(35,784)	(97)	(18,480)	**(313,821)**
Less accumulated depreciation	(13,296)	(1,550)	(249)	–	**(15,095)**
Add accumulated surplus/(deficit) on revaluation	244,951	19,103	(2,477)	–	**261,576**
	430,112	**48,959**	**1,390**	**7,984**	**488,444**

Residential properties were valued by Drivers Jonas, Chartered Surveyors, on the basis of Existing Use Value for Social Housing (EUV-SH), as at 31 March 2008. The basis of valuation assumes that the properties will continue to be owned by a Registered Social Landlord, for letting at affordable rents, and will be managed in accordance with the Performance Standards published by the Housing Corporation.

The valuation was undertaken in accordance with UK Practice Statement 1.13 of the RICS Appraisal and Valuation Standards (fifth edition). 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 6.50% depending on the scheme's location.

The valuation provided by Drivers Jonas for the Group totalled £438,732,000 (2007: £485,333,000).

The values of completed developments moved into housing stock from housing under construction during the year included capitalised interest (rates applied during year: 6.0% on debit balances and 4.0% on credit balances) of £1,046,000 (2007: £377,000, 6.0% on debit balances and 4% on credit balances).

Analysis of completed housing properties at valuation

	Group		Association	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Freeholds	**434,985**	396,412	**430,112**	391,951
Long leaseholds	**48,959**	45,656	**48,958**	45,656
Short leaseholds	**1,390**	1,125	**1,390**	1,125
	485,334	443,193	**480,460**	438,732

Capital grants – Group

	Completed schemes	Schemes in the course of construction	Total
	£000	£000	£000
Social Housing Grant			
1 April 2007	243,781	6,845	250,626
Receivable in year	–	9,668	9,668
Completed projects	12,959	(12,959)	–
At 31 March 2008	**256,740**	**3,554**	**260,294**
Other Grants			
1 April 2007	27,932	18,953	46,885
Receivable in year	–	12,310	12,310
Completed projects	15,781	(15,781)	–
At 31 March 2008	**43,713**	**15,482**	**59,195**
Total			
1 April 2007	271,713	25,798	297,511
Receivable in year	–	21,978	21,978
Completed projects	28,740	(28,740)	–
At 31 March 2008	**300,453**	**20,516**	**319,489**

Within the figure for 'Other Grants, receivable in year' is a total of £6,734k relating to land donated by local authorities. The valuation of this land, covering a number of schemes, has been accounted as a cost of development and also treated as a grant.

Capital grants – Association

	Completed schemes £000	Schemes in the course of construction £000	Total £000
Social Housing Grant			
1 April 2007	243,776	6,845	250,621
Receivable in year	–	9,668	9,668
Completed projects	12,959	(12,959)	–
At 31 March 2008	**256,735**	3,554	260,289
Other Grants			
1 April 2007	22,270	18,953	41,223
Receivable in year	–	12,310	12,310
Completed projects	15,781	(15,781)	–
At 31 March 2008	**38,051**	15,482	53,533
Total			
1 April 2007	266,046	25,798	291,844
Receivable in year	–	21,978	21,978
Completed projects	28,740	(28,740)	–
At 31 March 2008	**294,786**	**19,036**	**313,822**

Within the figure for 'Other Grants, receivable in year' is a total of £6,734k relating to land donated by local authorities. The valuation of this land, covering a number of schemes, has been accounted as a cost of development and also treated as a grant.

Social Housing Grant

	Group		Association	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Capital grants deducted from housing properties – cost	**319,489**	250,626	**313,822**	250,621
Add: cumulative amount credited to income and expenditure account	**72**	72	**72**	72
Total Social Housing Grant receivable to date	**319,561**	250,698	**313,894**	250,693

In prior years the Association has also received £177,000 (2006: £177,000) from the National Lottery, which was attributed to capital projects.

13. Other fixed assets

Group	Leasehold office improvements £000	Freehold offices £000	Office equipment £000	Motor vehicles £000	Computer equipment £000	Total £000
Cost						
At 1 April 2007	254	3,312	734	25	7,722	**12,047**
Additions	–	–	10	–	1,347	**1,357**
Disposals	–	–	–	–	(10)	**(10)**
At 31 March 2008	254	3,312	744	25	9,059	**13,394**
Depreciation						
At 1 April 2007	199	290	574	23	5,472	**6,558**
Charge for the year	17	66	45	2	1,199	**1,329**
Disposals	–	–	–	–	(10)	**(10)**
At 31 March 2008	216	356	619	25	6,661	**7,877**
Net book value at 31 March 2008	**38**	**2,956**	**125**	**–**	**2,398**	**5,517**
Net book value at 31 March 2007	55	3,022	160	2	2,250	5,489

Association	Leasehold office improvements £000	Freehold offices £000	Office equipment £000	Motor vehicles £000	Computer equipment £000	Total £000
Cost						
At 1 April 2007	215	3,312	717	21	7,681	**11,946**
Additions	–	–	10	–	1,347	**1,357**
Disposals	–	–	–	–	(10)	**(10)**
At 31 March 2008	215	3,312	727	21	9,018	**13,293**
Depreciation						
At 1 April 2007	160	290	565	19	5,431	**6,465**
Charge for the year	17	66	44	2	1,199	**1,328**
Disposals	–	–	–	–	(10)	**(10)**
At 31 March 2008	177	356	609	21	6,620	**7,783**
Net book value at 31 March 2008	**38**	**2,956**	**118**	**–**	**2,398**	**5,510**
Net book value at 31 March 2007	55	3,022	152	2	2,250	5,481

14. Debtors: amounts falling due after one year

	Group		Association	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Work in progress recoverable	**19,015**	11,414	**–**	–
Finance debtor	**19,491**	595	**–**	–
	38,506	12,009	**–**	–

15. Debtors: amounts falling due within one year

	Group		Association	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Rental debtors	**2,842**	1,453	**2,781**	1,422
Less provision for bad debts	**(528)**	(328)	**(528)**	(328)
	2,314	1,125	**2,253**	1,094
Trade debtors	**2,737**	1,475	**1,779**	791
Loan advances	**–**	1	**–**	–
Other debtors	**5,878**	4,005	**3,744**	2,508
Amount owing from subsidiaries	**–**	–	**427**	1,384
	10,929	6,606	**8,203**	5,777

16. Creditors: amounts falling due within one year

	Group		Association	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Bank overdraft	**1,941**	806	**600**	806
Housing loans	**1,548**	829	**1,548**	829
Obligations under finance leases	**22**	18	**22**	18
Amount owing to subsidiaries	**–**	–	**86**	99
Trade creditors	**6,176**	5,864	**3,908**	3,970
SHG and other grants received in advance	**2,791**	3,825	**2,791**	3,825
Other creditors including PAYE and social security	**6,300**	5,984	**6,176**	4,851
Accruals and deferred income	**24,771**	11,617	**18,841**	11,497
Provisions and liabilities	**1,493**	1,300	**1,493**	1,300
	45,042	30,243	**35,465**	27,195

17. Creditors: amounts falling due after more than one year

	Group		Association	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Loans				
Local Authority residual loans	**173**	173	**173**	173
Orchard brook loans	**11,029**	11,040	**11,029**	11,040
HACO loans	**14,000**	14,000	**14,000**	14,000
Bank loans	**105,317**	68,350	**56,137**	56,968
Other secured loans	**16,500**	8,000	**16,500**	8,000
Sub total	**147,019**	101,563	**97,839**	90,181
HACO loans – premium on issue	**397**	438	**397**	438
	147,416	102,001	**98,236**	90,619
Less: funding costs to be amortised	**(2,338)**	(257)	**(125)**	(257)
	145,078	101,744	**98,111**	90,362
Less: amounts falling due within one year	**(1,548)**	(829)	**(1,548)**	(829)
Total loans	**143,530**	100,915	**96,563**	89,533
Finance leases	**2,579**	2,597	**2,579**	2,597
Less: amounts falling due within one year	**(22)**	(18)	**(22)**	(18)
Total finance leases	**2,557**	2,579	**2,557**	2,579
	146,087	103,494	**99,120**	92,112

Details of obligations under finance leases can be found in note 26.

Loans are secured by charges on the assets of the Association including specific charges on certain housing properties. The weighted average interest rate and period for which interest rates have been fixed is 7.18% for 20 years. The loans are due as follows:

	Group		Association	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Loan stocks and bank loans				
Repayable as follows:				
In one year or less	**1,548**	829	**1,548**	829
In more than one year and less than two years	**9,238**	1,211	**2,272**	1,211
In more than two years and less than five years	**20,405**	16,235	**7,375**	6,109
In five years or more	**115,828**	83,288	**86,644**	82,032
	147,019	101,563	**97,839**	90,181

18. Called up share capital

	2008	2007
	£	£
Allotted, issued and fully paid at 1 April	**33**	34
Issued during the year	**–**	4
Surrendered during the year	**(4)**	(5)
At 31 March	**29**	33

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.

19. Reserves

	Group		Association	
	Revenue Reserve	Revaluation Reserve	Revenue Reserve	Revaluation Reserve
	£000	£000	£000	£000
At 1 April 2007	105,152	238,053	104,890	234,682
Surplus for the year	5,182	–	5,738	–
Revaluation of properties	–	29,171	–	28,866
Actuarial gain/(loss) on pension scheme liability	572	–	572	–
Transfer (depreciation adjustment)	2,007	(2,007)	1,972	(1,972)
At 31 March 2008	**112,913**	**265,217**	**113,172**	**261,576**

Revenue reserve

	Group		Association	
	2008	2007	2008	2007
	£000	£000	£000	£000
Revenue reserve excluding pension liability	112,913	105,152	113,172	104,890
Pension asset/(liability)	91	(504)	91	(504)
Revenue reserve including pension liability	**113,004**	104,646	**113,263**	104,386

20. Reconciliation of operating surplus to net cash inflow from operating activities

	2008	2007
	£000	£000
Operating surplus	**7,886**	7,280
Depreciation	**5,603**	5,193
Amortisation of goodwill	**260**	145
Amortisation of loan costs	**210**	–
Pension schemes subject to FRS 17, current service cost	**311**	328
Pension schemes subject to FRS 17, contributions paid	**(257)**	(302)
(Increase)/decrease in debtors	**(30,760)**	(13,186)
Increase /(decrease) in creditors	**14,053**	2,609
Net cash (outflow)/inflow from operating activities	**(2,694)**	2,067

21. Analysis of the management of liquid resources

	2008	2007
	£000	£000
(Increase)/decrease in short term deposits	**(1,223)**	(1,692)

22. Analysis of the changes in net debt

	At 1 April 2007 £000	Cash Flows £000	Non-Cash Items £000	At 31 March 2008 £000
Cash	509	1,508	15	**2,032**
Bank overdraft	(806)	(1,135)	–	**(1,941)**
	(297)	373	15	**91**
Bank loans due within one year	(829)	829	(1,548)	**(1,548)**
Bank loans due after one year	(100,915)	(44,163)	1,548	**(143,530)**
Finance leases due within one year	(18)	18	(22)	**(22)**
Finance leases due after one year	(2,579)	–	22	**(2,557)**
	(104,341)	(43,316)	–	**(147,657)**
Cash on short term deposit	2,763	1,223	–	**3,986**
Total	(101,875)	(41,720)	15	**(143,580)**

23. Reconciliation of the movement in net debt

	2008	2007
	£000	£000
Decrease in cash in the period	**373**	651
Cash inflow from (increase) in debt	**(43,316)**	(23,712)
Change in debt from movement in finance lease obligations	**(7)**	–
Movement in short term deposits	**1,223**	(1,692)
Changes in net debt resulting from cash flows	**(41,727)**	(24,753)
Finance leases	**22**	14
Movement in net debt in the year	**(41,705)**	(24,739)
Net debt at 1 April	(101,875)	(77,137)
Net debt at 31 March	**(143,580)**	(101,876)

24. Housing accommodation

The number of units of accommodation at 31 March 2008 was:	Group		Association	
	2008	2007	**2008**	2007
Owned and managed				
Housing for older people	**12,885**	12,642	**12,885**	12,642
General needs	**633**	637	**587**	591
Leased	**971**	921	**971**	921
Staff accommodation	**315**	316	**315**	316
Owned but managed by others				
General needs	**48**	48	**48**	48
Hostels	**6**	6	**6**	6
Managed for others				
Housing for older people	**1,658**	1,658	**16**	16
General needs	**4**	4	**50**	50
Staff accommodation	**1**	1	**1**	1
Total	**16,521**	16,233	**14,879**	14,591
Units in development				
For rent	281	540	281	540
For shared ownership	108	99	108	99
For sale	34	28	34	28
Total	**423**	667	**423**	667

25. Capital commitments

	Group		Association	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Capital expenditure contracted but not provided for	**213,590**	45,438	**85,539**	45,438
Capital expenditure approved but not contracted for	**77,948**	22,672	**77,948**	22,672

The amount contracted for at 31 March 2008 will be funded from loans or grants approved by local authorities, the Housing Corporation, and the Department of Health; or will be financed from private finance loans or the Group's own resources.

26. 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):

	2008	2007
	£000	£000
In one year or less	**22**	18
Between one and two years	**27**	22
Between two and five years	**111**	96
In five years or more	**2,418**	2,461
	2,578	2,597

27. Pension asset/(liability)

	Group and Association	
	2008	2007
	£000	£000
London Borough of Redbridge	**(23)**	(26)
London Borough of Lewisham	**(56)**	(49)
London Borough of Barnet	**170**	(429)
	91	(504)

The movement on the pension scheme liabilities is scheduled below:

Year ended 31 March 2008	**Total**	London Borough of Redbridge	London Borough of Lewisham	London Borough of Barnet
	£000	£000	£000	£000
Deficit at the beginning of the year	**504**	26	49	429
Current service cost, charged to operating surplus	**311**	–	10	301
Other finance (income)/costs, charged to surplus (note 9)	**(77)**	(4)	(2)	(71)
Actuarial (gains)/losses, charged to the statement of recognised surpluses and deficits	**(572)**	1	7	(580)
Contribution paid	**(257)**	–	(8)	(249)
(Surplus)/deficit at the end of the year	**(91)**	23	56	(170)

Year ended 31 March 2007	**Total**	London Borough of Redbridge	London Borough of Lewisham	London Borough of Barnet
	£000	£000	£000	£000
Deficit at the beginning of the year	**930**	94	66	770
Current service cost, charged to operating surplus	**327**	–	10	317
Other finance (income)/costs, charged to surplus (note 9)	**(57)**	(4)	(1)	(52)
Actuarial (gains)/losses, charged to the statement of recognised surpluses and deficits	**(394)**	(7)	(19)	(368)
Contribution paid	**(302)**	(57)	(7)	(238)
Deficit at the end of the year	**504**	26	49	429

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

Year ended 31 March 2008	**Total**	London Borough of Redbridge	London Borough of Lewisham	London Borough of Barnet
	£000	£000	£000	£000
Actual return less expected return on pension scheme assets	**(505)**	(44)	(43)	(418)
Experience gains and losses on the scheme liabilities	**64**	16	(14)	62
Changes in assumptions underlying the present value of the scheme liabilities	**1,013**	27	50	936
Charged to the statement of recognised surpluses and deficits	**572**	(1)	(7)	580

Year ended 31 March 2007	Total	London Borough of Redbridge	London Borough of Lewisham	London Borough of Barnet
	£000	£000	£000	£000
Actual return less expected return on pension scheme assets	**30**	(4)	3	31
Experience gains on the scheme liabilities	**(3)**	–	1	(4)
Changes in assumptions underlying the present value of the scheme liabilities	**367**	11	15	341
Charged to the statement of recognised surpluses and deficits	**394**	7	19	368

The history of the actuarial gains and losses is set out below.

London Borough of Redbridge	**2008**	**2007**	**2006**	**2005**	**2004**
Actual return less expected return on pension scheme assets (£000)	(44)	(4)	50	9	39
Percentage of scheme assets (%)	(12.2%)	(0.9%)	12.1%	3.0%	15.1%
Experience gains on the scheme liabilities (£000)	16	–	(1)	42	–
Percentage of scheme liabilities (%)	4.2%	–	(0.1%)	9.2%	–
Actuarial gains and (losses) recognised in the statement of recognised surpluses and deficits (£000)	(1)	7	12	4	23
Percentage of scheme liabilities (%)	(0.35%)	1.4%	24%	9.4%	5.0%

London Borough of Lewisham	**2008**	**2007**	**2006**	**2005**	**2004**
Actual return less expected return on pension scheme assets (£000)	43	3	35	6	38
Percentage of scheme assets (%)	(14.6%)	1.2%	13.6%	3.0%	12.5%
Experience (losses)/gains on the scheme liabilities (£000)	(14)	1	–	77	0
Percentage of scheme liabilities (%)	(4.0%)	0.3%	–	27.7%	-%
Actuarial gains and (losses) recognised in the statement of recognised surpluses and deficits (£000)	(7)	19	7	79	18
Percentage of scheme liabilities (%)	(2.0%)	5.9%	2.2%	28.4%	4.0%

London Borough of Barnet	**2008**	**2007**	**2006**	**2005**	**2004**
Participation commenced 1 September 2002					
Actual return less expected return on pension scheme assets (£000)	(418)	31	660	70	361
Percentage of scheme assets (%)	(7.4%)	0.6%	13.3%	1.9%	12.1%
Experience gains and (losses) on the scheme liabilities (£000)	62	(4)	10	597	(19)
Percentage of scheme liabilities (%)	1.1%	(0.1%)	0.2%	13.4%	(0.4%)
Actuarial gains and (losses) recognised in the statement of recognised surpluses and deficits (£000)	580	368	(10)	677	108
Percentage of scheme liabilities (%)	10.6%	6.2%	(0.2%)	15.1%	(2.5%)

28. 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.

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.

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

The actuarial valuation assesses whether the Scheme's assets at the valuation date are likely to be sufficient to pay the pension benefits accrued by members as at the valuation date. Asset values are calculated by reference to market levels. Accrued pension benefits are valued by discounting expected future 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%. Member contributions varied between 6.4% and 8.4% depending on their age.

As at the balance sheet date there were 165 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 the share of underlying assets and liabilities belonging to individual participating employers. Accordingly, due to the nature of the Plan, the accounting charge for the period under FRS17 represents the employer contribution payable.

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

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

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

The financial assumptions underlying the valuation as at 30 September 2005 were as follows:	% pa
Investment return pre retirement	7.2
Investment return post retirement	4.8
Rate of salary increases to 30 September 2010	5.0
Rate of salary increases from 1 October 2010	4.0
Rate of pension increases	2.5
Rate of price inflation	2.5

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

	Male	**Female**
	Assumed life expectancy in years at age 65	Assumned life expectancy in years at 65
Non-pensioners	20.4	23.3
Pensioners	19.4	22.4

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

	Long-term joint contribution rate
Benefit structure	(% of pensionable salaries)
Final salary with a 1/60th accrual rate	17.6
Final salary with a 1/70th accrual rate	15.3
Career average revalued earnings with 1/60th accrual rate	14.1

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

	Under 30	**30-40**	**Over 40**
	Long-term joint contribution rate		
Benefit structure	(% of pensionable salaries)		
Final salary with a 1/60th accrual rate	16.1	17.1	18.1
Final salary with a 1/70th accrual rate	13.8	14.8	15.8
Career average revalued earnings with 1/60th accrual rate	12.6	13.6	14.6

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

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

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.

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

A copy of the recovery plan, setting out the level of deficit contributions payable and the period for which they will be payable, must be sent to the Pensions Regulator. The Regulator has the power under Part 3 of the Pensions Act 2004 to issue scheme funding directions where it believes that the actuarial valuation assumptions and/or recovery 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 has reviewed the recovery plan for the SHPS Scheme and confirmed that, in respect of the September 2005 actuarial valuation, it does not propose to issue any scheme funding directions under Part 3 of the Pensions Act 2004.

The next full actuarial valuation will be carried out as at 30 September 2008.

Following a change in legislation in September 2005 there is a potential debt on the employer that could be levied by the Trustee of the Scheme. The debt is due in the event of the employer ceasing to participate in the Scheme or the Scheme winding up.

The debt for the Scheme as a whole is calculated by comparing the liabilities for the Scheme (calculated on a buyout basis 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.

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 this scheme for the Association in the year was £309k (2006: £216k). There were 237 employee members at the year end (2007: 193). The Association contributes at a rate of 5% (if the employee contributes 3%) or 9% (if the employee contributes at 5%).

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 £86k (2007: £94k) with 41 employee members at the year end (2007: 50).

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%. 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% totalling £247k (2007: £325k). There were 134 employee members at the year end (2007: 144 employees). Employee contributions were 5.5% or 7.5% (2007: 5% or 6%).

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 13.2% totalling £33k (2007:£5). There were 18 employee members at the year end (2007:20). Employee contributions were 5.5% or 7.5%.

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 latest formal valuation of the Fund was at 31 March 2007 with the next formal valuation due as at 31 March 2010. An actuarial valuation has been prepared as at 31 March 2008 on behalf of Housing 21 (the Employer). For this purpose the value of the Fund as at 31 March 2008 has been estimated based upon the latest split of investments by category which was at 31 March 2008. The value of the Fund's liabilities as at 31 March 2008 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 2008	%pa 2007	%pa 2006	%pa 2005	%pa 2004
Inflation rate	3.6	3.2	3.1	2.9	2.9
Discount rate	6.9	5.4	4.9	5.4	5.5
Expected rate of salary increases	5.1	4.7	4.6	4.4	3.9
Rate of pension increases	3.6	3.2	3.1	2.9	2.9

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 2008	%pa 2007	%pa 2006	%pa 2005	%pa 2004
Equities	7.7	7.8	7.4	7.7	7.7
Bonds	5.7	4.9	4.6	4.8	5.1
Property	5.7	5.8	5.5	5.7	6.5
Cash	4.8	4.9	4.6	4.8	4.0

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

	2008 £000	2007 £000	2006 £000	2005 £000	2004 £000
Equities	205	278	294	203	193
Bonds	110	144	68	64	44
Property	18	26	21	15	12
Cash	29	43	37	10	8
	362	491	420	292	257

	31 March 2008 £000	31 March 2007 £000	31 March 2006 £000	31 March 2005 £000	31 March 2004 £000
Estimated employer assets	362	491	420	292	257
The present value of scheme liabilities	(385)	(516)	(513)	(454)	(455)
Deficit related to Housing 21	(23)	(25)	(93)	(162)	(198)

The pension cost of this scheme to the Association for the year was £0 (2007: £57k). There were no employee members during the year.

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 2007 with the next formal valuation due as at 31 March 2010. An actuarial valuation has been prepared as at 31 March 2008 on behalf of Housing 21 (the Employer). For this purpose the value of the Fund as at 31 March 2008 has been estimated based upon the latest split of investments by category which was at 28 February 2007. The value of the Fund's liabilities as at 31 March 2008 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 2008	%pa 2007	%pa 2006	%pa 2005	%pa 2004
Inflation rate	3.6	3.2	3.1	2.9	2.9
Discount rate	6.9	5.4	4.9	5.4	5.5
Expected rate of salary increases	5.1	4.7	4.6	4.4	4.4
Rate of pension increases	3.6	3.2	3.1	2.9	2.9

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 2008	%pa 2007	%pa 2006	%pa 2005	%pa 2004
Equities	7.7	7.8	7.4	7.7	7.7
Bonds	5.7	4.9	4.6	4.8	5.1
Property	5.7	5.8	5.5	5.7	6.5
Cash	4.8	4.9	4.6	4.8	4.0

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

	2008 £000	2007 £000	2006 £000	2005 £000	2004 £000
Equities	208	198	186	151	219
Bonds	52	39	33	30	43
Property	31	26	24	19	29
Cash	4	8	12	6	13
Total	295	271	255	206	304

	31 March 2008 £000	31 March 2007 £000	31 March 2006 £000	31 March 2005 £000	31 March 2004 £000
Estimated employer assets	295	271	255	206	304
The present value of scheme liabilities	(351)	(321)	(320)	(278)	(450)
Deficit related to Housing 21	(56)	(50)	(65)	(72)	(146)

The pension cost of this scheme to the Association for the year was £7k (2006: £7k). There were four employee members at the end of the year (2006: 4). The contribution rate of the Association for the year ended 31 March 2008 was 17.75% (2006: 17.75%) and for employees 5% or 6%.

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 2004 with the next formal valuation due as at 31 March 2007. An actuarial valuation has been prepared as at 31 March 2007 on behalf of Housing 21 (the Employer). For this purpose the value of the Fund as at 31 March 2007 has been estimated based upon the latest split of investments by category which was at 31 March 2007. The value of the Fund's liabilities as at 31 March 2007 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
	2008	**2007**	**2006**	**2005**	**2004**
Inflation rate	3.6	3.2	3.1	2.9	2.9
Discount rate	6.9	5.4	4.9	5.4	5.5
Expected rate of salary increases	5.1	4.7	4.6	4.4	4.65
Rate of pension increases	3.6	3.2	3.1	2.9	2.9

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	%pa	%pa	%pa	%pa
	2008	**2007**	**2006**	**2005**	**2004**
Equities	7.8	7.8	7.4	7.7	7.7
Bonds	5.7	4.9	4.6	4.8	5.1
Property	5.7	5.8	5.5	5.7	6.5
Cash	4.8	4.9	4.6	4.8	4.0

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

	2008	2007	2006	2005	2004
	£000	**£000**	**£000**	**£000**	**£000**
Equities	3,811	3,959	3,600	2,529	2,057
Bonds	941	713	590	640	442
Property	354	550	460	373	295
Cash	534	331	290	207	194
	5,640	5,553	4,940	3,749	2,988

	31 March	31 March	31 March	31 March	31 March
	2008	**2007**	**2006**	**2005**	**2004**
	£000	**£000**	**£000**	**£000**	**£000**
Estimated employer assets	5,640	5,553	4,940	3,749	2,988
The present value of scheme liabilities	(5,470)	(5,982)	(5,710)	(4,470)	(4,284)
Deficit related to Housing 21	170	(429)	(770)	(721)	(1,296)

The pension cost of this scheme to the Association for the year was £231k (2006: £231k). At the end of the year there were 97 employee members (2006: 99).

The contribution rate of the Association for the year ended 31 March 2007 was 15.1% (2006: 15.1%) and for employees 5% or 6%.

29. Subsidiary undertakings

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 (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 (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
JBK Social Care Ltd (Dormant in the year)	England and Wales	Private limited company	Ownership of 1,000 £1 shares being 100% of the issued share capital
Housing 21 Property Services Ltd (Dormant)	England and Wales	Private limited company	Ownership of two £1 shares being 100% of the issued share capital
Housing 21 Group Ltd (Dormant)	England and Wales	Private limited company	Ownership of two £1 shares being 100% of the issued share capital
Housing 21 Care Options Ltd (Dormant)	England and Wales	Private limited company	Ownership of 1,000 £1 shares being 100% of the issued share capital

The above companies operate principally in their country of registration.

30. Contingent liabilities

In common with a number of Housing Associations, Housing 21 is seeking clarification from HM Revenue & Customs over the continuing validity of its PAYE/NI dispensation in respect of accommodation provided to residential Court Managers. Due to the degree of uncertainty over the outcome of this matter, the Association is unable to confirm the amount of liability to tax and Class 1A national insurance contributions that may arise.

31. Goodwill

On 28th 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 £176k (2007: £145k). On 18 July 2007 the Association purchased a specialist care company based in Westminster for £400k. The intangible asset, goodwill is being amortised over five years. The goodwill amortised in the year was £84k.

	Group and Association	
	2008	2007
	£000	£000
Opening balance	**2,761**	–
Goodwill purchased during the year	**591**	2,906
Amortised during the year	**(260)**	(145)
At 31 March	**3,092**	2,761

32. Legislative provisions

The Association is incorporated under the Industrial and Provident Societies Act 1965 (Registered number 16791R) and under the Housing Act 1996 (Number L0055). It is also affiliated to the National Housing Federation.

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