



South Warwickshire
HOUSING ASSOCIATION LTD



Report and
Financial Statements } 2005 - 2006

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Board Members and Executive Officers

Registered Name	South Warwickshire Housing Association Limited
Registered Office	10 Greenhill Street Stratford-upon-Avon Warwickshire CV37 6LG

Board of Management

The Members set out below have held office during the whole of the period from 1 April 2005 to the date of this report unless otherwise indicated:

Chair		Michael Culverwell
Vice Chair		Gurmeet Virdi
Other Members	(C)	Charles Bates (<i>from 21.7.05</i>) Fiona Billingham
	(T)	Graham Bradley (<i>to 31.3.06</i>)
	(C)	Tony Dixon (<i>to 21.7.05</i>) Bob Fisher Brian Fletcher
	(T)	Stuart MacAulay
	(T)	Joe Meredith Clive Parsons Sue Pearce (<i>from 30.8.05</i>) Chris Rinaldi
	(C)	Trevor Russel Doug Smith (<i>to 21.7.05</i>)
	(T)	Grace Thomas
	(T)	David Wilkinson
	(C)	Roger Wright

(T) = Tenant Board Member

(C) = Stratford-on-Avon D.C. Member

Group Executive Management Team

Group Chief Executive	Wendy Temple
Group Deputy Chief Executive	Denis Thompson
Executive Director – SWHA	Dawn Lang
Executive Director – HOE Care	Sharon Blackburn
Group Commercial Director	Jon Cross (<i>from 1.10.05</i>)

Management Team, Advisors, Bankers and Funders

Management Team	Executive Director Head of Housing Services Repairs Manager Resident Involvement Manager Customer Services Manager Policy Manager	Dawn Lang Carmel McCarthy Malkit Sagoo (<i>from 25.7.05</i>) Mark Cook Jeanette Matthews Amarjit Takhar (<i>from 1.8.05</i>)
External Auditors	PricewaterhouseCoopers LLP 31 Great George Street Bristol BS1 5QD	
Internal Auditors	KPMG LLP 2 Cornwall Street Birmingham B3 2DL	
Bankers	Barclays Bank Plc P.O. Box 34 15 Colmore Row Birmingham B3 2BY	
Funders	Bradford & Bingley P.O. Box 88 Crossflatts Bingley West Yorkshire BD16 2UA	
Solicitors	Needham & James 25 Meer Street Stratford-upon-Avon Warwickshire CV37 6QB	

Operating and Financial Review

Nature of the Business

The Association's principal activities are the management, maintenance and improvement of the housing stock purchased from Stratford-on-Avon District Council in October 1996 and the development of new homes to meet the needs of those persons and families seeking social housing.

The Association's Mission is "to meet the needs of our customers by providing good quality affordable homes with services managed to the highest standards."

Corporate objectives, policies and strategies are aimed at achieving this Mission in a manner that combines value, quality, sustainability, diversity, continuous improvement, viability and security.

The Association has the following mix of housing stock in management.

	2006	2005
General Needs	5,104	5,044
Supported housing	558	558
Shared ownership	29	21
Temporary accommodation	34	34
Lettings to external agencies	16	18
Market rent	10	10
Total	5,751	5,685

The majority of the stock is located in the Stratford-on-Avon District Council area in Warwickshire. 14 units are in Solihull and 117 units in Daventry, Northamptonshire.

Measured in terms of units in management South Warwickshire Housing Association is about the 90th largest in England.

The table above shows that the Association has a broad mix of stock but with most exposure to the general needs sector. The supported housing is sheltered accommodation for older persons.

The housing stock comprises 5,252 units acquired from Stratford-on-Avon District Council in 1996 with the balance built or acquired since then. The condition of the stock is good and compliant with the Decent Homes Standard. The Association operates major programmes of maintenance and refurbishment to keep the properties above minimum standards.

The Association is regulated by the Housing Corporation with whom it is registered. It has to comply with the Corporation's Regulatory Code. Performance is assessed by means of annual assessments against three main criteria i.e. governance, viability and management. The Corporation uses a "traffic light" system to measure compliance. The latest assessment awarded three green lights.

Since 2003 housing associations have been subject to a rolling programme of inspections by the Audit Commission who assess how good is the service to tenants and whether the Association is working towards continuous improvement. To date the Association has not been included in an inspection programme.

Operating and Financial Review

Nature of the Business (continued)

The Association is governed by a Board of Management composed of sixteen non-executive members. Executive management team members attend Board meetings. The Association is a subsidiary member of the Heart of England Housing Group and has representation on the Board of the Parent (Heart of England Housing Group Ltd).

The Association is managed by a senior management team headed by an Executive Director and supported by heads of services. Overall strategic direction and central support services are provided by the Parent.

Objectives and strategy

The objectives and strategy of the Association are set out in a business plan that is reviewed annually and approved by the Board. A summarised version of this document is available on the website (www.swha.co.uk).

The business planning process includes an assessment of strengths and weaknesses, opportunities and threats which are discussed annually between the senior management team and the Board.

The Association's main objectives and strategies for both the past year and the coming year are summarised in the next table.

	Objectives	Strategy
Development	To remain a member of the Orbit Development Consortium for access to Social Housing Grant from the Housing Corporation.	<ul style="list-style-type: none">■ meet Corporation delivery standards■ successful delivery of programme■ develop alliances with local partners
	To delivery an annual programme of at least 100 new homes into management each year.	<ul style="list-style-type: none">■ delivery of a mixed tenure programme including stock types currently in management plus properties for low cost home ownership
Asset management	To maintain full compliance with Decent Homes Standard.	<ul style="list-style-type: none">■ refurbishment programmes reviewed annually based on stock surveys
	To continue with the rolling 30 year major refurbishment programme.	<ul style="list-style-type: none">■ undertake full 5 year stock condition survey■ stock condition to exceed minimum standards

Operating and Financial Review

Nature of the Business (continued)

Objectives and strategy (continued)

	Objectives	Strategy
Corporate responsibility	To develop high quality affordable housing.	■ to examine innovative housebuilding techniques
	To support community regeneration.	■ work with local authorities and local partners
	To respond to the Government's 'Respect' agenda.	■ work with relevant agencies
Housing management and maintenance	To provide high quality services.	■ monitor performance against targets
	To seek continuous improvement.	■ use Best Value techniques to challenge and improve services to tenants
Finance	To meet targets sufficient to maintain adequate financial strength, support development programme and meet lenders covenants	■ continuous update of 30 year financial plan ■ detailed financial appraisals of all new schemes prior to approval to proceed ■ assessment of impact of new schemes on financial plan
	To have funding in place to finance development programme over next 5 years	■ facilities already in place
	To implement rent restructuring by 2012	■ target rents set for all properties to update ■ to update business plan projections with rents from rent model

Operating and Financial Review

Nature of the Business (continued)

Measures

The next table lists some of the key indicators used by senior management and the Board to monitor achievement of these objectives.

Objectives	Indicators
Development	<ul style="list-style-type: none">■ new units into management by stock type■ cost per unit■ affordability for tenants/leaseholders
Asset management	<ul style="list-style-type: none">■ average SAP ratings■ compliance to Decent Homes Standard
Corporate responsibility	<ul style="list-style-type: none">■ reporting to Board
Housing Management	<ul style="list-style-type: none">■ rent collection rate■ current arrears as % of gross annual debit■ average re-let times■ voids available/unavailable to let■ lettings by ethnicity■ repair response times■ repair appointments made and kept■ tenant satisfaction
Financial	<ul style="list-style-type: none">■ management accounts/budgets■ loan covenants<ul style="list-style-type: none">- interest cover- gearing■ Housing Corporation financial performance indicators■ Annual Efficiency Statements

Most of the indicators relate to measures/tests used by the Housing Corporation to assess performance. These indicators have to be validated externally to assure the Corporation that performance can be compared fairly with other housing associations.

Operating and Financial Review

Operating Review

Performance in period

Turnover and operating surplus by activity are reported in notes 5, 6 and 7. This can be summarised as follows:

£000	Turnover		Operating Surplus	
	2006	2005	2006	2005
Housing Accommodation	19,822	18,527	2,914	1,973
Other	989	1,569	68	385
Total	20,811	20,096	2,982	2,358

All sectors achieved their budgeted turnover and surplus.

All performance targets were met or exceeded with the exception of the following key indicators:

Emergency repairs within deadline	93% (target 100%)	The Association is working with its contractors to review processes and improve performance
Urgent repairs within deadline	95% (target 97%)	
Routine repairs within deadline	83% (target 100%)	

Since 1999 the Association owned and invested in residential care homes. These homes were leased to Heart of England Housing & Care Limited who operated the business of residential care. The Association had no involvement in the operations but did receive a rent under the terms of the lease. In January 2006 the Association sold the homes to Heart of England Housing & Care Ltd for the sum of £18.45m. This generated a surplus to the Association of £4.2m.

Investment for the future

The Board is committed to spending approximately £12m each year to maintain and improve its existing housing stock. It endeavours to maintain a balance of 30:70 in spreading this expenditure between day to day responsive repairs and planned works such as replacement of roofs, kitchens, bathrooms and heating systems.

In addition to investing in its existing stock the Board has approved a new build housing programme.

Operating and Financial Review

Financial Review

The principal aim of this section is to explain the capital structure of the Association, its treasury policy, its sources of liquidity and their application including the implications of the financing requirements arising from its investment plans.

The main accounting policies that are critical to the results of the Association are the method of accounting for capital grant – deducted in the balance sheet from the cost of assets – capitalisation of interest and development administration costs in carrying out the development programme – and the calculation of housing property depreciation. Each of these policies have remained unchanged in the period under review.

Prior Year Adjustment

An adjustment has been incorporated in respect of pensions. FRS 17 applies in full for the 2005/06 accounts. Gains and losses arising on the initial recognition of items have been dealt with as a prior year adjustment in accordance with FRS 3.

The pension liability as at 31 March 2005 was £1,235,000 and this is reported in the Income & Expenditure Account and Balance Sheet.

Capital structure and treasury policy

Borrowings at the period end were £98.5m and unused facilities were an additional £51.5m. This debt is borrowed wholly from one UK lender. This will be refinanced with another UK lender during 2006/07.

Treasury management is the responsibility of the Group Deputy Chief Executive. Strategy is set annually and approved by the Board. The current policy is to maintain between 30% and 80% of borrowings at fixed rates of interest. At the year end it was 62%. The Association does not make use of hedging instruments other than to fix variable rate debt. A rule change would be required to enable hedging to be undertaken with other counterparties and it is intended to consider such a change during 2006/07.

The Association borrows only in sterling and so does not have any currency risk.

Cash surpluses are invested in approved UK institutions in accordance with the Treasury Policy.

Cash Flows

Cash inflows and outflows for the year are set out in the cash flow statement. Net cash inflows from operating activities are from the management of housing stock. Returns on investment and servicing of finance are due to interest income and interest charges. The net cash outflow from capital expenditure is the spend on properties new and existing which has been capitalised less grant less sale proceeds plus spend on other fixed assets. The net movement on financing is the difference between loans.

The Association experienced a net increase in cash in the last year of £7.9m. This was primarily due to the sale of the care homes.

Operating and Financial Review

Financial Review (continued)

Current Liquidity

Cash and current investments at the year-end were £7.7m. Net current assets were £3.8m.

The Board does not consider there are any seasonal effects on the borrowing requirements. The main factor influencing the amount and timing of borrowings is the pace of the development programme and this does have a significant impact according to the timing of payments to contractors and developers.

Going Concern

Under the governance requirements, the Board confirms that after making enquiries there is a reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future. Accordingly the Board continues to adopt the going concern basis in preparing the accounts.

Internal Control

The Board has overall responsibility for establishing and maintaining the whole system of internal control and for reviewing its effectiveness.

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

In meeting its responsibilities, the Board has adopted a risk-based approach to internal controls which are embedded within the normal management and governance process. This approach includes the regular evaluation of the nature and extent of risks to which the Association is exposed and is consistent with Turnbull principles as incorporated in the Housing Corporation's Circular R2-25/01: *Internal Controls Assurance*.

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

- *Identification and evaluation of key risks*

The strategy for risk management is set and reviewed by the Group Audit Committee.

Management responsibility has been clearly defined for the identification, evaluation and control of significant risks. There is a formal and ongoing process of management review in each area of the Association's activities. The process is co-ordinated through a regular reporting framework by the Management Teams of the Group and the Association. The Management Teams regularly consider reports on significant risks facing the Association and the Group Chief Executive is responsible for reporting to the Board any significant changes affecting key risks.

Operating and Financial Review

Internal Control (continued)

■ *Monitoring and corrective action*

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

■ *Control environment and control procedures*

The Board retains responsibility for a defined range of controls covering strategic operational, financial and compliance issues including treasury strategy and new investment projects. The Board has adopted the code of governance 'Competence and Accountability'. The Board disseminates its requirements to all employees through the Association's policies with regard to the quality, integrity and ethics of its employees. It is supported by a framework of policies and procedures with which all employees must comply. These cover issues such as delegated authority, segregation of duties, accounting, treasury management, health & safety, data and asset protection and fraud prevention and detection.

■ *Information and financial reporting system*

Financial reporting procedures include detailed budgets for the year ahead and forecasts for subsequent years. These are reviewed and approved by the Board. The Board also regularly reviews key performance indicators to assess progress towards the achievement of key business objectives, targets and outcomes.

The internal control framework and risk management process are subject to regular review by Internal Audit who are responsible for providing independent assurance to the Board via the Audit Committee. The Audit Committee considers internal control and risk at its meetings during the year.

Statement of Compliance

The Board confirms that this Operating and Financial Review has been prepared in accordance with the principles set out in Part 3 of the 2005 SORP Update for registered social landlords.

Report of the Board of the Management

The Board present their Report and audited Financial Statements for the year from 1 April 2005 to 31 March 2006.

Corporate Status

The Association is a member of the Heart of England Housing Group and has operated as a subsidiary of the Parent (Heart of England Housing Group Ltd) since 1 July 1999.

The Association is a not-for-profit organisation registered on 28 June 1995 as an Industrial and Provident Society. It is also registered as a Social Landlord with the Housing Corporation and is affiliated to the National Housing Federation.

Competence and Accountability

Board Members and Executive Officers

The present Board membership is listed on page 1. Tenant representatives are selected by a process approved by the tenants. Stratford-on-Avon District Council nominate three members to the Board.

The Group Chief Executive and Executive Management Team are employed by Heart of England Housing Group Ltd. and provide their services through a Service Level Agreement with the Association. They hold no interest in the Association's shares and have no legal status as directors although they act as executives within the authority delegated by the Board.

Employees

The strength of the Association lies in the quality and commitment of its employees and those of the Parent. The ability to meet objectives and commitments to tenants in an efficient and effective manner depends on the contribution of employees throughout the Group.

The Association continues to provide information on objectives, progress and activities through regular office and departmental meetings. Training programmes focus on quality, customer care and ways to improve services through the development of the staff.

The Association is committed to equal opportunities for all its employees and welcomes diversity.

Advisors and Contractors

The Association uses the services of professional advisors to support its staff. The key advisors are listed on page 2. The Association also employs a range of contractors and expects to receive high quality, good value service with a commitment to customer care.

Report of the Board of the Management

Health and Safety

The Board is aware of its responsibilities on matters relating to health and safety. The Association has prepared detailed policies and provides staff training and education on health and safety matters. The Group's risk appraisal and management processes address all health and safety matters in relation to property, tenants and staff.

Governance of the Association

NHF Code of Governance

The Board is pleased to report that the Association complies with the principal recommendations of the NHF Code of Governance. Compliance is monitored during the year.

Subsidiary Status

The Association is a subsidiary of Heart of England Housing Group Limited.

Rules

The Association's constitution is contained in its Rules. These have provisions covering shareholding membership, Board membership and Committee membership. The Rules cannot be varied by the Board unless approved at a General Meeting.

Board of Management

The Board of Management comprises up to sixteen non-executive members and is responsible for managing the affairs of the Association. The Board members are drawn from a wide background bringing together tenants and persons with professional, commercial, and local authority experience.

The Board meets, formally, eight times a year for regular business. It does not delegate routine work and responsibilities to Committees, however, Committees and Working Groups are established on occasions to fulfil short term adhoc objectives.

The Board is responsible for the Association's policy and strategy framework. It delegates the day-to-day management and implementation of policies to the Management Team and the Group Executive Management Team. They meet regularly and attend the Board meetings.

Three Board members are nominated to the Board of Heart of England Housing Group Limited. One Board member serves on the Audit Committee of the Heart of England Housing Group.

The Association obtains liability insurance cover for the Board members who are now paid on the scale recommended by the National Housing Federation.

The terms of reference and standing orders of the Board are reviewed at least every two years.

Report of the Board of the Management

Board Members' Responsibilities

Registered Social Landlord legislation and Accounting Determinations require the Board to prepare Financial Statements for each financial year, which give a true and fair view of the state of affairs of the Association as at the end of the financial year and of the income and expenditure of the Association for the year ended on that date.

In preparing the Financial Statements, suitable accounting policies have been used, framed, to the best of the Board's knowledge and belief, by reference to reasonable and prudent judgements and estimates, and applied consistently. Applicable accounting standards have been followed. The Board is also required to indicate where the Financial Statements are prepared other than on the basis that the Association is a going concern.

The Board is responsible for ensuring that arrangements are made for keeping proper books of account in respect of the Association's transactions and its assets and liabilities and for maintaining a satisfactory system of control over the Association's books of account and transactions. The Board is also responsible for ensuring that arrangements are made to safeguard the assets of the Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board has received the Group Chief Executive's annual report and has taken account of any changes needed to maintain the effectiveness of the risk management and control process. The effectiveness of the system of internal control is reviewed by the Group Board.

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

Annual General Meeting

The AGM will be held on 20 July 2006 and will receive this Report and Financial Statements.

Auditors

A resolution to re-appoint PricewaterhouseCoopers LLP, will be proposed at the AGM.

The Report of the Board of Management was approved on 14 June 2006 and signed on its behalf by:



Richard Wright
Group Company Secretary
14 June 2006

Independent Auditors' Report to the Members of South Warwickshire Housing Association

We have audited the financial statements of South Warwickshire Housing Association Limited for the year ended 31 March 2006 which comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement, the Statement of Total Recognised Surpluses and Deficits and the related notes. These financial statements have been prepared on the basis of the accounting policies set out therein.

Respective Responsibilities of the Board and Auditors

The Board's responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the statement of Board's Responsibilities on page 13.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Association as a body in accordance with Section 9 (1) of the Friendly and Industrial and Provident Societies Acts 1965 to 2002 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002, the Housing Act 1996 and the Accounting Requirements for registered social landlords General Determination 2000. We also report to you if, in our opinion, a satisfactory system of control over transactions has not been maintained, if the Association has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Association is not disclosed.

We read the other information contained in the Report of the Board and consider whether it is consistent with the audited financial statements. This other information comprises the Operating and Financial Review, incorporating the statement of internal control and the report of the Board of Management. We review whether the statement of internal control has been prepared in accordance with Housing Corporation Circular 'R2 – 25/01 Internal controls assurance'. We are not required to consider whether the Board's statement on internal control fairly presents the Association's system of internal control, or to form an opinion on the effectiveness of the Association's system of internal control. 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.

Independent Auditors' Report to the Members of South Warwickshire Housing Association (continued)

Basis of 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 statement. It also includes an assessment of the significant estimates and judgements made by the Board in the preparation of the financial statements, and of whether the accounting policies are appropriate to Registered Social Landlord'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 of the state of affairs of South Warwickshire Housing Association Limited as at 31 March 2006 and of its surplus for the year then ended and have been properly prepared in accordance with the Industrial and Provident Societies Act 1965 to 2002, Schedule 1 to the Housing Act 1996 and the Accounting Requirements for registered social landlords General Determination 2000.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
31 Great George Street
Bristol
BS1 5QD

14 June 2006

Notes:

- (a) The maintenance and integrity of the Heart of England Housing Group Ltd website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Income and Expenditure Account

for the year ended 31 March 2006

	Notes	Year ended 31 March 2006 £'000	Restated Year ended 31 March 2005 £'000
Turnover	5, 6	20,811	20,096
Operating costs	5, 7	(17,829)	(17,738)
Operating surplus		2,982	2,358
Surplus on sale of housing properties	8	4,223	282
Interest receivable and similar income	13	336	52
Interest payable and similar charges	14	(6,260)	(5,817)
Financing cost	12	(22)	(31)
Surplus / (deficit) on ordinary activities before taxation	9	1,259	(3,156)
Tax on surplus on ordinary activities	15	0	0
Surplus / (deficit) for year		1,259	(3,156)
Revenue reserve brought forward		(21,222)	(18,189)
Actuarial gains taken to reserves	12	50	123
Revenue reserve carried forward		(19,913)	(21,222)

Statement of Total Recognised Surpluses and Deficits

for the year ended 31 March 2006

	Notes	Year ended 31 March 2006 £'000	Restated Year ended 31 March 2005 £'000
Surplus / (deficit) for year		1,259	(3,156)
Unrealised deficit on revaluation of properties	26	(2,682)	(9,478)
Actual return less expected return on pension scheme assets	12	592	83
Experience gains & losses arising on scheme liabilities	12	(90)	320
Effect of changes in the actuarial assumptions	12	(452)	(280)
Total recognised deficit for the year		(1,373)	(12,511)
Prior year adjustment	33	(1,235)	
		(2,608)	

Note of Historical Cost Surpluses and Deficits

for the year ended 31 March 2006

	Year ended 31 March 2006 £'000	Restated Year ended 31 March 2005 £'000
Surplus / (deficit) for year	1,259	(3,156)
Difference between an historical cost depreciation and the actual depreciation charge for the year calculated on the revalued amount	259	349
Historical cost surplus / (deficit) on ordinary activities	1,518	(2,807)

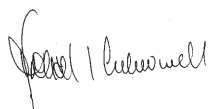
Balance Sheet

as at 31 March 2006

		Year ended 31 March 2006 £'000	Restated Year ended 31 March 2005 £'000
	Notes		
Tangible fixed assets			
Housing properties	16a	147,500	160,072
Other tangible fixed assets	16b	2,149	2,430
Fixed asset investments	17	1	1
		<u>149,650</u>	<u>162,503</u>
Debtors: amounts falling due over one year	18	2,450	0
Current assets			
Debtors	19	764	1,448
Current investments	20	7,273	0
Cash at bank and in hand		386	53
		<u>8,423</u>	<u>1,501</u>
Creditors: amounts falling due within one year	21	(4,600)	(4,688)
Net current assets / (liabilities)		<u>3,823</u>	<u>(3,187)</u>
Total assets less current liabilities		<u>155,923</u>	<u>159,316</u>
Creditors: amounts falling due after more than one year	22	98,871	100,814
Pension liability	12	1,153	1,235
Funds held in Trust	23	(53)	(58)
Capital and Reserves			
Called up share capital	24	0	0
Revenue reserve	26	(19,913)	(21,222)
Revaluation reserve	26	75,865	78,547
		<u>155,923</u>	<u>159,316</u>

The financial statements on pages 16 to 40 were approved by the Board of Management on 14 June 2006 and were signed on its behalf by:

Michael Culverwell, Chair



Brian Fletcher, Board Member



Richard Wright, Secretary to the Board



The notes on pages 19 to 40 form part of these financial statements.

Cashflow Statement

for the year ended 31 March 2006

		Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
	Notes		
		£'000	
Net cash inflow from operating activities	29	4,996	5,257
Returns on investments and servicing of finance			
Interest received		341	52
Interest and similar charges paid		<u>(5,949)</u>	<u>(5,798)</u>
		(5,608)	(5,746)
Capital expenditure and financial investments			
Housing properties -			
Acquisition and construction		(6,622)	(4,389)
Capital grants received		1,355	2,277
Improvements		(56)	(132)
Acquisition and investment in care homes		(16)	(105)
Sale of housing properties & care homes		16,250	418
Sale of other fixed assets		196	0
Purchase of other fixed assets		<u>(82)</u>	<u>(349)</u>
Net cash inflow / (outflow) from capital expenditure		<u>11,025</u>	<u>(2,280)</u>
Net cash inflow / (outflow) before financing		10,413	(2,769)
Financing			
Loans received		3,000	6,500
Loan redemption repayments		<u>(5,500)</u>	<u>(4,000)</u>
Net cash (outflow) / inflow from financing	30	(2,500)	2,500
Increase / (decrease) in cash	30	<u>7,913</u>	<u>(269)</u>

Notes to the Financial Statements

for the year ended 31 March 2006

Note 1

Legislative Provisions

The Association is incorporated under the Industrial & Provident Societies Act 1965 – Registration No. 28220R. It is registered as a Social Landlord under the Housing Act 1996 – Housing Corporation Registration No. LH 4104.

Note 2

Basis of Accounting

The Financial Statements have been prepared in accordance with applicable financial reporting standards and comply with the Housing Corporation's "Accounting Requirements for Registered Social Landlords General Determination 2000", and the Statement of Recommended Practice "Accounting by Registered Social Landlords", issued in 1999 and updated in November 2002 and May 2005.

Note 3

Accounting Policies

(a) Accounting convention

The Financial Statements are prepared under historical cost convention with the exception of housing and commercial properties and fixed asset investments, which are reported at open market value in the Balance Sheet (refer to Notes 16 and 17). Housing properties in the course of construction are reported at cost less Social Housing Grant.

(b) Turnover

Turnover represents rents receivable in respect of tenanted properties and amounts invoiced in respect of the provision of services.

(c) Valuation of Properties

Completed housing properties are shown at Open Market Value – Existing Use Social Housing basis (EUV-SH). They are revalued annually. The aggregate surplus or deficit on revaluation is transferred to a Revaluation Reserve. The residential care homes are shown at cost.

(d) Service Charge Sinking Fund

The Association operates a sinking fund for leaseholder service charges. Sums are set aside to cover future planned maintenance works. The fund is protected in a separate bank account and any interest accrued is added to the fund (note 23 refers).

Notes to the Financial Statements

for the year ended 31 March 2006

Note 3

Accounting Policies (continued)

(e) Depreciation

Depreciation is calculated to write off the cost of certain fixed assets on a straight line basis over their estimated useful lives. These are:

■ housing properties	1% p.a.
■ care homes	4% p.a.
■ commercial properties	4% p.a.
■ furniture, fittings and equipment	25% p.a.

The depreciable amount in respect of housing properties is the Existing Use Value (note 16) less the Residual Value. Residual Value is considered to be equal to the vacant possession value of the land at the time of valuation. This value assumes a restriction for use as social housing.

The residential care homes have been remodelled and each home was not considered for depreciation until works were completed. Depreciation is charged over the period of the least (25 years) starting in the first full year after completion.

(f) Impairment

There is no indication of impairment to the Association's properties in any of the circumstances envisaged or stated under FRS 11. The deficit position of the Association is a normal circumstances for an LSVT recipient and is not an indication of impairment.

On the assumption of no impairment the Association has not undertaken a detailed review of its assets.

(g) Social Housing Grant (SHG)

Where developments and acquisitions have been financed wholly or partly by SHG, the cost of those housing properties have been reduced by the amount of the grant received. SHG received in advance of the aggregate costs of development or acquisition in the year is shown as a current liability. SHG is repayable under certain circumstances, primarily following the sale of a property, unless the grant can be recycled.

SHG received in respect of non-capitalised development overheads is credited to the Income and Expenditure Account.

(h) Capitalisation of development overheads

Only costs that are directly attributable to bringing properties into working condition for their intended use are capitalised. This complies with FRS 15.

Notes to the Financial Statements

for the year ended 31 March 2006

Note 3

Accounting Policies (continued)

(i) Sales of housing properties

Proceeds from sales are shown net of discounts given under the provisions of the Right to Buy. The value of properties sold is written off to the Income and Expenditure Account. A transfer is made from Revaluation Reserve to write back the difference between cost and value. An adjustment is made to write back depreciation charged in prior years.

(j) Works to existing housing properties

Major expenditure on housing properties, which adds to the value of the property or extends its useful life is capitalised. Planned maintenance programmes are treated as revenue expenditure.

(k) Interest and finance costs

Interest is charged to the Income and Expenditure Account in the year in which it is incurred.

Interest on borrowings, after deduction of interest on grant in advance, to the extent that they are deemed to be financing the development programme, is capitalised.

Costs connected directly with the raising of finance are deducted from loans and written off as they arise.

(l) Operating Leases

Rentals payable under operating leases are charged in accordance with the terms of the lease.

(m) Pension Costs

The Pension costs relating to the Local Government Pension Scheme are charged against income based on an actuarial method and actuarial assumptions. These are designed to provide the anticipated pension cost over the average service lives of the employees in the scheme in a way that seeks to ensure that the regular pension cost represents a broadly level percentage of the current and expected future pensionable payroll in the light of current actuarial assumptions. Variations from the current cost are spread over the remaining service lives of current employees in the pension scheme. The Group has adopted the provisions of FRS 17 'Retirement Benefits' in preparing these accounts.

Contributions payable to the Social Housing Pension Scheme are charged to the Income and Expenditure Account so as to spread the cost of pension over the service lives of employees in that scheme.

Notes to the Financial Statements

for the year ended 31 March 2006

Note 3 **Accounting Policies** (continued)

(n) Fixed Asset Investments

These are stated at market value.

(o) Current Investments

Investments held as current assets are stated at the lower of cost and net realisable value.

(p) VAT

The Association is VAT registered, as part of the Heart of England Housing Group, but the majority of its income, being housing rents, is except for VAT purposes and this gives rise to a partial exemption calculation. In the year less than 1% of VAT paid was reclaimed. Expenditure is therefore shown inclusive of VAT and that input VAT recovered is treated as other income and included in turnover.

(q) Taxation

The Association is liable for Corporation Tax on taxable surpluses. It does not qualify for any financial support towards this liability if they arise.

(r) Designated and Restricted reserves

The Association has none at present.

Note 4 **Group Structure**

(a) The Association is a subsidiary of the Heart of England Housing Group.

(b) The parent of the group is Heart of England Housing Group limited.
The parent is a company limited by guarantee (no. 3546568) and a Registered Social Landlord (no. L4187).

(c) There are three other subsidiaries of the Group:

- Heart of England Housing & Care Limited
- Heart of England Consultancy Limited
- Heart of England Commercial Limited

None of these are Registered Social Landlords.

(d) All group members are incorporated. The registered office for all is:
10 Greenhill Street
Stratford-upon-Avon
Warwickshire
CV37 6LG

Notes to the Financial Statements

for the year ended 31 March 2006

Note 4

Group Structure (continued)

(e) There are no inter company guarantees within the Group. The Association provides a loan facility to Heart of England Housing & Care Limited. The parent provides services on a commercial basis to the subsidiaries via Service Level Agreements. The Association provides office accommodation to the Group. The Association adopts the exemptions offered in FRS 8 – Related Party Disclosures and has therefore not disclosed transactions or balances with entities which form part of the Group. Group accounts are publicly available.

Notes to the Financial Statements

for the year ended 31 March 2006

Note 5

Turnover and operating surplus

	Turnover £'000	Operating Costs £'000	2006 Operating Surplus/ (Deficit) £'000	Turnover £'000	Restated 2005 Operating Surplus/ (Deficit) £'000
Income and expenditure from lettings					
Housing accommodation	19,822	16,908	2,914	18,527	1,973
Other income and expenditure					
Development services	23	208	(185)	58	(277)
Rent from care homes	603	0	603	1,182	1,182
Depreciation on care homes	0	527	(527)	0	(658)
Depreciation on commercial properties	0	86	(86)	0	(90)
Proceeds from release of covenants	17	0	17	26	26
Leasehold flats	51	51	0	53	1
Shops	23	9	14	26	12
Letting of office & parking facilities	79	0	79	71	71
Market Rent	66	23	43	69	49
Other	127	17	110	84	69
	<u>20,811</u>	<u>17,829</u>	<u>2,982</u>	<u>20,096</u>	<u>2,358</u>

Total development administration costs capitalised are £104,354 (2005: £82,818).

Notes to the Financial Statements

for the year ended 31 March 2006

	Year ended 31 March 2006 £'000	Restated Year ended 31 March 2005 £'000
Note 6		
Turnover from lettings		
Rents		
Housing	18,532	17,263
Garages	627	600
	<u>19,159</u>	<u>17,863</u>
Service and support charges		
Service charges	543	472
Support charges	480	495
	<u>1,023</u>	<u>967</u>
Less: Rent and service charge losses from voids		
Housing	(267)	(230)
Garages	(93)	(73)
	<u>(360)</u>	<u>(303)</u>
	<u>19,822</u>	<u>18,527</u>
Note 7		
Operating costs from lettings	£'000	£'000

Housing accommodation:

Services and support	1,345	1,296
Management	2,341	2,273
Routine maintenance	5,092	4,480
Rent losses from bad debts	59	55
Planned maintenance	3,452	3,982
Major works	3,764	3,562
Depreciation on housing properties	855	906
	<u>16,908</u>	<u>16,554</u>

Analysis over main property types:

	General Housing £'000	Sheltered Housing £'000	Garages £'000	Total Housing £'000
Services and support	198	1,147	0	1,345
Management	1,902	372	67	2,341

At the start of the year the Association owned and managed 5,685 housing properties (units).

During the year 4 units were sold and 70 units were acquired or built.

At the end of the year 5,751 units were owned and managed by the Association.

Those units comprised:

general needs housing	5,120
sheltered housing	558
properties used for temporary accommodation	34
shared ownership	29
market rent	10
	<u>5,751</u>

The Association managed an additional 12 units on behalf of Soroptomist Housing (Rugby) Limited at 31 March 2006.

Notes to the Financial Statements

for the year ended 31 March 2006

Note 8 Sale of housing properties

	£'000	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
Right to buy sales			
Proceeds of sale		372	609
Less:			
Net value of property written off	(71)		(210)
Share paid to Stratford-on-Avon District Council	(309)		(407)
Legal and other expenses	(24)		(32)
		<u>(404)</u>	<u>(649)</u>
Deficit on sale prior to transfer from reserves		(32)	(40)
Transfer from revaluation reserve		<u>43</u>	<u>98</u>
Surplus		<u>11</u>	<u>58</u>
Right to acquire sales			
Proceeds of sale		172	100
Less:			
Net value of property written off	(24)		(27)
Legal and other expenses	(8)		(4)
		<u>(32)</u>	<u>(31)</u>
Surplus on sale prior to transfers		140	69
Transfer (to) / from revaluation reserve		(14)	4
Transfer to Disposal Proceeds Fund		<u>(132)</u>	<u>(91)</u>
Deficit		<u>(6)</u>	<u>(18)</u>
Shared ownership staircasing			
Proceeds of sale		0	361
Less:			
Net value of property written off	0		(133)
Legal and other expenses	0		(20)
		<u>0</u>	<u>(153)</u>
Surplus on sale prior to transfer from reserves		0	208
Transfer from revaluation reserve		<u>0</u>	<u>34</u>
Surplus		<u>0</u>	<u>242</u>
Sale of care homes			
Proceeds of sale		18,450	0
Less:			
Net cost of property written off	(14,199)		0
Legal and other expenses	(33)		0
		<u>(14,232)</u>	<u>0</u>
Surplus		<u>4,218</u>	<u>0</u>
Surplus on sale of housing properties		<u>4,223</u>	<u>282</u>

Notes to the Financial Statements

for the year ended 31 March 2006

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
Note 9		
Surplus/ (deficit) on ordinary activities		

The surplus / (deficit) on ordinary activities for the year is stated after charging:

Depreciation on tangible assets	1,526	1,856
Auditors remuneration (inclusive of VAT):-		
In their capacity as auditors	10	11
In respect of other services	0	0

Note 10 Staff

The average number of employees expressed in full time equivalents (35 hour week)	Number	Number
Office staff	45	48
Scheme staff	31	34
	<u>76</u>	<u>82</u>
Staff costs for the above	£'000	£'000
Wages and salaries	1,382	1,414
Social security costs	107	111
Pension costs	99	82
	<u>1,588</u>	<u>1,607</u>

Note 11 Directors' emoluments

The Directors transferred their employment to Heart of England Housing Group Limited on 1 June 1999.

They continue to provide their services through a Service Level Agreement with the Association.

Payments of £50,763 excluding NI contributions were made to non executive Board Members (2005: £46,519).

Notes to the Financial Statements

for the year ended 31 March 2006

Note 12 Pensions

The Association recognises two multi-employer defined benefit schemes for staff, the assets of which are held in separately administered funds under the Local Government Superannuation Scheme by Warwickshire County Council and the Social Housing Pension Scheme (SHPS) operated by the PensionsTrust. The Schemes are funded and are contracted out of the state scheme.

SHPS

The pension charge for the year was £17,608 (2005: £14,120).

The Trust commissions an actuarial valuation of the Scheme every 3 years. The main purpose of the valuation is to determine the financial position of the Scheme in order to determine the level of future contributions required so that the Scheme can meet its pension obligations as they fall due.

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 the Association paid contributions at the rate of 11.7%. Member contributions varied between 3.1% and 6.1% depending on their age.

As at the balance sheet date there were 8 active members of the Scheme employed by the Association. The Association continues to offer membership of the Scheme to its employees.

It is not possible in the normal course of events to identify the share of underlying assets and liabilities belonging to individual participating employers. Accordingly, due to the nature of the Plan, the accounting charge for the period under FRS17 represents the employer contribution payable.

The last formal valuation of the Scheme was performed as at 30 September 2002 by a professionally qualified actuary using the "projected unit credit" method. The market value of the Scheme's assets at the valuation date was £650 million. The valuation revealed a shortfall of assets compared to liabilities of £117 million.

The Association has subsequently been notified of the preliminary results of the triennial valuation carried out on 30 September 2005. This indicates an increase in the assets of the Scheme to £1,278 million and an increase in the shortfall of assets compared with liabilities to £283 million. This valuation, and any consequent alteration to future contribution rates, is currently the subject of consultation with participating employers and members. The outcome of this consultation will be made known in September 2006, and any consequent changes to contribution rates applied from 1 April 2007. The following notes therefore relate to the formal valuation of September 2002.

The financial assumptions underlying the valuation as at 30 September 2002 were as follows:

	% pa
■ Rate of return on future contributions	6.6
■ Rate of return on accumulated assets	7.2
■ Rate of salary increases	4.5
■ Rate of pension increases	2.5
■ Rate of price inflation	2.5

Notes to the Financial Statements

for the year ended 31 March 2006

Note 12

Pensions (continued)

The valuation revealed a shortfall of assets compared with the value of liabilities of £117 million (equivalent to a past service funding level of 85%).

The long-term joint contribution rate required from employers and members to meet the cost of future benefit accrual was assessed at 15.0% of pensionable salaries.

Following consideration of the results of the actuarial valuation it was agreed that, with effect from 1 April 2004:

- The standard employer contribution rate would be increased from 10.6% to 11.7% of pensionable salaries.
- Member contributions would also be increased by 1.1% from 2.0-5.0% to 3.1-6.1% of pensionable salaries depending on age.

Employers that participate in the Scheme on a non-contributory basis pay a joint contribution rate (i.e. a combined employer and employee rate). This rate was increased from 15.0% to 17.3% of pensionable salaries with effect from 1 April 2004.

Employers that have closed the Scheme to new members 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.

New employers that joined the Scheme after 30 September 2002 without any past service liability pay an employer contribution rate of 9.4% of pensionable salaries. This rate will apply until 1 April 2007, after which it will change to the standard employer contribution rate per the actuarial valuation due to take place as at 30 September 2005.

If the valuation assumptions are borne out in practice this pattern of contributions should be sufficient to eliminate the past service deficit by 31 March 2017.

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.

Notes to the Financial Statements

for the year ended 31 March 2006

Note 12

Pensions (continued)

Local Government (Warwickshire County Council) Scheme

The latest actuarial valuation was as at 31 March 2004 when the Scheme's assets were valued at £670,000,000.

Employer contributions made by the Association to the Scheme for the year were £81,108 (2005: £67,702) in respect of ordinary contributions. The cost is assessed in accordance with advice from a qualified actuary. Employer contributions to the Scheme of £5,356 (2005: £5,383) were included in creditors and paid after the year end.

The following information in respect of the Warwickshire County Council Pension Fund is provided for South Warwickshire Housing Association Limited.

The Warwickshire County Council Scheme is a multi-employer defined benefit scheme. The full actuarial valuation carried out at 31 March 2004 was updated to 31 March 2006, using suitable approximate methods, by a qualified independent actuary.

Notes to the Financial Statements

for the year ended 31 March 2006

Note 12

Pensions (continued)

The financial assumptions underlying the valuation were as follows:

	2006	2005	2004
Retail Price inflation	2.9% per annum	2.9% per annum	2.8% per annum
Wage inflation	4.65% per annum	4.65% per annum	4.3% per annum
Discount rate	4.9% per annum	5.4% per annum	6.3% per annum
Allowance for future pension increases	2.9% per annum	2.9% per annum	2.8% per annum

The Association's share of the fair values of each main class of assets held by the Fund as at 31 March 2006 and the expected rates of return for the ensuing year are set out in the following table:

	2006		2005		2004	
	Fair Value £'000	Expected Return %	Fair Value £'000	Expected Return %	Fair Value %	Expected Return £'000
Equities	2,676	7.5	2,715	7.5	2,430	7.5
Gilts	585	4.3	321	4.7	453	4.7
Other bonds	878	4.9	501	5.5	96	5.5
Property	0	6.0	0	6.5	0	6.5
Cash/Liquidity	42	4.5	69	4.0	235	4.0
Other	0	7.5	0	7.5	0	7.5
Total	4,181	5.2	3,606	6.8	3,214	6.8

Under the Local Government Pension Scheme, it is not possible separately to identify each main class of assets with a particular member of the Scheme. The above assets as a whole are allocated to participating bodies on the consistent and reasonable basis. The actuary has amended the classification of assets and the fair values shown above for 2006 have been amended to reflect this.

The Association's share of the net assets and liabilities of the Fund is set out below:

	2006 £'000	2005 £'000	2004 £'000
Share of assets in Warwickshire County Council Pension Fund	4,181	3,606	3,214
Estimated liabilities in Warwickshire County Council Pension Fund	(5,334)	(4,841)	(4,512)
Share of deficit in the Fund	(1,153)	(1,235)	(1,298)

Notes to the Financial Statements

for the year ended 31 March 2006

Note 12 Pensions (continued)

The movement in the net deficit for the year to 31 March is as follows:

	2006 £'000	2005 £'000
Net deficit as 1 April	(1,235)	(1,298)
Movement in the year:		
Operating charge - Current service cost	(86)	(97)
Contributions	81	68
Past service / curtailment / settlement gain / (loss)	59	0
Finance Income:		
Expected return on Pension Fund assets	233	217
Interest on Pension scheme liabilities	(255)	(248)
Total Finance Income	(22)	(31)
Actuarial gain	50	123
Net deficit at 31 March	<u>(1,153)</u>	<u>(1,235)</u>

The actuarial gain is further analysed as follows:

	£'000	£'000
Actuarial gain on pension scheme assets	592	83
Experience gains and losses arising on scheme liabilities	(90)	320
Changes in assumptions underlying the present value of liabilities	(452)	(280)
	<u>50</u>	<u>123</u>

Reconciliation to balance sheet

	2006 £'000	2005 £'000
Net Assets		
Net assets excluding pension deficit	57,052	58,502
Pension liability	(1,153)	(1,235)
Net assets including pension deficit	<u>55,899</u>	<u>57,267</u>

Reserves

	£'000	£'000
Income and expenditure reserve excluding pension deficit	(18,760)	(19,987)
Pension liability	(1,153)	(1,235)
Income and expenditure reserve including pension liability	<u>(19,913)</u>	<u>(21,222)</u>

History of experience gains and losses

	2006	2005	2004	2003
Difference between the expected and actual return on scheme assets:				
amount £'000	592	83	479	(1,012)
percentage of scheme assets	14.20	2.30	14.90	(38.86)
Experiences gains and losses on scheme liabilities:				
amount £'000	(90)	320	0	0
percentage of the present value of scheme liabilities	1.70	(6.60)	0	0
Total amount recognised gains and losses:				
amount £'000	50	123	321	(1,430)
percentage of the present value of scheme liabilities	(0.90)	(2.50)	(7.11)	34.48

Notes to the Financial Statements

for the year ended 31 March 2006

Note 13	Year ended	Year ended
Interest receivable	31 March	31 March
	2006	2005
	£'000	£'000
Interest receivable from unlisted investments	336	52
Interest receivable from loans to employees	0	0
	<u>336</u>	<u>52</u>

Note 14	£'000	£'000
Interest payable and similar charges		
On bank loans, overdrafts and other loans		
Repayable within 5 years, not by instalments	28	10
Repayable wholly or partly, in more than 5 years	5,895	5,765
Loan arrangement and other financing costs	507	28
	<u>6,430</u>	<u>5,803</u>
Capitalised interest	(170)	14
	<u>6,260</u>	<u>5,817</u>

The loan facility currently in place for the Association will be cancelled in January 2007 when a new facility is activated. The arrangement fees for the existing facility were being written off over the period of the loan. Having agreed to cancel that facility the remaining balance is written off in full with the exception of an element relating to the period April 2006 to January 2007.

Note 15 **Taxation**

There is no liability for Corporation Tax in the year. The Association has taxable losses of approximately £16m carried forward by agreement with the Inland Revenue.

Notes to the Financial Statements

for the year ended 31 March 2006

Note 16a

Tangible fixed assets - social housing

	Housing Properties held for letting £'000	Housing Properties in the course of construction £'000	Care Homes £'000	Housing Properties held for market rent £'000	Total £'000
Cost or valuation					
As at 1 April 2005	146,100	3,128	16,451	1,637	167,316
Additions	0	7,050	2	0	7,052
Disposals cost	(96)	0	(16,453)	0	(16,549)
Improvements	(2)	0	0	0	(2)
Schemes completed	7,657	(7,657)	0	0	0
(Deficit) / Surplus on revaluation	(2,652)	0	0	0	(2,652)
Net SHG transferred on completion	(3,007)	0	0	0	(3,007)
As at 31 March 2006	148,000	2,521	0	1,637	152,158
Social housing and other grants					
As at 1 April 2005	0	1,814	0	0	1,814
Received during year	0	1,310	0	0	1,310
Eliminated on disposal	(25)	0	0	0	(25)
Schemes completed	3,032	(3,032)	0	0	0
Net SHG transferred to completed properties	(3,007)	0	0	0	(3,007)
As at 31 March 2006	0	92	0	0	92
Depreciation					
As at 1 April 2005	3,666	0	1,727	37	5,430
Eliminated on disposal	(4)	0	(2,254)	0	(2,258)
Transfer between schemes	0	0	0	0	0
Charged during year	855	0	527	12	1,394
As at 31 March 2006	4,517	0	0	49	4,566
Net book amount					
As at 31 March 2006	143,483	2,429	0	1,588	147,500
As at 31 March 2005	142,434	1,314	14,724	1,600	160,072
Cost or valuation at 31 March 2006 is represented by:					
Revaluation	75,417	0	0	319	75,736
Gross cost	89,325	2,521	0	1,318	93,164
Depreciation	(4,517)	0	0	(49)	(4,566)
Social housing grant	(16,742)	(92)	0	0	(16,834)
Net book value	143,483	2,429	0	1,588	147,500
The net book value of social housing comprises:			2006		2005
			£'000		£'000
Freehold			146,728		159,300
Long leasehold			772		772
			147,500		160,072

Completed housing properties are shown at value in the Balance Sheet. A revaluation of those properties was carried out at 31 March 2006 by Countrywide Surveyors, 8 Queen Square, Bristol, BS1 4JE. Countrywide Surveyors, part of the Countrywide Assured Group, is a general practice firm providing surveying and valuation services around the country. The valuer is 'external' and the valuation is on EUV-SH basis for housing properties and market value for garages. The valuation of housing stock of £144,000,000 (one hundred and forty four million pounds) and of the garages of £4,000,000 (four million pounds) has been made in accordance with the RICS Appraisal and Valuation Standards and takes into account the provisions of the Housing White Paper published in December 2000.

It should be noted that future growth in both capital and rental values may not occur and values can fall as well as rise.

Notes to the Financial Statements

for the year ended 31 March 2006

Note 16b Tangible fixed assets - other	Commercial Property		Furniture, Fittings & Equipment Schemes	Furniture, Fittings & Equipment Offices	Computer & Comm. Equipment	Total
	Shops £'000	Offices £'000	£'000	£'000	£'000	
Cost or valuation						
As at 1 April 2005	194	2,400	450	354	1,008	4,406
Additions	0	0	76	0	0	76
Disposals	0	0	0	(354)	(1,008)	(1,362)
(Deficit) / surplus on revaluation	(30)	0	0	0	0	(30)
As at 31 March 2006	164	2,400	526	0	0	3,090
Depreciation						
As at 1 April 2005	33	432	345	318	848	1,976
Charge for year	1	72	58	0	0	131
Elimination on disposals	0	0	0	(318)	(848)	(1,166)
As at 31 March 2006	34	504	403	0	0	941
Net book amount						
As at 31 March 2006	130	1,896	123	0	0	2,149
As at 31 March 2005	161	1,968	105	36	160	2,430
Cost or valuation at 31 March 2006 is represented by:						
Revaluation	(10)	139	0	0	0	129
Gross cost	174	2,261	526	0	0	2,961
Depreciation	(34)	(504)	(403)	0	0	(941)
Net book value	130	1,896	123	0	0	2,149

The net book value of commercial properties comprises:

	2006 £'000	2005 £'000
Freehold	130	161
Long leasehold	1,896	1,968
	2,026	2,129

A valuation of the commercial property was carried out at 31 March 2004 by Countrywide Surveyors (see Note 16a). This is reported at Open Market Value in the Balance Sheet.

Office furniture and equipment & IT equipment was sold to Heart of England Housing Group Ltd at book value on 1 April 2005.

Notes to the Financial Statements

for the year ended 31 March 2006

Note 17	Year ended	Year ended
Fixed asset investments	31 March	31 March
	2006	2005
	£'000	£'000
Investments at cost	0	0
Investments at market value	1	1

The Association received 250 shares at nil cost from Bradford & Bingley during 2000/2001.
The market value of these shares was £4.9925 per share at 31 March 2006 (2005: £3.0907).

Note 18	£'000	£'000
Debtors: amounts falling due over one year		
Proceeds due from sale of residential care homes	2,450	0

Note 19	£'000	£'000
Debtors: amounts falling due within one year		
Rents and service charges	373	366
less provision for bad debts	(182)	(159)
	191	207
Rent due from collection agencies	30	61
Housing benefit due from Stratford District Council	0	231
Prepayments and accrued income	68	67
Social housing grant receivable	0	55
Service charges due from leaseholders	19	13
Amounts due from group undertakings	47	497
Other debtors	409	317
	764	1,448

Note 20	£'000	£'000
Investments		
Money market deposits	7,273	0

Note 21	£'000	£'000
Creditors: amounts falling due within one year		
Bank overdraft (unsecured)	353	660
Trade creditors	3,401	3,080
Social housing grant creditors	0	10
Other taxation and social security costs	77	68
Other creditors	99	170
Accruals and deferred income	28	23
Rents received in advance	250	197
Amounts owed to group undertakings	311	479
RTB sale proceeds due to Stratford-on-Avon District Council	81	1
	4,600	4,688

Notes to the Financial Statements

for the year ended 31 March 2006

Note 22	Year ended	Year ended
Creditors: amounts falling due after	31 March	31 March
more than one year	2006	2005
	£'000	£'000
Housing loans	98,488	100,568
Recycled capital grant fund	156	154
Disposal proceeds fund	227	92
	<u>98,871</u>	<u>100,814</u>

Housing loans

Housing loans shown above are net of £12,103 (2005: £431,580) loan arrangement fees carried forward (refer to note 14). The loans are secured against first fixed charges on certain of the Association's assets.

In 1996 the Association raised loans to finance the stock acquisition and its future operational requirements. The total facility is £150m. Loans when fully drawn are due for repayment on 21 December 2031. However, the Association has arranged a new loan to refinance this existing facility. This new loan will be effective from January 2007 for a period of 30 years.

Loans may be drawn and held on variable rates (LIBOR plus margin) or, by agreement with the lender, on fixed rates for periods up to 25 years. Drawings at 31 March 2006 totalled £98.5m (2005: £101.0m) at the following ranges of interest rates.

Fixed for periods maturing between 2 and 7 years	£61.0m.	4.57% to 7.27%
Variable	£37.5m.	5.07% to 5.93%

Recycled capital grant fund

The Association is permitted to set aside repayable development grants from staircasing shared ownership and Right to Buy sales into a recycled capital grant fund. This fund is utilised for the acquisition of new housing within three years or the grant becomes repayable to the Housing Corporation.

Disposal proceeds fund

Net proceeds from the disposal of property under statutory right to acquire legislation and regulations are included within a disposal proceeds fund. The fund can be applied for specific purposes ranging from acquisition of dwellings for letting to repairs and improvement of vacant dwellings or buildings otherwise subject to demolition. The fund may be repayable, at the discretion of the Housing Corporation, in certain specific circumstances.

Interest is credited to both the Recycled Capital Grant Fund and the Disposal Proceeds Fund, calculated on a daily basis with the interest rate being determined by the level of total deposits on each fund.

Notes to the Financial Statements

for the year ended 31 March 2006

Note 23	At	Transfer	At
Funds held in Trust	1 April	in	31 March
	2005	Year	2006
	£'000	£'000	£'000
Leaseholders Accumulation Fund	(58)	5	(53)

This fund relates to contributions held on behalf of leaseholders paid through services charges. The sums are set aside to cover future planned maintenance work to individual leasehold flats and to contribute to communal work on the blocks. Any unspent balance on the fund is protected in a separate bank account in the form of an Implied Trust which restricts access to the monies. In previous years substantial sums were spent on reroofing, structural repairs, rewiring and various enhancements which resulted in a deficit on the Fund. This is to be recovered from leaseholders over a five year period.

Note 24	Year ended	Year ended
Called up share capital	31 March	31 March
	2006	2005
	£	£
Issued and fully paid shares of £1 each		
At start of year	16	16
Change in year	(1)	0
At end of year	<u>15</u>	<u>16</u>

Note 25	£'000	£'000
Capital commitments		
Capital expenditure which has been contracted but has not been provided for in the financial statements	<u>836</u>	<u>4,268</u>
Capital and major repairs expenditure which has been authorised by the Board of Management but not contracted	<u>17,869</u>	<u>10,932</u>

Note 26	Revenue	Revaluation	Total
Reserves	£'000	£'000	£'000
At 1 April 2005 (as restated)	(21,222)	78,547	57,325
Surplus for year	1,259	0	1,259
Actuarial gains taken to reserves	50	0	50
Deficit on revaluation in year	0	(2,682)	(2,682)
At 31 March 2006	<u>(19,913)</u>	<u>75,865</u>	<u>55,952</u>

The Revaluation Reserve includes the valuation of Fixed Asset Investments.

Notes to the Financial Statements

for the year ended 31 March 2006

Note 27 Contingent liabilities

There are no known contingent liabilities at 31 March 2006 (2005 : none)

Note 28 Operating leases

At 31 March annual commitments under non-cancellable operating leases comprise:

	2006 £'000	2005 £'000
Motor vehicles		
Expiring within one year	1	16
Expiring within two and five years	0	4
Expiring in more than five years	0	0
	<u>1</u>	<u>20</u>

Note 29 Reconciliation of operating surplus to net cash inflow from operating activities

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
Operating surplus for year	2,982	2,358
Depreciation charge	1,526	1,856
Difference between pension charge and paid	(54)	29
Movement in funds held in Trust	5	16
Movement in debtors	629	81
Movement in creditors	(92)	917
Net cash inflow from operating activities	<u>4,996</u>	<u>5,257</u>

Note 30 Analysis of changes in net debt

	At 1 April 2005 £'000	Cash Flows £'000	At 31 March 2006 £'000
Cash at bank and in hand	53	333	386
Investments	0	7,273	7,273
Bank overdraft	(660)	307	(353)
	<u>(607)</u>	<u>7,913</u>	<u>7,306</u>
Housing and non-housing loans	(101,000)	2,500	(98,500)
	<u>(101,607)</u>	<u>10,413</u>	<u>(91,194)</u>

Notes to the Financial Statements

for the year ended 31 March 2006

Note 31	Year ended	Year ended
Statement of grant movements	31 March	31 March
	2006	2005
	£'000	£'000
Balance at start of year	16,106	12,990
Social housing grant received	1,378	2,332
Movement in debtors	10	(61)
Movement in creditors	(56)	845
Balance at end of year	<u>17,438</u>	<u>16,106</u>
Social housing grant	£'000	£'000
Grant financing fixed assets	16,834	15,549
Net grant transferred to recycled capital grant fund	152	152
Grant written off on disposal of RTA	50	25
Grant credited to Income and Expenditure Account	402	380
	<u>17,438</u>	<u>16,106</u>

Note 32 Related Parties

Tenant Board members, as listed on page 1, have a standard tenancy agreement. They have the same obligations and receive the same benefits as other tenants.

Note 33 Prior year adjustment

The prior year adjustment relates to the implementation of FRS 17 'Retirement Benefits'.

The adoption has resulted in a reduction in staff costs of £54,000 (2005: increase of £29,000), an increase in other financing costs of £22,000 (2005: £31,000), an increase in surplus of £32,000 (2005: an increase of deficit £60,000) and an increase in total recognised deficits by £1,235,000 (2005: £60,000).

Analysis of prior year adjustment	FRS17
	£'000
Adjustment to opening reserve at 1 April 2004	(1,298)
Adjustment to deficit for year ended 31 March 2005	(60)
Adjustment to statement of total recognised surpluses and deficits for the year ended 31 March 2005	123
Total prior year adjustment	<u>(1,235)</u>

The net adjustment of £1,235,000 is disclosed on the face of the statement of total recognised surpluses & deficits.



South Warwickshire

HOUSING ASSOCIATION LTD

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