



## **South Shropshire Housing Association Limited**

**Financial Statements for the year ended 31 March 2008**

<b>Page</b>	<b>Contents</b>
1	Chair's Statement - review of activities
2	Housing Association Governance
3	Board of Management's responsibilities statement
4 – 5	Statement on Internal Controls Assurance
6	Directors' Report
7	Operating and Financial Review
8	Auditors' Report
9	Income and Expenditure Account
10	Balance Sheet
11	Cash Flow Statement
12	Notes to the Cash Flow Statement
13 – 30	Notes to the Financial Statements

**Registered Office  
The Gateway, The Auction Yard,  
Craven Arms, Shropshire SY7 9BW**

**Housing Corporation Registration No. LH 3943**

## Chair's Statement

The 2007/08 financial year has once again produced good results for us, with a smaller than budgeted deficit being achieved. The net position is a deficit of £677,212 rather than the budgeted deficit (at the revised budget stage) of £1,374,015.

Much of this deficit relates to the accounting treatment of our maintenance spend. Because this expenditure does not increase the capital value of our stock, it is treated as revenue and is offset against income in the year it is incurred. This creates a large deficit but is all accommodated within the business plan.

Drawdowns during the year were lower than originally expected because of some slippage on development schemes and this, combined with lower than anticipated interest rates, resulted in savings from interest costs of around £450,000.

Almost all income items were higher than budgeted at the revised stage. Once again, we received more income for aids and adaptations work. This enabled us to do more work for our tenants but it should be noted that it also shows up in the accounts as an increase in other repair costs.

We were over budget in terms of administration costs by around £108,000. The main reason for this overspend was the write off allowance included for abortive development schemes occurring in previous years.

Once again, we were able to increase expenditure on routine and planned maintenance, including bathrooms, doors, windows, kitchens and roofing. This contributes significantly to improving the environment for our tenants but also helps ensure we meet Decent Homes Standards and our commitments to our funders, The Royal Bank of Scotland and Newcastle Building Society.

Our development programme has also seen another successful year. We built 29 new properties during the year. Against this, 3 properties were sold through the Right to Buy scheme, 2 properties were demolished to make way for new development, and 33 properties went out of management during the year. This reduces the total number of our properties by 9, as detailed in Note 9.

In addition to this, we completed a further 7 rented and 3 shared ownership properties on behalf of Meres & Mosses Housing Association, which have been transferred at cost.

Finally, as always, I would like to thank our staff and my fellow Board Members for their dedication and strong commitment to our objective of providing good quality homes and services, involving people in building communities where they choose to live. It has been a demanding year and they have risen to the challenge admirably. I would also like to record my thanks and appreciation to the increasing number of tenants who work with us to ensure that we provide the services that they want to see.

**Neville Stephens**  
**Chair**

**30<sup>th</sup> July 2008**

## Housing Association Governance

### Status of the Association

The Association is incorporated by the Financial Services Authority under the Industrial and Provident Societies Act 1965, Registered No. 27191R and is also registered with the Housing Corporation in accordance with the Housing Act 1996, Registered No. LH 3943. The Association has charitable objects, and is a charity for tax purposes (reference XT4981).

### Purposes of the Association

The Association was formed for the benefit of the community in providing housing, accommodation and assistance to help house people.

### Statement of Compliance with the NHF Code of Governance

The Board of Management annually reviews its policies and procedures to comply in all material respects with the principal recommendations of the Code of Governance issued by the National Housing Federation in May 2004.

### Members of the Association

There are two categories of shareholding membership: Tenant Members of which there are 31 and Voluntary Members of which there are 35, each holding a £1.00 share. Shropshire Housing Ltd is also a member and holds a £1.00 share. Members have voting rights at Annual and Special General Meetings. Members of the Association are eligible to be elected to sit on the Board and Sub Committees. The detailed arrangements regarding membership are set out in the Rules of the Association.

### The Board of Management

The Board comprises up to 10 members and up to 5 co-optees and is responsible for managing the affairs of the Association. The Board may include up to five co-opted persons appointed by the Board who may not

be members of the Association, to act as specialist advisers.

There are 2 elected Tenant Members and South Shropshire District Council also nominates 1 Council Member to attend the Board of Management. (The District Council nominees are not required to be shareholding members of the Association).

The Board members are drawn from a wide background bringing together professional, commercial and local experience. The Group's Remuneration and Nominations Committee carry out regular audits of skills available and skills required. Effectiveness is regularly reviewed and monitored. The Board is responsible for the Association's continuing strategy and policy framework. It delegates the day-to-day management and implementation of that framework to the Managing Director. The Board now meets six times a year for regular business and on an annual basis for members' training. Other specific or special meetings take place as required.

Our Board of Management is responsible for the operating activities of the RSL which includes setting strategy and policy in relation to development of new homes, improvement, modernisation and repair of existing homes, housing and estate management, tenant involvement, rent collection and arrears management. The Shropshire Housing Group Board is responsible for providing strategic direction and policy development, overall financial control and support, developing performance systems and monitoring compliance with all regulatory requirements.

The Chair is appointed annually by Members of the Board.

### Remuneration of Board Members

Our Board Members receive a fee from the Association and this is agreed on an annual basis. Reasonable reimbursement is made for travel and subsistence in appropriate circumstances.

## Statement of Board of Management's Responsibilities

The Industrial and Provident Societies Acts 1965 to 2002 require the Board of Management to arrange for the preparation of 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 surplus or deficit for that period.

In preparing those financial statements, the Board of Management is required to:

- adopt suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting policies have been followed subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on a going concern basis.

The Board of Management is responsible for making the appropriate arrangements for keeping proper accounting records, which disclose with reasonable accuracy at any time, the financial position of the Association and to enable it to ensure that the financial statements comply with the Industrial and Provident Societies Acts 1965 to 2002, and the Housing Act 1996. It has responsibility for taking such steps as are reasonably open to it to safeguard the assets of the Association and to prevent and detect fraud and other irregularities.

## Director's Indemnity

The Directors have confirmed that the Association does have Directors and Officers Insurance in place.

## Financial Instruments

The Association does not have any abnormal exposure to price, credit, liquidity and cash flow risks arising from its trading activities. The Association does not enter into any hedging transactions and no trading in financial instruments is undertaken.

## Disclosure of Information to Auditors

In the case of each of the persons who are Directors of the Association at the date when this report was approved:

- So far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the Association's auditors are unaware; and
- Each of the Directors has taken all the steps that they ought to have taken as a Director to make them aware of any relevant audit information (as defined) and to establish that the Association's auditors are aware of that information.

## Going Concern

After reviewing the Association's Budget for 2008/2009 and based on normal business planning and control procedures, the members of the Board have a reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future. The financial statements have therefore been prepared on a going concern basis.

## Statement on Internal Controls Assurance

### Responsibility

The Shropshire Housing Group's Board of Management, as the ultimate governing body, is responsible for the system of internal control, which is designed to provide reasonable but not absolute assurance regarding:-

- the safeguarding of assets against unauthorised use or disposal; and
- the maintenance of proper accounting records and the reliability of financial information used within the business or for publication

Key procedures have been established and are designed to provide effective internal control. These key areas cover control, reporting information systems, monitoring and risk management. The Board has a clear and well communicated strategy and policy covering the prevention and detection of fraud, and procedures are followed where fraud is suspected or detected. A clearly established whistle blowing policy is in place.

### Compliance with internal controls Housing Corporation circular 07/07

We have reviewed the effectiveness of the system of internal control, including the sources of assurance agreed by the Board as being appropriate for that purpose. On the basis of the evidence provided by the Company Secretary in her report No. 28/08 presented to the Board of Management on Friday 13<sup>th</sup> June 2008, we are satisfied that there is sufficient evidence to confirm that adequate systems of internal control existed and operated throughout the year. We are also satisfied that those systems were aligned to an ongoing process for the management of the significant risks facing the Group. No weaknesses were identified which would have resulted in material misstatement or loss and which would have required disclosure in the financial statements.

### Control Environment

The Group Board has put in place an organisational structure with clearly defined lines of responsibility and delegations of authority. These are found in detail in the

Group's Standing Orders, Financial Regulations, Treasury Management Controls and Operational Risk Statements. These delegations and authority levels are reviewed annually.

### Control Procedures

Procedure manuals are maintained for all the main functions and service areas, and in particular there are clearly defined policies for development projects and capital expenditure, including the appropriate authorisation levels. Information Technology procedures are annually updated. All capital projects require Board approval before commencement and commitment of any funds. Completed development projects are also subjected to a post investment appraisal, comparing actual results to original forecasts.

### Information Systems

The Group has a comprehensive system of financial reporting. The Annual Budget and Business Plan are approved by the Board. Actual results are reported against budget headings to each subsidiary Board meeting with any significant variances being reported together with explanations. The current borrowing and investment position is reported at each Board meeting, as well as to the Group's Performance Committee.

In accordance with regulations, annual financial returns are submitted to the Housing Corporation, and quarterly financial returns to the Association's principal lenders. There are regular meetings of the Management Team to review and monitor revenue and capital spending against budget assumptions. Cash balances are checked daily, coupled with revised forecast of borrowing requirements at regular intervals as necessary. There are a number of annual reports on other functions to the Board, and these include insurance arrangements and treasury management.

- **Monitoring System**

The control system is monitored by internal audit and within the annual plan the work is focused on the areas of greatest risk to the Association. Monitoring is also done by senior officers and managers.

- **Risk Management**

The Group's officers have a clear responsibility for identifying risk facing each of the areas in which they operate and for putting in place procedures to mitigate and monitor risk. It is the Performance Committee's responsibility to review and assess these risks.

## Directors' Report

### Members of the Board

The members of the Board who served during the year were as follows:

Neville Stephens	Chair
Shena Latto	Resigned 31 July 07
John Thomas	
Nicholas Holcombe	
Roland Brown	Resigned 28 November 07
Lesley Hyde	Resigned 31 July 07
Martin Holland	Resigned 28 November 07
Tim Ralphs	
Colin Harrison	
John Stringer	
Irene Overton	
David Mullins	Appointed 28 November 07
Ian Graves	Appointed 28 November 07
Nicola Bramah-Taylor	Appointed 26 March 08

The Board reports that we produced a deficit of £677,212, compared to the previous year's deficit of £499,534. This deficit is after charging £477,378 for depreciation on housing stock, as required by Financial Reporting Standard 15 and the Statement of Recommended Practice for Registered Social Landlords.

Turnover increased to just under £8.8 million compared to £8.5 million the previous year. Interest charges amounted to approximately £2.2 million.

### Future developments

The Board are continuing to look at developing new dwellings and to repair and improve existing properties. It is continuing to look to partnerships with other agencies in order to best secure these aims.

### Housing Properties and Other Fixed Assets

We now hold properties at a historical cost of £48.7million net of Housing Grants and depreciation. These were financed through grants, external loans and internal funds.

The value for existing use by a housing association of these properties is professionally assessed at in excess of £70 million. As a Stock Transfer Association our debt to asset gearing ratio is considered to be in line with similar associations.

During the year, our units in management decreased by 9. There were 29 new properties completed and 3 properties were sold under Right to Buy provisions. However, pending development work, 2 units were demolished and 33 units were taken out of management. At the year end, the number of housing and commercial properties we manage totalled 2000.

### Cashflow and Liquidity

The cashflow from operating activities during the year was £1.82 million, compared to £2.69 million in 2007. Loans increased by £7 million during the year resulting in total borrowings of £48.65 million at the year end.

### By order of the Board

**Neville Stephens**

**Chair**

**30<sup>th</sup> July 2008**

## Operating and Financial Review

### **Background**

South Shropshire Housing Association Limited is an independent not for profit business formed in the early 1990's to provide high quality affordable social housing in the South Shropshire area, together with properties in Herefordshire and Shrewsbury. We manage approximately 2,000 houses and aim to build about 50 new houses a year.

We have developed services and expertise in a wide range of housing and related services. For example, in addition to improving, managing and maintaining our general needs homes, we run a foyer for young people, a refuge for women fleeing domestic violence, sheltered schemes for older people and run supported housing projects for vulnerable and homeless people.

Our vision is to provide quality homes and services involving people in building communities where they choose to live.

### **Operating Review**

On 30<sup>th</sup> July 2007 we became part of the Shropshire Housing Group, with the newly formed Meres & Mosses Housing Association and Total Response Limited. At this time we adopted charitable rules. The formation of the Group has created efficiencies in administrative costs which are being used to improve frontline services in 2008/09 and beyond, following consultation with tenants.

We have seen another successful year, developing 29 new properties and a further 10 properties for Meres and Mosses Housing Association.

Once again, expenditure on routine and planned maintenance has increased from the previous year's level, with specific attention being directed towards bathrooms, doors, windows, kitchens and roofing.

### **Reporting Structure**

The Board comprises up to 10 members and up to 5 co-optees and is responsible for managing the affairs of the Association. The Board Members are drawn from a wide background bringing together professional, commercial and

local experience. The Board is responsible for our continuing strategy and policy framework. It delegates the day to day management and implementation of that framework to the Executive. The Board meets six times a year.

### **Continuous Improvement**

We are committed to achieving excellent performance across the whole of our business and services. We use a Best Value review framework as part of a drive to continuously improve. Alongside the annual Performance Plan, we are also committed to the efficiency agenda. All Performance Reviews are monitored through to completion via the Shropshire Housing Group's Performance Management Group.

The Performance Management Group monitors the benchmarked data from Housemark together with performance indicators, reports and best practice visits. The group is made up mainly of senior managers from across the Shropshire Housing Group.

### **Risks and uncertainties**

During 2007 the Shropshire Housing Group implemented new risk modelling software to help embed risk management to all levels of the Group. The Group Board considered risk and risk appetite at its meeting on 13<sup>th</sup> June 2008 and the Group Board will continue to monitor and review risks every six months.

### **Financial Review**

The 2007/08 financial year has produced good results with a smaller than budgeted deficit being achieved. The net position is a deficit of £677,212 against predicted £1,374,015. We paid over £10.5million in acquisition and construction of housing properties and received over £2.5million in capital grants relating to this. We received £7 million in housing loans.

North Shropshire tenants agreed to the transfer of the council housing stock in a vote during Autumn 2007. Meres & Mosses Housing Association was set up on 30<sup>th</sup> July 2007, and together with South Shropshire Housing Association and Total Response Ltd, the Shropshire Housing Group was formed.

**Report of the Auditors to the members of  
South Shropshire Housing Association Limited**

We have audited the financial statements of South Shropshire Housing Association Limited for the year ended 31<sup>st</sup> March 2008 which comprise the income and expenditure account, the balance sheet, the cashflow statement and the related notes. These financial statements have been prepared under the historical cost convention and in accordance with the accounting policies set out therein.

This report is made solely to the Association's members, as a body, in accordance with relevant legislation. Our audit work has been undertaken so that we might state to the Association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and the Association's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of the Board and Auditors**

As described in the Statement of Board Members' Responsibilities the Board is responsible for the preparation of financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accountability 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, Part III of Schedule 1 to 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 Board Report is not consistent with the financial statements, 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 Board members' transactions with the Association are not disclosed.

We read the Directors' Report and Operating and Financial Review and consider the implications for our report if we become aware of any misstatements in them.

**Basis of audit opinion**

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

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

**Opinion**

In our opinion the financial statements give a true and fair view of the state of the Association's affairs at 31<sup>st</sup> March 2008 and of its income and expenditure for the year then ended and have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002, Part III of Schedule 1 to the Housing Act 1996 and the Accounting Requirements for registered social landlords General Determination 2006.

**The Broadway  
Dudley  
West Midlands  
DY1 4PY**

**Mazars LLP  
Chartered Accountants  
& Registered Auditors**

**30<sup>th</sup> July 2008**

## Financial Statements 2008 – South Shropshire Housing Association

### Income and Expenditure Account for the year ended 31<sup>st</sup> March 2008

	<i>Note</i>	<b>2008</b> £	<b>2007</b> £
<b>Turnover</b>	2	<b>8,834,186</b>	8,545,250
Operating costs	2	<b>(7,350,405)</b>	(7,036,248)
<b>Operating surplus</b>	2	<b>1,483,781</b>	1,509,002
Share of deficit in joint ventures	10	<b>(3,215)</b>	(4,135)
Surplus on sale of fixed assets	9	<b>30,597</b>	112,271
<b>Surplus on ordinary activities before interest</b>	5	<b>1,511,163</b>	1,617,138
Interest receivable and similar income	3	<b>75,186</b>	34,781
Interest payable and similar charges	4	<b>(2,253,561)</b>	(2,168,825)
<b>(Deficit)/Surplus on ordinary activities before taxation</b>		<b>(667,212)</b>	(516,906)
Taxation on (deficit)/surplus on ordinary activities	8	-	17,372
<b>(Deficit) for the year transferred to reserves</b>		<b>(667,212)</b>	(499,534)

All of the above relate to continuing activities.

### Statement of Total Recognised Surpluses and Deficits for the year ended 31<sup>st</sup> March 2008

	<i>Note</i>	<b>2008</b> £	<b>2007</b> £
(Deficit) for the year		<b>(667,212)</b>	(499,534)
Actuarial (loss) / gain	18	<b>(115,000)</b>	128,000
<b>Total recognised deficits relating to the year</b>		<b>(782,212)</b>	(371,534)

# Financial Statements 2008 – South Shropshire Housing Association

## Balance Sheet at 31<sup>st</sup> March 2008

		<i>2008</i>		<i>2007</i>	
	<i>Note</i>	£	£	£	£
<b>Tangible fixed assets</b>					
Tangible assets cost	9		77,415,376		68,395,993
Less Depreciation	9		(3,831,699)		(3,556,524)
Less Social Housing grant	9		(23,941,991)		(21,501,683)
Other capital grants	9		(623,690)		(623,690)
			49,017,996		42,714,096
Investments/Joint Ventures	10		(10,083)		(6,868)
			49,007,913		42,707,228
<b>Current assets</b>					
Stock	11		0	40,162	
Debtors	12	1,091,973		349,610	
Investments	13		0	1,000,000	
Cash at bank and in hand			915,804	135,788	
			2,007,777	1,525,560	
<b>Creditors: amounts falling due within one year</b>	14		(2,523,407)	(2,080,335)	
<b>Net current (liabilities)/assets</b>			(515,630)	(554,775)	
<b>Total assets less current liabilities</b>			48,492,283	42,152,453	
<b>Creditors: amounts falling due after more than one year</b>	15		48,265,913	41,248,862	
Provision for pension liability	18		938,000	833,000	
<b>Capital and reserves</b>					
Called up share capital	16		67	76	
Revenue reserve	17		(711,697)	70,515	
			48,492,283	42,152,453	

These financial statements were approved by the Board of Management on 30<sup>th</sup> July 2008 and were signed on its behalf by

Neville Stephens  
Chair

Martin Holland  
Secretary

# Financial Statements 2008 – South Shropshire Housing Association

## Cash Flow Statement for the year ended 31<sup>st</sup> March 2008

		<i>2008</i>		<i>2007</i>	
	<i>Notes</i>	£	£	£	£
<b>Net cash inflow from operating activities</b>	<i>(a)</i>		1,825,052		2,697,766
<b>Returns on investments and servicing of finance</b>					
Interest received		87,250		58,865	
Interest paid		<u>(2,143,389)</u>		<u>(2,067,189)</u>	
			<b>(2,056,139)</b>		<b>(2,008,324)</b>
<b>Capital expenditure</b>					
Acquisition and construction of housing properties		<b>(10,556,013)</b>		(4,619,131)	
Proceeds on disposal of fixed assets		36,777		1,118	
Proceeds from sale of Right To Buy properties & miscellaneous land		969,904		440,454	
Capital grants received		2,592,069		1,292,410	
Purchase of other tangible fixed assets		<b>(31,637)</b>		(79,430)	
Loan repayment from associate Investment		-		-	
			<u><b>(6,988,900)</b></u>		<u>(2,964,579)</u>
<b>Taxation</b>			-		98,691
<b>Financing</b>					
Loan financing costs		-		-	
Net housing loans received	<i>(c)</i>	7,000,000		2,550,000	
Net shares issued		<u>3</u>		<u>4</u>	
			<u><b>7,000,003</b></u>		<u>2,550,004</u>
<b>(Decrease) / Increase in cash</b>	<i>(c)</i>		<u><u><b>(219,984)</b></u></u>		<u><u>373,558</u></u>

**Notes to the Cash Flow Statement for the year ended 31<sup>st</sup> March 2008**

**(a) Reconciliation of operating surplus to net cash inflow from operating activities**

	<b>2008</b>	<b>2007</b>
	<b>£</b>	<b>£</b>
Operating surplus	1,483,781	1,509,002
Depreciation	643,761	637,570
(Increase) / Decrease in debtors	(74,774)	158,922
Decrease in stock	40,162	4,068
(Decrease) / Increase in creditors	(230,869)	424,297
Movement in provisions	(37,000)	(36,000)
Reduction share capital	(9)	(93)
Net cash inflow from operating activities	<b>1,825,052</b>	<b>2,697,766</b>

**(b) Reconciliation of net cashflow to movement in net debt**

	<b>2008</b>	<b>2007</b>
	<b>£</b>	<b>£</b>
(Decrease) / Increase in cash in the year	(219,984)	373,558
Housing loans received	<b>(7,000,000)</b>	<b>(2,550,000)</b>
Change in net debt	(7,219,984)	(2,176,442)
Net debt brought forward	<b>(40,514,212)</b>	<b>(38,337,770)</b>
Net debt carried forward	<b>(47,734,196)</b>	<b>(40,514,212)</b>

**(c) Analysis of changes in net debt**

	<b>At 1<sup>st</sup> April</b>	<b>Cash Flow</b>	<b>At 31<sup>st</sup> March</b>
	<b>2007</b>	<b>£</b>	<b>2008</b>
	<b>£</b>		<b>£</b>
Investments	1,000,000	(1,000,000)	-
Cash at bank and in hand	135,788	780,016	915,804
		<b>(219,984)</b>	
Debt due after 5 years	(41,650,000)	(7,000,000)	(48,650,000)
Total	<b>(40,514,212)</b>	<b>(7,219,984)</b>	<b>(47,734,196)</b>

**Notes** (forming part of the financial statements)

## 1 Accounting policies

The financial statements have been prepared in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), and in line with the Statement of Recommended Practice “Accounting by Registered Social Landlords” and the Accounting Requirements for Registered Social Landlords General Determination 2005. A summary of the more important accounting policies, which have been consistently applied, is set out below. The accounting policies were reviewed by the Performance Committee on 7<sup>th</sup> May 2008 in accordance with FRS18.

### Accounting convention

The financial statements are prepared under the historical cost convention.

### Turnover

Turnover represents rents and service charges receivable in respect of tenanted properties, residential care charges and amounts invoiced in respect of the provision of management services.

### Merger Accounting

The group will be accounted for under Merger Accounting as defined under FRS 6 Acquisitions and Mergers. The combination meets all the specific criteria set out in paragraph 6-11 of FRS6 and thus falls within the definition of a merger. The combining entities are Shropshire Housing Limited, South Shropshire Housing Association, Meres and Mosses Housing Association and Total Response Limited. The group was formed on 30<sup>th</sup> July 2007.

### Fixed assets and depreciation

Other tangible fixed assets are stated at cost and are written down to their residual value over their expected useful life on a straight line basis at the following annual rates:

Office equipment, fixtures & fittings	- 15% to 25%
Plant & machinery	- 15% to 25%
Vehicles	- 25%

### Housing Properties

As required by Financial Reporting Standard 15 and the Statement of Recommended Practice for Registered Social Landlords, the Association has reviewed the useful economic lives of its housing properties and with effect from 1<sup>st</sup> April 1999 depreciates the property costs, less grants, freehold land and residual value.

The properties are reviewed for impairment annually, and where housing properties have suffered a permanent diminution in value, the fall in value will be recognised after taking account of any related capital gains.

Housing properties in the course of construction are stated at cost and are transferred into housing properties when complete. The cost of properties is their purchase price or construction cost together with enhancement expenditure and other acquisition and development costs, including capitalised interest and directly attributable overheads.

### Notes (continued)

Enhancement expenditure to our existing stock is capitalised where it results in an increase of economic benefits of the asset. Works are recognised as an addition to the asset only to the extent that they provide an enhancement to its economic benefits in excess of the standard of performance anticipated when the asset was first acquired or constructed or last replaced. Any works which do not result in an enhancement of economic benefits of a property are charged to the income and expenditure account. This includes expenditure incurred to ensure that the property can maintain its existing level of net rental income or the standard of performance anticipated when the asset was first acquired or constructed or last replaced.

Depreciation on freehold housing properties is charged on the straight line basis over the expected useful lives of the assets as follows:

Sheltered housing schemes with lower demand	- 10 years
All other housing properties	- 99 years

### Social Housing and Other Grants

When developments have been financed wholly or partly by social housing and other grants, the costs of those developments have been reduced by the amount of the grant received. Social housing grant received in advance of the costs of housing properties in the course of construction is shown as a current liability.

Provision is made in the balance sheet for repayments of social housing grants where it is likely that properties will be sold in the foreseeable future.

### Stock

Stock is stated at the lower of cost and net realisable value.

### Operating leases

Rentals payable under operating leases are charged on a straight-line basis over the term of the lease.

### Interest charges

Interest charges represent the actual cost of financing purchased transferred properties, completed property acquisitions, new developments and major repairs schemes where mortgages and loans have been received from external sources.

### Capitalisation of interest

Interest on the loan financing a development is capitalised up to the date of practical completion, after adjustment for interest received on social housing grant in advance of the relevant expenditure. Interest has been charged at 6% per annum.

### Pension costs

Contributions payable to the Association's pension scheme are charged to the income and expenditure account so as to spread the cost of pensions over the service lives of employees in the schemes. FRS 17 is followed.

## Financial Statements 2008 – South Shropshire Housing Association

Notes (continued)

### Taxation

The charge for taxation is based on the results for the year and takes into account taxation deferred (or accelerated) because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax on a full provision basis. We obtained charitable status confirmation from the Inland Revenue for Meres and Mosses Housing Association from its first day of trading and for SSHA from 6<sup>th</sup> August 2007. This is due to the Inland Revenue accepting our Charitable Objects. SHL and TRL will still be subject to taxation.

### VAT policy

The Group is VAT registered, but a large proportion of its income namely rents, is exempt for VAT purposes. This gives rise to a partial exemption calculation. Expenditure is shown inclusive of VAT and the input VAT recovered is shown in the Income and Expenditure Account. The accounting entities listed under the merger accounting note form a VAT group.

### Supported People Income and Expenditure

Separately identifiable accommodation based rent, service and support charge income along with any related costs for accommodation based supported housing are disclosed under “Supported Housing” within Note 2. Charges for and costs of support services funded under Supporting People are shown under “Supporting People” within Note 2 “Other Social Housing”.

## 2 Turnover, operating costs and operating surplus

	Turnover	2008 Operating Costs	Operating Surplus	2007 Turnover	Operating Surplus
	£	£	£	£	£
<b>Lettings</b>	8,175,144	6,863,606	1,311,538	7,712,872	1,807,399
<b>Other Social Housing</b>					
Supporting People	413,476	384,775	28,701	503,775	68,072
Agency management	60,766	60,766	0	49,246	-
Foyer non letting	11,152	11,152	0	12,273	-
VAT	60,257	0	60,257	59,392	59,392
	<b>545,651</b>	<b>456,693</b>	<b>88,958</b>	<b>624,686</b>	<b>127,464</b>
Contribution to pension scheme		(37,000)	37,000	-	36,000
Non social housing lettings and external work of DLO	113,391	67,106	46,285	207,692	52,020
Costs of formation of Group	-	-	-	-	(513,881)
	<b>8,834,186</b>	<b>7,350,405</b>	<b>1,483,781</b>	<b>8,545,250</b>	<b>1,509,002</b>

## Financial Statements 2008 – South Shropshire Housing Association

### Notes (continued)

#### 2 Income and expenditure from lettings (continued)

	2008					2007	
	Housing Accommodation £	Supported Housing / Older People £	Foyer £	Refuge £	Shared Ownership £	Total £	Total £
<b>Income</b>							
Net Rental Income	5,946,994	933,179	34,556	32,487	89,180	7,036,396	6,682,239
Net Service Charges Income	85,289	147,006	21,081	34,174	3,776	291,326	283,663
Charges for Support Services	-	44,799	-	-	-	44,799	48,469
<b>Net rental income</b>	<b>6,032,283</b>	<b>1,124,984</b>	<b>55,637</b>	<b>66,661</b>	<b>92,956</b>	<b>7,372,521</b>	<b>7,014,371</b>
Revenue grants from Housing Corporation and Local Authority	-	319,110	113,367	106,025	-	538,502	437,649
Aids & Adaptations Grant	136,432	-	-	-	-	136,432	181,676
Other Revenue Grants	86,587	-	-	23,664	-	110,251	61,159
Other Income	16,903	-	-	535	-	17,438	18,017
<b>Total income from lettings</b>	<b>6,272,205</b>	<b>1,444,094</b>	<b>169,004</b>	<b>196,885</b>	<b>92,956</b>	<b>8,175,144</b>	<b>7,712,872</b>
<b>Expenditure on lettings</b>							
Management Services	1,785,765	340,348	33,508	15,443	12,763	2,187,827	1,986,859
Care and support	220,995	147,006	23,691	37,976	391	430,059	424,969
Routine maintenance	94,389	285,369	111,936	107,570	-	599,264	701,136
Planned maintenance	1,086,895	211,690	15,375	11,885	-	1,325,845	1,094,574
Rent losses from bad debts	1,545,078	300,928	-	-	-	1,846,006	1,221,042
Depreciation	(300)	(72)	43	1,619	-	1,290	41,770
	391,061	76,165	4,063	2,026	-	473,315	435,123
<b>Total expenditure on lettings</b>	<b>5,123,883</b>	<b>1,361,434</b>	<b>188,616</b>	<b>176,519</b>	<b>13,154</b>	<b>6,863,606</b>	<b>5,905,473</b>
<b>Operating surplus/(deficit)</b>	<b>1,148,322</b>	<b>82,660</b>	<b>(19,612)</b>	<b>20,366</b>	<b>79,802</b>	<b>1,311,538</b>	<b>1,807,399</b>
<b>Void Losses</b>	<b>(44,001)</b>	<b>(7,558)</b>	<b>(7,042)</b>	<b>(7,414)</b>	<b>-</b>	<b>(66,015)</b>	<b>(91,530)</b>

The supported housing project is based on support given to individual tenants, and is property based. The rental income quoted refers to the rental due while the tenant is using the facility.

## Financial Statements 2008 – South Shropshire Housing Association

### Notes (continued)

#### 3 Interest receivable and similar income

	2008 £	2007 £
Interest receivable from bank deposits	<u>75,186</u>	<u>34,781</u>

#### 4 Interest payable and similar charges

	2008 £	2007 £
Net finance charge on pension (note 18)	27,000	29,000
On bank loans, overdrafts and other loans repayable - wholly or partly in more than 5 years	2,584,903	2,328,862
Less: interest capitalised	<u>(358,342)</u>	<u>(189,037)</u>
	<u>2,253,561</u>	<u>2,168,825</u>

#### 5 Surplus on ordinary activities before interest

	2008 £	2007 £
<i>Surplus on ordinary activities before interest is stated after charging:</i>		
Depreciation of tangible fixed assets	643,761	637,570
Auditors' remuneration (including VAT):		
In their capacity as auditors	-	13,735
In respect of other services	<u>326</u>	<u>3,998</u>

#### 6 Staff costs

	2008 £	2007 £
Wages and salaries	1,656,048	2,517,206
Social security costs	139,626	179,403
Other pension costs	<u>191,568</u>	<u>220,323</u>
	<u>1,987,242</u>	<u>2,916,932</u>
Average number of full-time equivalent persons employed during the year	<u>77</u>	<u>112</u>
These were categorised as:		
Central Support	7	19
Development	11	11
Housing	39	33
Property Services	7	34
Sheltered/Domestic Support	<u>13</u>	<u>15</u>
	<u>77</u>	<u>112</u>

## Financial Statements 2008 – South Shropshire Housing Association

Notes (continued)

### 7 Directors' emoluments

The remuneration paid to the Directors of the Association (the Board of Management, the Chief Executive, Director of Resources and Managing Director) was:

	2008 £	2007 £
Total emoluments	<u>137,939</u>	<u>250,682</u>
The emoluments of directors disclosed above (excluding pension contributions) include amounts paid to the highest paid director and Managing Director	<u>68,166</u>	<u>86,744</u>
Aggregate amount of directors pension contributions	<u>15,245</u>	<u>23,867</u>
Fees payable by way of expenses and Remuneration to Board Members	<u>22,126</u>	<u>33,625</u>

The Managing Director is an ordinary member of the pension scheme. No additional contributions to any pension scheme have been made and there were no special or enhanced terms which apply. The employers' contribution to the pension scheme on behalf of the Managing Director in 2007/2008 was £8,700.

### 8 Taxation

	2008 £	2007 £
United Kingdom Corporation Tax (Over provision)/Under provision re: 2005 2004	-	-
Current	-	(17,372)
(Credit)/Charge in accounts	<u>-</u>	<u>(17,372)</u>
Factors affecting current tax charge for the year: The tax assessed for the year is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:	-	
(Deficit)/Surplus on ordinary activities before tax	<u>(667,212)</u>	<u>(516,906)</u>
Tax on (deficit)/surplus on ordinary activities at 30%	<u>(200,164)</u>	<u>(155,072)</u>
Costs not deductible for tax purposes (primarily depreciation of properties)	<u>205,366</u>	<u>332,417</u>
Capital allowances	<u>(13,696)</u>	<u>(56,216)</u>
Land remediation and adjustments	-	(50)
Utilisation of tax losses	-	(103,707)
Adjustment to tax charge in respect of previous periods	-	(17,372)
Unrelieved tax loss carried forward	<u>8,494</u>	<u>-</u>
Current charge in the accounts	<u>-</u>	<u>-</u>

The company has been accepted as a charity with effect from 6 August 2007.

## Financial Statements 2008 – South Shropshire Housing Association

### Notes (continued)

#### 9 Tangible fixed assets

	Freehold housing properties	Freehold housing properties in the course of construction	Foyer	Freehold residential care home	Office equipment, fixtures & fittings	Plant and machinery & vehicles	Total
	£	£	£	£	£	£	£
<b>Cost</b>							
At beginning of year	59,838,146	5,193,954	1,943,704	394,121	938,589	87,479	68,395,993
Additions	72,991	10,284,810	-	-	7,779	-	10,365,580
Schemes completed	1,317,541	(1,317,541)	-	-	-	-	-
Disposals	(853,818)	0	-	(394,121)	(11,302)	(86,956)	(1,346,197)
At end of year	<u>60,374,860</u>	<u>14,161,223</u>	<u>1,943,704</u>	<u>-</u>	<u>935,066</u>	<u>523</u>	<u>77,415,376</u>
<b>Depreciation and impairment</b>							
At beginning of year	2,653,202	-	49,703	299,283	504,713	49,623	3,556,524
Charge for the year	469,252	-	8,126	-	165,358	1,025	643,761
Eliminated on disposals	(7,451)	-	-	(299,283)	(11,727)	(50,125)	(368,586)
At end of year	<u>3,115,003</u>	<u>-</u>	<u>57,829</u>	<u>-</u>	<u>658,344</u>	<u>523</u>	<u>3,831,699</u>

## Financial Statements 2008 – South Shropshire Housing Association

### Notes (continued)

#### 9 Tangible fixed assets (continued)

	Freehold housing properties	Freehold housing properties in the course of construction	Foyer	Freehold residential care home	Office equipment, fixtures & fittings	Plant and machinery & vehicles	Total
	£	£	£	£	£	£	£
<b>Social Housing grants</b>							
At beginning of year	*19,620,791	*1,520,922	*359,970	-	-	-	21,501,683
Receivable	-	2,440,308	-	-	-	-	2,440,308
Schemes completed	285,858	(285,858)	-	-	-	-	-
At end of year	<u>19,906,649</u>	<u>3,675,372</u>	<u>359,970</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,941,991</u>
<b>Other capital grants</b>							
At beginning of year & end of year	-	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>623,690</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>623,690</u>
<b>Net book value</b>							
At 31 <sup>st</sup> March 2008	<u>37,353,208</u>	<u>10,485,851</u>	<u>902,215</u>	<u>-</u>	<u>276,722</u>	<u>-</u>	<u>49,017,996</u>
At 31 <sup>st</sup> March 2007	<u>37,564,153</u>	<u>3,673,032</u>	<u>910,341</u>	<u>94,838</u>	<u>433,876</u>	<u>37,856</u>	<u>42,714,096</u>

Works to existing properties during the year amounted to £ 1,846,006. This has been accounted for as follows:-

Planned maintenance - revenue	£ 1,846,006
Improvements - capital	£NIL

\* This represents total amount of SHG receivable both capital and revenue.

## Financial Statements 2008 – South Shropshire Housing Association

### Notes (continued)

#### 9 Tangible fixed assets (continued)

Housing properties and housing properties in the course of construction include £1,140,774 (2007: £782,432) of accumulated capitalised interest.

<b>Number of units</b>	<b>2008</b>	2007
<b>Under development at end of year:</b>		
Housing accommodation	<u>110</u>	<u>102</u>
<b>Under management at end of year:</b>		
Housing accommodation	1,978	1,987
Managed for private landlords	5	5
Commercial units	<u>17</u>	<u>17</u>
	<u><b>2,000</b></u>	<u>2,009</u>

#### Disposal of fixed assets

	<b>2008</b>	2007
	£	£
Proceeds	1,008,204	188,576
Cost	(1,346,197)	(137,375)
Depreciation eliminated on disposal	<u>368,590</u>	<u>61,070</u>
Surplus on disposal	<u><b>30,597</b></u>	<u>112,271</u>

#### 10 Investments

	<b>2008</b>	2007
	£	£
Shares in Joint Venture undertaking:		
At 1 <sup>st</sup> April 2007	40	40
Addition	<u>-</u>	<u>-</u>
At 31 <sup>st</sup> March 2008	<u><b>40</b></u>	<u>40</u>

In 2005, the Association acquired 40 ordinary shares of £1 each in South Shropshire Local Homes Limited, out of a total of 99 issued. The principal activity of the company in the year under review was that of the provision and sale or rent of affordable housing for local people. Dividends on sale or winding up of the company will entitle the 3 shareholders equal amounts on distribution irrespective of share numbers held. The accounting period is the year ended 31<sup>st</sup> March.

## Financial Statements 2008 – South Shropshire Housing Association

### Notes (continued)

#### 10 Investments (continued)

#### South Shropshire Housing Association share of the joint venture, South Shropshire Local Homes Limited

	£	£
Share of turnover		-
Share of Loss before tax	(3,215)	
Taxation	-	
Loss after tax		(3,215)
Balance brought forward		(6,868)
		(10,083)
Share of assets		
Fixed assets	5	
Current assets	13,116	
	13,121	
Share of liabilities		
Due within one year or less	(23,211)	
Due after more than one year-shares	(33)	
Share of net liabilities		(10,123)
Shares held 40 ordinary £1 shares		40
		(10,083)

#### 11 Stock

	2008 £	2007 £
Consumable maintenance stock	-	40,162

#### 12 Debtors

	2008 £	2007 £
<b>Due within one year</b>		
Gross rental arrears	531,506	547,084
Less: Provision for bad debts	(322,179)	(371,971)
	209,327	175,113
Prepayments and accrued income	882,646	174,497
	1,091,973	349,610

#### 13 Current asset investments

	2008 £	2007 £
Cash on short term deposit	-	1,000,000

**Notes (continued)**

**14 Creditors: amounts falling due within one year**

	2008	2007
	£	£
Trade creditors	1,218,927	739,515
Other taxation and social security	84,493	107,239
Rent in advance	85,875	56,080
Social Housing Grant in advance	243,971	* 92,210
Accruals and deferred income	890,141	1,085,291
	<b>2,523,407</b>	<b>2,080,335</b>

\* Includes recycled capital grant

	£
Opening balance	-
Grant element of Homebuy	18,750
Closing Balance	<b>18,750</b>

This will be recycled into another capital scheme in 2009

**15 Creditors: amounts falling due after more than one year**

**Housing loans**

The Association has a combined borrowing facility of £65,000,000 of which £48,650,000 had been utilised at 31<sup>st</sup> March 2008 (£16,350,000 undrawn). The facility is for a term of 35 years on both fixed and variable rate terms. The Association is able to choose from time to time to select fixed term borrowing from variable rates. The borrowings are secured by fixed and floating charges over the assets of the Association, variable rates are at LIBOR plus the agreed margin. Fixed rate loans were between 5.18% and 6.38% including margin.

	2008	2007
	£	£
<i>Amounts repayable by instalments and not wholly repayable within five years:</i>		
Repayable after five years	<b>48,650,000</b>	<b>41,650,000</b>

The balance sheet shows the position net of refinancing costs of £384,087 (2007: £401,138).

**16 Called up share capital**

	2008	2007
	£	£
<i>Issued and fully paid shares of £1 each:</i>		
At beginning of year	76	169
Issued during the year	3	-
Relinquished during the year	(12)	(93)
At end of year	<b>67</b>	<b>76</b>

**Notes** (continued)

**17 Reserves**

	<b>Revenue reserve £</b>
Balance brought forward	70,515
Deficit in the year	(667,212)
Actuarial loss on pension scheme	(115,000)
Balance carried forward	(711,697)

**18 Pension obligations**

The Association's employees are members of the Social Housing Pension Scheme (SHPS) or the Shropshire County Council Pension Scheme.

Total pension cost for the Association was £191,568 (2007: £220,323) covering 34 (2007: 66) employees. This includes £66,000 (£50,200 in 2007) lump sum payment for the Shropshire County Council Pension Scheme funding deficit.

(a) South Shropshire Housing Association Ltd participates in the Social Housing Pension Scheme (SHPS). SHPS is a multi-employer defined benefit scheme. The scheme is funded and is contracted out of the state scheme.

The last formal valuation of the Scheme was performed at 30<sup>th</sup> September 2005 by a professionally qualified actuary using the "projected unit credit" method. The market value of the Scheme's assets at the last valuation date was £1,278 million.

South Shropshire Housing Association Ltd paid contributions at the rate of 14.1% during the accounting period. Member contributions varied between 5.4% and 8.4% depending on their age.

It is not possible to identify the share of underlying assets and liabilities belonging to individual participating employers.

Due to the nature of the Scheme, the profit and loss account charge for the period under both SSAP24 and FRS17 represents the employer contribution payable.

## Notes (continued)

### 18 Pension obligations (continued)

#### Financial Assumptions

The financial assumptions underlying the valuation were as follows:

	% pa
Rate of return on future contributions	4.8
Rate of return on accumulated assets	7.2
Rate of salary increases to Sept 2010	5.0
Rate of pension increases	2.5
Rate of price inflation	2.5

The accumulated assets of the Scheme were assumed to earn the same return as if they had been invested in a portfolio comprising 100% UK equities for non-pensioner liabilities and 25% UK equities/75% index-linked gilts for pensioner liabilities.

The scheme operated a single benefit structure, final salary with a 1/60<sup>th</sup> accrual rate, to March 2008. From April 2008 there are three benefit structures available, namely:

1. Final salary with a 1/60<sup>th</sup> accrual rate
2. Final salary with a 1/70<sup>th</sup> accrual rate
3. Career average revalued earnings with a 1/60<sup>th</sup> 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. South Shropshire Housing Association has elected to operate the final salary with a 1/60<sup>th</sup> accrual rate benefit structure for active members as at 31<sup>st</sup> October 2007 and the career average revalued earnings with a 1/60<sup>th</sup> accrual rate benefit structure for new entrants from 31<sup>st</sup> October 2007.

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

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

The Scheme Actuary had prepared an Actuarial Report that provides an approximate update on the funding position of the Scheme as at 30<sup>th</sup> 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 £1,515 million and indicated a decrease in the shortfall of assets compared to liabilities to approximately £235 million, equivalent to a past service funding level of 87%. Annual funding updates of the SHPS Scheme are carried out using approximate actuarial techniques rather than member by member calculations, and will therefore

## Financial Statements 2008 – South Shropshire Housing Association

### Notes (continued)

#### 18 Pension obligations (continued)

not produce the same results as a full actuarial valuation. However, they will provide a good indication of the financial progress of the Scheme since the last valuation.

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

Benefit Structure	Long-term joint contribution rate (% of pensionable salaries)
Final Salary with a 1/60 <sup>th</sup> accrual rate	17.6
Career average revalued earnings with a 1/60 <sup>th</sup> accrual rate	14.1

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 £238 million would be dealt with by the payment of deficit contributions of 4.4% of pensionable salaries with effect from 1<sup>st</sup> April 2007. These deficit contributions are in addition to the long-term joint contribution rates set out in the table above.

With effect from 1<sup>st</sup> April 2007 the employee and employer contribution rates for South Shropshire Housing Association have been 5.4% to 8.4% depending on age and 14.1%. The career average employees will pay between 4.7% and 6.7% and employers 12.3% of pensionable salaries. Employers that have closed the Scheme to new entrants are required to pay an additional employer contribution loading of 3.0% to reflect the higher costs of a closed arrangement.

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

Employers joining the Scheme after 1<sup>st</sup> 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<sup>st</sup> 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<sup>th</sup> September 2020.

The next full actuarial valuation will be carried out as at 30<sup>th</sup> September 2008. An Actuarial Report will be prepared as at 30<sup>th</sup> September 2008 in line with statutory regulations.

Following a change in legislation in September 2005 there is a potential debt on the employer that could be levied by the Trustee of the Scheme. The debt is due in the event of the employer ceasing to participate in the Scheme or the Scheme winding up. The debt for the Scheme as a whole is calculated by comparing the liabilities for the Scheme (calculated on a buyout basis i.e. the cost of securing benefits by purchasing annuity policies from an insurer, plus an allowance from expenses) with the assets of the Scheme. If the liabilities exceed assets there is a buyout debt.

The leaving employer's share of the buyout debt is the proportion of the Scheme's liability attributable to employment with the leaving employer compared to the total amount of the

## Financial Statements 2008 – South Shropshire Housing Association

### Notes (continued)

#### 18 Pension obligations (continued)

Schemes liabilities (relating to employment with all the currently participating employers). The leaving employer's debt therefore includes a share of 'orphan' liabilities in respect of previously participating employees. 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 buyout market. The amounts of debt can therefore be volatile over time.

(b) The Shropshire County Council Superannuation fund is a local Government Pension Scheme and is a multi-employer defined benefit scheme. The scheme is funded and is contracted out of the state scheme.

The last formal valuation of the Scheme was performed at 31<sup>st</sup> March 2007 by a professionally qualified actuary using the "projected unit credit" method. The market value of the Scheme's assets at the last valuation date was £906 million.

The valuation revealed a Past Service deficit of some £156 million (equivalent to a past service funding level of 85%). The share of fair value of assets at 31<sup>st</sup> March 2007 (last full actuarial valuation) was as follows:

	<b>£'m</b>
Equities	516
Bonds	227
Other	163
Market Value	906
Past Service liabilities	(1,062)
Past Service deficits	(156)

South Shropshire Housing Association Ltd paid contributions at the rate of 15.9% during the accounting period. Member contributions vary between 5% and 6%. The employer contribution rate will increase 20.3% for the next two years but will additionally pay the following lump sums per year 2005/06: £34,400 2006/07: £50,200 2007/08: £66,000. It is currently projected that further lump sums of £66,000 will be required for the 12 years following this. This will be reviewed at the next valuation in 2010.

#### Financial assumptions

A qualified independent actuary, Mercer Human Resources Ltd, carried out an actuarial valuation at 31<sup>st</sup> March 2008 for disclosure purposes. The major assumptions used were:

	<b>31 March 08</b>	31 March 07	31 March 06	31 March 05
Rate of inflation	<b>3.6%</b>	3.1%	2.9%	2.9%
Rate of increase in salaries	<b>5.35%</b>	4.85%	4.65%	4.65%
Rate of increase in pensions	<b>3.6%</b>	3.1%	2.9%	2.9%
Discount rate	<b>6.1%</b>	5.4%	4.9%	5.4%

The assets of the scheme and the expected rate of return were:

## Financial Statements 2008 – South Shropshire Housing Association

### Notes (continued)

#### 18 Pension obligations (continued)

	Rate of return expected at 31st March 2008	Value at 31 <sup>st</sup> March 2008 £'000	Rate of return expected at 31 <sup>st</sup> March 2007	Value at 31 <sup>st</sup> March 2007 £'000
Equities	7.5%	1,273	7.5%	1,327
Bonds	6.1%	234	5.4%	225
Government bonds	4.6%	266	4.7%	242
Property	6.5%	94	6.5%	96
Cash liquidity	5.25%	37	5.25%	33
Other	7.5%	49	7.5%	31
<b>Total market value of assets</b>		<b>1,953</b>		<b>1,954</b>

i) Liability and funding status under Financial Reporting Standard 17 of South Shropshire Housing Association's part of the fund.

	2008 £'000	2007 £'000
Total market value of assets	1,953	1,954
Value of liabilities	(2,891)	(2,787)
<b>Deficit in scheme</b>	<b>(938)</b>	<b>(833)</b>

ii) Analysis of the amount which has been charged to operating surplus under Financial Reporting Standard 17

	2008 £'000	2007 £'000
Current service cost	(41)	(52)
Past service cost	(22)	-
<b>Total operating charge</b>	<b>(63)</b>	<b>(52)</b>

iii) Analysis of the amount which has been charged to interest costs under Financial Reporting Standard 17

	2008 £'000	2007 £'000
Expected return on assets	122	107
Interest on liabilities	(149)	(136)
<b>Net return</b>	<b>(27)</b>	<b>(29)</b>

iv) Analysis of amount which has been recognised in the statement of total recognised surpluses and deficits (STRSD)

	2008 £'000	2007 £'000
Asset (loss) / gain	(168)	(12)
Liability gain	201	-
Changes in assumptions underlying the present value of the scheme liabilities	(148)	140

## Financial Statements 2008 – South Shropshire Housing Association

Actuarial (deficit) / surplus for recognition in the STRSD	<u>(115)</u>	<u>128</u>
<b>Notes (continued)</b>		
<b>18 Pension obligations (continued)</b>		
v) Movement in Financial Reporting Standard 17 deficit during the year		
	<b>2008</b>	2007
	<b>£'000</b>	£'000
Deficit at the beginning of the year	<b>(833)</b>	(968)
Movement in year:		
- Past service loss	<b>(22)</b>	-
- Current service cost	<b>(41)</b>	(52)
- Contributions	<b>100</b>	88
- Net return from other financial income	<b>(27)</b>	(29)
- (Deficit) / Surplus in STRSD	<u><b>(115)</b></u>	<u>128</u>
Deficit at the end of year	<u><b>(938)</b></u>	<u>(833)</u>
vi) History of experience (deficits)/surpluses calculated under Financial Reporting Standard 17		
	<b>2008</b>	2008
	<b>£'000</b>	As a % of
		Scheme
		assets/
		liabilities
Asset (loss) / gain	<b>(168)</b>	8.6%
Change in assumptions	<b>(148)</b>	5.1%
Experience gain / (deficits) on liabilities	<u><b>201</b></u>	<u>7%</u>
Total amount recognised in the STRSD	<u><b>(115)</b></u>	<u>4%</u>
<b>19 Capital commitments</b>		
	<b>2008</b>	2007
	<b>£</b>	£
Capital expenditure contracted for but not provided in the financial statements	<u><b>11,138,791</b></u>	<u>9,109,111</u>
Capital expenditure authorised by the Board of Management but not yet under contract	<u><b>37,793,928</b></u>	<u>26,350,427</u>

The Board of Management expects the expenditure it has authorised to be fully financed by a combination of Social Housing Grant, private loan finance, or from the Association's own funds.

There is a formal borrowing facility in place with Newcastle Building Society and Royal Bank of Scotland plc to fund all planned capital expenditure requirements.

## Financial Statements 2008 – South Shropshire Housing Association

### Notes (continued)

#### 20 Other financial commitments

The Association was committed to making the following annual payments under non-cancellable operating leases:

#### Operating leases which expire:

	2008 £			2007 £
	<u>Property</u>	<u>Plant</u>	<u>Total</u>	<u>Total</u>
Within 1 year	12,000	-	12,000	29,355
1 - 2 years	-	-	-	29,111
2 - 5 years	-	-	-	12,850
over 5 years	-	-	-	71,185
	12,000	-	12,000	142,501

#### 21 Contingent liabilities

The Association has been notified by the Pension Trust of the estimated employer debt on withdrawal from the Social Housing Pension Scheme based on the financial position of the Scheme at 31<sup>st</sup> March 2007. As of this date the estimated employer debt for South Shropshire Housing Association was £2,544,000. This has not been provided for, as no such decision has been taken.

#### 22 Legislative provisions

The Association is incorporated under the Industrial and Provident Societies Act 1965. Registered No. 27191R and is also registered with the Housing Corporation in accordance with the Housing Act 1996, Registered No. LH 3943. The Association has charitable objects with effect from 6<sup>th</sup> August 2007, reference XT4981.

#### 23 Related Party Transactions

Marches Charitable Trust, which is a registered charity was registered on 9<sup>th</sup> December 2003, having an accounting reference date of 30<sup>th</sup> June. The proposed activities of Marches Charitable Trust are raising funds for the relief of poverty, sickness and old age and to advance education and provide leisure facilities in Shropshire and other specified areas. Some of the trustees are our Board Members and the Secretary is a member of the Association's staff.

In the year to March 2008, South Shropshire Housing Association paid out £29,402 of donations on behalf of grants approved by Marches Charitable Trust. A further £38,950 is expected to be paid to Marches Charitable Trust in the year to March 2009.