

Financial Statements
for the year ended 31 March 2009



Cestria
Community Housing

Financial statements for the year ended 31 March 2009

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Section I Members, Executive Team and advisors

Registered Office

Bowes Offices
Lambton Park
Chester-le-Street
Co. Durham
DH3 4AN

Legal Status

Incorporated as an Industrial and Provident Society Number IP30116R

Registered with the Tenant Services Authority Number L4514

Cestria Community Housing Association Limited is a charitable Housing Association

BOARD

Paul Tinnion (Chair)
Vera Codling (Vice Chair)
Kay Nichol
Isabel Smith
Pat Tweddle
Allen Turner
Steve Hollowell
Linda Henderson Gray
Joan Frost
Adam Moss
Helen Heenan –
left the Board July 2008
Derek Robson –
resigned September 2008
Alan Holden –
left the Board April 2009
Simon Westrip –
left the Board April 2009
Ann Smith –
resigned April 2009
David Thompson –
joined September 2008
John Shiell – joined April 2009
Jim Cordon – joined April 2009
David Scutt – joined June 2009
Ronald Trotter – joined June 2009
Patricia Rivett – joined June 2009

COMMITTEES

Performance and Resources Committee

Vera Codling (Chair)
Adam Moss (Vice Chair)
Isabel Smith
Steve Hollowell
Kay Nichol
Alan Turner
Paul Tinnion (Ex-officio)

Audit Committee

Steve Hollowell (Chair)
Isabel Smith (Vice Chair)
Adam Moss
Pat Tweddle
Paul Tinnion (Ex-officio)

EXECUTIVE TEAM

Chief Executive

Ian Broughton

Director of Housing and Communities

Paul Stephens

Director of Finance and Corporate Services

Linda Chambers (left 31 July 2009)

Interim Director of Finance

Richard Skinner (from 31 July 2009)

Company Secretary

Linda Chambers (left 31 July 2009)
Ian Broughton (from 31 July 2009)

ADVISORS

Auditors – External

PricewaterhouseCoopers LLP
89 Sandyford Road
Newcastle upon Tyne
NE1 8HW

Auditors – Internal

RSM Bentley Jennison
3rd Floor, Higham House
New Bridge Street West
Newcastle-upon-Tyne
NE1 8AJ

Funders

Royal Bank of Scotland
3rd Floor, Kirkstane House
139 St Vincent Street
Glasgow
G2 5JF

Bankers

Royal Bank of Scotland
2nd Floor, Keel Row House
1 Sandgate
Quayside
Newcastle-upon-Tyne
NE1 2NG

Solicitors

Trowers and Hamlins
Sceptre Court
40 Tower Hill
London
EC3N 4DX

Business Plan and Treasury Advisors

Tribal Group
87-91 Newman Street
London
W1T 3EY

Public Relations Advisors

IPB Communications Limited
3 Brooklands Place
Brooklands Road
Sale
Cheshire
M33 3SD

Section 2 Board report and operating and financial review

The Board presents its report and financial statements for the year ended 31 March 2009. Comparative figures shown relate to the trading period from 4 February 2008 to 31 March 2008.

Our Business

Cestria Community Housing Association Limited (“the Association”) was formed following a large scale voluntary transfer, in which around 4,300 homes were transferred from Chester-le-Street Council on 4 February 2008. The Association exists for the benefit of the community. Its objectives are to provide housing accommodation and assistance to help house people, and associated facilities and amenities for poor people or for the relief of aged, disabled or chronically sick people.

Our Objectives

The Association’s vision is to “To be an excellent landlord by being a first rate provider of affordable housing and housing services for the community of Chester-le-Street with tenants at the heart of what the Association does. We will work with communities and partners in order to achieve our mutual objectives.”

The Association has produced its first Corporate Plan for the period April 2009 to March 2012. The focus over the coming three years will be to build on early successes and deliver the promises to tenants made in the Offer Document. Towards the end of the three years we have ambition to begin to develop new homes for rent.

The Association’s corporate objectives are:

- **Delivering Service Excellence** – During the year we have commissioned a series of externally moderated mock inspections to see how we are progressing towards service excellence. We were delighted to see that 13 out of the 15 service areas inspected had improved considerably since the last inspection, when the services were still run by the Council.
- **Decent Homes** – We are due to complete the doors and windows programme in 2009/10. We are currently working on replacing central heating, kitchens and bathrooms and fencing. We will achieve the Decent Homes Standard by March 2013.
- **Working in Partnership** – We have developed a partnership with the Sunderland SAFC Foundation. The two projects, Kickz and Family Learning work with children from primary to secondary schools; with boys, girls and families from all backgrounds and sectors of the community. Statistics show that crime in the area, in which the projects are run, has seen a decline since the projects started.
- **Value for Money** – We have made significant savings on the procurement of our investment programme contracts. We are also restructuring the organisation during 2009/10, which will reduce our management costs.

- **Landlord of Choice** – Our rents remain affordable for tenants. We set the lowest rent increase of all social housing providers in County Durham in April 2009 and yet the majority of our properties will still meet the rent re-structuring target by 2011/12, with the remainder re-structuring by 2015. Our recent STATUS survey revealed that 70.4% of tenants now think we are an efficient landlord, an increase of 16.2% in the last year alone.
- **Financial Strength** – We are benefiting from £41million worth of Gap Funding receipts and an £11million VAT Shelter arrangement. We secured a very attractive funding deal of £45million through the Royal Bank of Scotland to finance the organisation for the next 30 years.
- **People** – We have created 27 new jobs within the organisation since transfer which has had a positive impact on the services we are able to deliver. We are embarking on an organisational development programme during 2009/10 which will improve the skills of our managers. We have also provided resources for staff who wish to train further which will ultimately benefit the organisation. We have a Single Equality Scheme to support our Equality and Diversity Policy and all staff have received Equality and Diversity training.

Performance in the Year

A summary of the overall financial results is shown in the table below:

	2009	2008
	£000	£000
Turnover (including surplus on sale of housing properties)	13,874	2,087
Operating Costs:		
Set-up costs and One-off costs	(1,209)	(2,520)
Pension cost	0	(2,400)
Other costs	(8,030)	(1,184)
Net interest charges	(281)	(33)
Surplus/(Deficit) for the year	4,354	(4,050)

The Association has had a successful first year of operation and secured a £45million loan facility before the credit crunch started to bite. This means that our long term investment strategy is fully funded.

We have made a surplus during our first year of operation in line with our business plan. Also, we have made procurement efficiencies through long term partnering contracts and we believe that we will reap the benefits over the next five years. However, we will continue to seek further efficiencies allowing us to deliver better standards of service for tenants.

We have been delighted to see customer satisfaction rise by 14.9% in our first year. It is currently standing at 84.9%, just below the levels achieved by the best performing associations. This has only been achieved through the hard work of our staff. We have been able to deliver 233 separate service improvements over the last year, almost one every working day. We will need to keep this pace up if we are to achieve service excellence for tenants, one of our core objectives.

We have made a start on delivering our Offer Document promises with 84% of promises either completed or underway.

We have carried out a STATUS survey during the year and this revealed that tenants feel that the top priority areas for the future are:

- Keeping tenants informed;
- Taking tenants' views into account;
- Improving the neighbourhood as a place to live.

Our performance in 2008/09 against key indicators are as follows:

	Actual	Target
Percentage of repairs completed on time	97.4%	96.0%
Rent collected against rent due	101.4%	101.0%
Customer satisfaction with the modernisation works	98.0%	95.0%

Performance has improved in most areas throughout the year with 76% of our target indicators showing either above target or within 10% of the target.

We placed a high priority on protecting the health and safety of our tenants in our first year and this has enabled us to reduce the number of properties without a valid gas safety certificate to zero. We have also been able to carry out 23% more repairs jobs for tenants to make sure their homes are maintained.

Our in-house Building Services Team has received high levels of customer satisfaction in providing the responsive repairs service and has also been awarded, through a formal tender process, a contract for fencing and external works.

In the last year we have also brought a number of services back in house to provide better value for money and quality services for tenants. Our Building Services Team now provide the following services which were previously provided by external contractors:

- Gas servicing – all properties now have valid gas safety certificates;
- Adaptations – 511 homes adapted last year at a cost of £518,000, tenant satisfaction running at 100%; and
- Grounds maintenance – customer satisfaction up 16%

Key issues we have addressed in the past year include:

- The loss of the Housing Register and Homelessness service to the County Council - we have managed the return of this service to the Council; and
- Unitary Authority – we have established a good working relationship with the new Durham County Council.

Future Risks for the Association

The Association is affected by a number of external factors. It regularly monitors its long term financial business plan and has a strategy to mitigate any adverse impact on these factors. The major factors that may affect the Association in the next few years include:

- Rent deflation – the annual rent increase in April is based on RPI in the previous September. Current predictions are that the September 2009 RPI will be minus 2% and therefore this could mean a decrease in the rental income for 2010/11;
- Loan covenants – the Association must continue to operate within the financial covenants set out in the loan agreement with its funder;
- Gap funding – the Association has a gap funding agreement with the Department of Communities and Local Government until 2013/14. This is managed on their behalf by the Homes and Communities Agency and is subject to a review on a regular basis;
- Interest rates – the Association's business plan makes an assumption about future interest rates. Currently all of the Association's loans are fixed and future funding is assumed to be at a variable rate;
- Contractors – the Association is dependent on the contractors' ability to deliver the improvement programme.

All known risks and the associated control factors that have been put in place to mitigate these risks are recorded in the Association's 'Risk Register'. Risks are rated in accordance with their impact severity and are given scores which rate them from very low to very high. The raw, current and final risks are recorded in the register.

Future Investment

We are working hard to make sure all our homes meet the Decent Homes Standard by 2013 and in our first year we have let two major home improvement contracts covering:

- New doors and windows (1,965 homes provided with new doors and windows replaced); and
- New heating systems (547 homes improved).

We have also made a start on:

- Replacing kitchens and bathrooms;
- Renewing fences and boundary walls;
- Renewing rainwater goods; and
- Renewing fascias and soffits.

Over the next three years we will continue to work on all the Offer Document promises including:

- Completing our doors and windows replacement programme;
- Letting all of the remaining building contracts linked to the modernisation programme;
- Starting a painting programme;
- Improving the Grounds Maintenance service;
- Consulting tenants about the future of the communal rooms we own;
- Employing apprentices; and
- Employing a Financial Inclusion Officer to support our tenants by providing financial advice and ensuring they obtain the benefits to which they are entitled.

Financial review

Accounting policies

The principal accounting policies are set out on pages 13 to 14 of the financial statements. These were reviewed by the Board on 1 June 2009.

Capital structure and treasury policy

The Association is financed by long term loan facilities and grant funding from the Homes and Communities Agency.

Treasury management activities are carried out in accordance with the Association's Treasury Management Policy and with the professional assistance of treasury management advisors, Tribal Treasury Services, part of Tribal Group.

At 31 March 2009, the Association had drawn borrowings of £9.5million from its total facility of £45million. On 22 June 2009, £1.5million of this loan was repaid due to a surplus of cash. It is anticipated that the Association will not need to drawdown any further funds until 2011/12.

The Association does not use wider rule hedging instruments and only borrows in sterling and so does not have any currency risk. Cash surpluses are invested in approved institutions, in accordance with the approved Treasury Management Policy.

Cash flows

Cash inflows and outflows for the period under review are set out in the cash flow statement on pages 11 and 12.

Net cash inflows from operating activities are from the management of the 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 expenditure on improvements to properties less grant, which has been capitalised.

The net movement on financing is a new loan.

Current liquidity

The Association held cash of just over £7million and had drawdown £9.5million of its £45million agreed long term loan facilities at 31 March 2009.

The Association's loan agreement includes financial covenants and all these were met for the year ended 31 March 2009.

Going concern

The Board has reasonable expectation that the Association has adequate resources to continue operations for the foreseeable future. For this reason, the financial statements have been prepared on a going concern basis.

Statement of compliance

The Operating and Financial Review has been prepared in accordance with the principles set out in the current Statement of Recommended Practice.

Paul Tinnion
Chair

Section 3 Statement of the Board's responsibilities

The Industrial and Provident Societies Acts 1965 to 2002 require the Board 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 the year.

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

- Adopt suitable accounting policies and apply them consistently;
- Make judgments 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; and
- Prepare the accounts on a going concern basis.

The Board 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, the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2006.

The Board is also responsible for taking such steps as are reasonably open to it to safeguard the assets of the Association and to prevent and detect fraud and breaches of the law and regulations.

To enable the Board to fulfil its obligations, Members attend regular training sessions to enhance skills, quality and experience. In the last year, the performance of individual Members and the Board as a whole were subject to an independent assessment in order to improve its effectiveness. During the year the Board has received several training sessions with particular emphasis on asset management and on equalities & diversity.

Provision of information to auditors

So far as each Member is aware, there is no relevant audit information of which the Association's auditors are unaware; and each Member has taken all the steps that he/she ought to have taken as a Member in order to make himself/herself aware of any relevant audit information and to establish that the Association's auditors are aware of that information.

Section 4

Statement of the Board on internal financial control

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

The Board recognises that no system of internal control can provide absolute assurance against misstatement or loss, or eliminate all risk of failure to achieve business objectives.

The system of internal control is designed to manage key risks and to provide reasonable assurance that planned business objectives and outcomes are achieved. It also exists to provide reasonable assurance about the preparation and reliability of financial and operational information and the safeguarding of the Association's assets and interests.

The process for identifying, evaluating and managing the significant risks facing the Association is ongoing, and will be regularly reviewed by the Board.

The Association has an Anti Fraud Policy and Whistle Blowing Policy and procedure in place. This incorporates the Association's position on the prevention, detection and reporting of fraud and the recovery of assets.

The Board cannot delegate ultimate responsibility for the system of internal control, but it can, and has, delegated authority to the Audit Committee to regularly review the effectiveness of the system of internal control. The Audit Committee has received the Interim Director of Finance's report on the Executive Team's review of the effectiveness of the system of internal control and the Internal Auditors' Annual Report which stated that the Association has adequate and effective risk management, control and governance processes to manage the achievement of the organisation's objectives.

On the basis of the advice from the Audit Committee, the Board is satisfied that there is sufficient evidence to confirm that adequate systems of internal control existed and operated from 1 April 2008 to 31 March 2009.

Key policies and procedures have been established and are designed to provide effective internal control. These key areas cover control, information reporting systems, monitoring and risk management.

Control

The Board retains responsibility for a defined range of issues covering strategic, operational and financial issues. The Board has put in place an organisational structure with clearly defined lines of responsibility and delegations of authority. These are found in the Association's financial regulations, standing orders, treasury management and risk management arrangements.

Information reporting systems

Financial reporting systems include regular reviews of an overall financial business plan, preparation of detailed annual budgets, detailed management accounts produced monthly and re-forecasts for the remainder of the financial year.

These are reviewed in detail by the Executive Team and the Performance and Resources Committee and are considered and approved by the Board.

The Executive, the Performance and Resources Committee and the Board also review key performance indicators on a quarterly basis to assess progress towards the achievement of key business objectives, targets and outcomes.

Monitoring

A process of regular management monitoring on control issues provides assurance to senior managers and to the Board. This includes a rigorous process for ensuring that corrective action is taken in relation to any significant control issues.

Risk management

The Association has a comprehensive risk management strategy which identifies risk management responsibilities. Risk management arrangements identify risks facing the Association, the actions in place to mitigate these risks, officers responsible for each risk and monitoring arrangements.

There has been no incidence of detected fraud in the period from 1 April 2008 to 31 March 2009 and therefore the fraud register did not contain any information to be reported to the Board.

In considering the review of the effectiveness of the internal control system, the Board is also assured that where the need for improvements has been identified, appropriate action is being taken to address this. The main areas for action are:

- Embedding of risk management arrangements; and
- Development of a performance management handbook and dashboard.

Section 5

Independent auditors' report to the Members of Cestria Community Housing Association Limited

We have audited the financial statements of Cestria Community Housing Association Limited ("the Association") for the year ended 31 March 2009 which comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Surpluses and Deficits and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of the Board and auditors

The Board's responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of the Board of Management's Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 Act 1968 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 2006.

In addition we 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 other transactions is not disclosed.

We read the other information contained in the financial statements and consider whether it is consistent with the primary statements and supporting notes in sections 6 to 9. This other information comprises only the Board Report and Operating and Financial Review and the Statement of the Board on internal financial control. We review whether the Statement of the Board on internal financial control has been prepared in accordance with Tenant Services Authority Circular '07/07 Internal controls assurance'. We are not required to consider whether the Statement of the Board on internal financial 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.

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 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Association's affairs as at 31 March 2009 and of its surplus and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002, Schedule 1 to the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2006.

*PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Newcastle upon Tyne*

The maintenance and integrity of the Cestria Community Housing 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.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Section 6

Income and Expenditure Account for the year ended 31 March 2009

	Notes	2009 £	2008 £
Turnover	(2)	13,414,363	2,001,348
Operating costs	(2) – (4)	<u>(9,238,939)</u>	<u>(6,102,725)</u>
Operating Surplus/(Deficit)		4,175,424	(4,101,377)
Surplus on sale of housing properties	(5)	<u>459,735</u>	<u>85,376</u>
Surplus/(Deficit) on Ordinary Activities before financing costs		4,635,159	(4,016,001)
Interest receivable and similar income	(6)	297,679	36,894
Interest payable and similar charges	(7)	<u>(578,466)</u>	<u>(71,194)</u>
Surplus/(Deficit) for the year	(8)	<u>4,354,372</u>	<u>(4,050,301)</u>

Historical cost surpluses and deficits are identical to those shown in the financial statements.

The results for the year relate wholly to continuing operations.

The notes on pages 13 to 25 form an integral part of these financial statements.

Statement of Total Recognised Surpluses and Deficits (STRSD)

		2009 £	2008 £
Reported Surplus/(Deficit) for the year		4,354,372	(4,050,301)
Unrealised actuarial (Loss)/Gain on pension scheme	(25)	<u>(2,320,000)</u>	<u>30,000</u>
Total recognised Surplus/(Deficit) for the year		<u>2,034,372</u>	<u>(4,020,301)</u>

Section 7

Balance Sheet at 31 March 2009

	Notes	2009 £	2008 £
Fixed Assets			
Housing properties at cost		9,211,443	632,025
Less: Depreciation		(226,315)	0
Less: Gap Funding		<u>(7,773,686)</u>	<u>(632,025)</u>
		1,211,442	0
Other tangible fixed assets		<u>215,308</u>	<u>0</u>
Total Fixed Assets	(10)	<u>1,426,750</u>	<u>0</u>
Current Assets			
Assets held for resale	(11)	0	321,935
Stock	(12)	95,743	103,416
Debtors falling due within one year	(13)	2,656,743	1,474,953
Cash at bank & in hand		<u>7,258,583</u>	<u>4,046,441</u>
		10,011,069	5,946,745
Current Liabilities			
Creditors: Amounts falling due within one year	(14)	<u>(2,023,699)</u>	<u>(6,807,041)</u>
Net Current Assets/(Liabilities)		<u>7,987,370</u>	<u>(860,296)</u>
Pension (Liability)/Asset	(25)	<u>(1,900,000)</u>	<u>340,000</u>
Total Net Assets/(Liabilities)		<u>7,514,120</u>	<u>(520,296)</u>
Represented by:			
Creditors: Amounts falling due after more than one year	(15)	9,500,000	3,500,000
Capital & Reserves			
Share Capital - Issued, but not paid up	(16)	49	5
Income & Expenditure Account	(17)	<u>(1,985,929)</u>	<u>(4,020,301)</u>
		7,514,120	(520,296)

The notes on pages 13 to 25 form an integral part of these financial statements.

The financial statements were approved by the Board on 7 September 2009 and signed on its behalf by:

Paul Tinnion	<i>Chair</i>
Vera Codling	<i>Vice Chair</i>
Ian Broughton	<i>Company Secretary</i>

Section 8

Cash Flow Statement for the year ended 31 March 2009

	2009 £	2008 £
Net Cash (Outflow)/Inflow from Operating activities	<u>(514,276)</u>	<u>1,048,173</u>
Returns on investments & Servicing of finance		
Interest received	297,679	26,894
Interest paid	(376,773)	(57,018)
Loan arrangement fee	(138,750)	0
Net Cash Outflow from Returns on investments and Servicing of finance	<u>(217,844)</u>	<u>(30,124)</u>
Capital expenditure and Financial investment		
Purchase and construction of housing properties	(8,389,570)	(235,049)
Social Housing Grant on housing properties	6,104,783	0
Receipts from sale of housing properties	459,735	85,376
Purchase of other tangible fixed assets	(230,730)	0
Purchase of vehicles for resale	0	(321,935)
Net Cash Outflow from Capital expenditure and Financial investment	<u>(2,055,782)</u>	<u>(471,608)</u>
Net Cash (Outflow)/Inflow before Management of liquid resources and Financing	<u>(2,787,902)</u>	<u>546,441</u>
Financing		
Loans received	6,000,000	0
Share capital	44	0
	<u>6,000,044</u>	<u>3,500,000</u>
Increase in Net Cash	<u>3,212,142</u>	<u>4,046,441</u>

Notes to the Cash Flow Statement

I. Reconciliation of Operating Surplus/(Deficit) to Net Cash (Outflow)/ Inflow from Operating Activities

	2009 £	2008 £
Operating Surplus/(Deficit) for the year	4,175,424	(4,101,377)
Depreciation of Housing properties	226,315	0
Release of Gap funding	(226,315)	0
Depreciation of Other tangible fixed assets	15,422	0
Decrease/(Increase) in Debtors	403,338	(842,923)
Decrease/(Increase) in Stock	7,673	(103,416)
(Increase)/Decrease in Creditors	(5,036,133)	6,395,889
Pension adjustment (FRS17)	(80,000)	(300,000)
Net Cash (Outflow)/Inflow from Operating Activities	(514,276)	1,048,173

2. Reconciliation of Cash Flow to Movement in Net (Debt)/Funds

	2009 £	2008 £
Increase in Cash	3,212,142	4,046,441
Cash Inflow from Increase in Debt	(6,000,000)	(3,500,000)
Movement in Net (Debt)/Funds resulting from Cash flow	(2,787,858)	546,441
Net Funds brought forward	546,441	0
Net (Debt)/Funds carried forward	(2,241,417)	546,441

3. Analysis of Changes in Net Funds during the year

	At start of year £	Cash Flow £	At end of year £
Cash at bank and in hand	4,046,441	3,212,142	7,258,583
Housing loans	(3,500,000)	(6,000,000)	(9,500,000)
Net Funds/(Debt)	546,441	(2,787,858)	(2,241,417)

Section 9

Notes to the Financial Statements for the year ended 31 March 2009

I. Principal Accounting Policies

The Financial Statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies is set out in paragraphs (a) to (q) below:

(a) Basis of Accounting

The Association is incorporated under the Industrial and Provident Acts 1965 to 2002, it has charitable status and is registered with the Tenant Services Authority as a Registered Social Landlord as defined by the Housing Act 1996.

The financial statements have been prepared in accordance with applicable accounting standards, the Statement of Recommended Practice (SORP) 2008, Accounting by Registered Social Landlords and comply with the Accounting Requirements for Registered Social Landlords' General Determination 2006.

(b) Turnover

Turnover represents collectable rental income for the period (i.e. rent due less rent loss due to voids), collectable service charges, any revenue grants from central government and any other income generated in the period.

Supporting people income is accounted for in accordance with the conditions set out in the contract and included within turnover. Related costs are recognised when the service to which they relate has been carried out.

(c) Operating Costs

Operating costs are attributable to the day to day running of the Association. These include housing management costs, property maintenance costs and depreciation of major improvement works.

(d) Set-up costs

Set up costs incurred by the Association are charged directly to the Income and Expenditure Account in the year in which they occurred.

(e) Depreciation

Housing properties are depreciated on a straight line basis. Such depreciation charges reflect the diminution of the cost of fixed assets to their estimated residual value, on a straight line basis, over their expected remaining useful economic life. No depreciation is charged for land.

Depreciation charges are part of the Association's running costs and are recognised in the Income and Expenditure Account over the useful life of the asset. See Note 10 for treatment in the current year.

The following component useful lives have been applied:

Components	Depreciation
Housing properties:	
Windows and doors	Over 40 years
Central heating	Over 10 years
Kitchens	Over 20 years
Bathrooms	Over 25 years
Roofs	Over 60 years
Electrical rewires	Over 25 years
Adaptations	Over 15 years
External works	Over the remaining life of the property

Other tangible fixed assets:

Plant and machinery	Over 4 years
Office equipment and furniture	Over 5 years
Computer equipment and software	Over 3 years

(f) Social Housing Properties

The stock of social housing properties is valued under the historical cost basis. The cost is expenditure incurred in respect of improvements. Works that maintain or extend the useful economic life of the social housing stock or other related assets are classified as Improvements.

Financial transactions relating to the improvement programme of works are charged as capital additions expenditure throughout the year. This expenditure is financed through gap funding which is claimed from the Homes and Communities Agency. Grants claimed are treated as social housing grants and, as such, their value is deducted from the cost of improvements.

Such capital expenditure is subsequently subject to the application of the depreciation policy whereby the accumulated cost (less any residual values) of the capital asset is reduced over the useful life of the asset.

For any year the percentage of capital expenditure met by gap funding will be used to determine the percentage of the depreciation charge that will be offset by gap funding released to the Income and Expenditure Account. See also Note 10 below relating to Tangible Fixed Assets.

The useful life of the social housing property stock will be re-assessed annually.

(g) Impairment

Where there is evidence of impairment, fixed assets are written down to their recoverable amount.

(h) Capitalisation of major repair costs

The Association capitalises expenditure on social housing properties that is capable of increasing rental income (e.g. by a reduction in the level of voids), extends the useful life, reduces future maintenance costs or otherwise adds to the value of the property.

All other expenditure incurred in respect of general repairs to the housing stock is charged to the Income and Expenditure Account in the year in which it is incurred.

(i) Stocks

Stocks are stated at the lower of cost and net realisable value.

(j) Leased Assets

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

(k) Pensions

The Association participates in the Durham County Council Pension Scheme, which is a defined benefit final salary scheme. The assets of the scheme are invested and managed independently of the Association.

Pension costs charged against the Income and Expenditure Account are based on actuarial method and actuarial assumptions.

The operating costs of providing retirement benefits to participating employees are recognised in the accounting periods in which the benefits are earned. The related finance costs, expected return on assets and any other changes in fair value of the assets and liabilities, are recognised in the accounting period in which they arise. The operating costs, finance costs and expected return on assets are recognised in the Income and Expenditure Account with any changes in fair value of assets and liabilities being recognised in the Statement of Total Recognised Surpluses and Deficits.

The Association has fully adopted FRS17 "Retirement Benefits" during the period.

(l) Bad debts and write offs

A provision for bad and doubtful debts is made based on an estimation of those debts that will not be recovered at the balance sheet date. The aggregate sum is held as a provision against which bad debts are charged in the year in which they occur.

In respect of current tenants, provision is made at varying percentages dependent on the size of the debt. For former tenants, provision is made at 100% of the debt.

The value of any adjustments made to the provision for bad debts is charged to the Income and Expenditure Account.

(m) VAT

The Association is VAT registered, but the majority of its income (from rents) is classified as an exempt supply for VAT purposes. Payments that are subject to VAT (Input VAT) that cannot be re-claimed are, therefore, recorded by the Association inclusive of the irrecoverable VAT. The balance of VAT payable or recoverable at the year end is included as a current liability or asset respectively.

The Association has an approved VAT Shelter Scheme operative from 4 February 2008 and lasting for 10 years from that date. There is a VAT Shelter Sharing Agreement with the Council for the first 5 years which was part of the Development Agreement. As a result, the VAT incurred on the social housing properties stock improvement programme is recoverable. The balance of the VAT recoverable at the period end is included as a part of the overall net VAT current liability or current asset in the balance sheet.

(n) Right to Buy sales

The gains or losses on disposal of social housing properties under Right to Buy arrangements are calculated as being the difference between the proceeds of a sale of a property and the balance sheet value of that property.

The gains or losses on disposal of Right to Buy social housing properties are recognised in the Income and Expenditure Account at the date of transfer of title after deducting the element of proceeds that is payable to the local authority under the right to buy sharing arrangement.

(o) Interest

Loan financing issuing costs are charged to the Income and Expenditure Account in the year incurred and written off.

Interest payable is charged to the Income and Expenditure Account in the year. No interest is capitalised.

(p) Liquid Resources

Current asset investments that are readily disposable are classified as liquid resources.

(q) Taxation/Deferred Taxation

The Association has charitable status and therefore is not subject to corporation tax on surpluses arising from charitable activities.

2. Turnover, Operating Costs & Operating Surplus/(Deficit)

	Turnover £	Operating Costs £	2009 Operating Surplus £	2008 Operating Surplus/(Deficit) £
Income & Expenditure from Social Housing lettings	12,877,614	(8,716,171)	4,161,443	(4,158,637)
Other Social Housing activities:				
Supporting people	536,749	(522,768)	13,981	57,260
Total	<u>13,414,363</u>	<u>(9,238,939)</u>	<u>4,175,424</u>	<u>(4,101,377)</u>

Income & Expenditure from Social Housing lettings

All income and expenditure relates to General Needs housing accommodation

	2009 £	2008 £
Income from lettings		
Rents	12,754,619	1,830,599
Service charges	368,779	51,311
	<u>13,123,398</u>	<u>1,881,910</u>
Void losses	(245,784)	(27,053)
Total Income from Social Housing lettings	<u>12,877,614</u>	<u>1,854,857</u>
Expenditure on lettings		
Management	(5,537,522)	(5,453,904)
Services	(466,437)	(66,970)
Routine maintenance	(2,579,295)	(483,213)
Bad debt provision	(132,917)	(9,407)
Total Expenditure on Social Housing lettings	<u>(8,716,171)</u>	<u>(6,013,494)</u>
Operating Surplus/(Deficit) from Social Housing lettings	<u>4,161,443</u>	<u>(4,158,637)</u>

3. Directors' Emoluments

None of the Board received any emoluments during the year ended 31 March 2009 (2008:none).

The Association has three paid Executive officers. The aggregate amount of emoluments (including benefits in kind and pension contributions) paid to or receivable by the three Executive officers of the Association during the year was **£279,328** (2008:£44,339) which is made up as follows:

	2009	2008
	£	£
Salary	224,000	35,402
Benefits in kind	22,400	3,733
Employer's pension contributions	32,928	5,204
	<u>279,328</u>	<u>44,339</u>

The emoluments (excluding pension contributions, but including benefits in kind) paid to the Chief Executive and Directors were in the following ranges:

	2009	2008
	No.	No.
Annual Equivalent		
£75,000 – £79,999	2	2
£90,000 – £94,999	1	1

The emoluments paid to the current Chief Executive, Mr. Ian Broughton, (excluding pension contributions, but including benefits in kind) were **£92,400** (2008:£14,676).

The Chief Executive's pension arrangements are:

- He is an ordinary member of the Durham County Council Local Government Scheme.
- No enhancement or special terms apply.
- He has no individual pension arrangement to which the Association makes a contribution.

4. Employee Information

The average number of full time equivalent persons employed during the year was:

	2009	2008
	No.	No.
Office staff	85.4	75.7
Maintenance staff	37.3	30.5
Wardens, caretakers & cleaners	4.2	4.5
	<u>126.9</u>	<u>110.7</u>

Staff costs (for the above persons):

	2009	2008
	£	£
Wages & salaries	2,997,881	416,914
Pension costs*	347,036	54,329
Social security costs	226,402	31,788
	<u>3,571,319</u>	<u>503,031</u>

* The pension costs included above relate to the contributions paid to the pension fund in the year. The pension costs included in the financial statements are governed by the requirements of Financial Reporting Standard 17 'Retirement Benefits' and are set out in note 25.

5. Surplus on Sale of Housing Properties

	2009	2008
	£	£
Sales proceeds	559,725	105,374
Less: Net book value of housing properties	0	0
Less: Contribution due to the Council	(99,990)	(19,998)
	<u>459,735</u>	<u>85,376</u>

6. Interest Receivable and Similar Income

	2009	2008
	£	£
Interest receivable from bank balances	177,042	26,894
Interest receivable from short-term deposits	47,199	0
Other financial income	73,438	10,000
	<u>297,679</u>	<u>36,894</u>

7. Interest Payable and Similar Charges

	2009	2008
	£	£
Loan interest	433,863	70,214
Trustee security fee	5,853	980
Loan arrangement fee	138,750	0
	<u>578,466</u>	<u>71,194</u>

8. Surplus/(Deficit) on Ordinary Activities

	2009	2008
Surplus/(Deficit) for the year on ordinary activities is stated after charging:	£	£
a) Auditors' remuneration (external audit services)	17,622	17,566
b) Bad debt provision	132,917	9,407
c) Depreciation	241,737	0
d) Set-up costs:		
Staffing	0	233,585
Implementation costs	1,096,483	1,861,688
Loan arrangement fee	0	61,250
Premises	112,584	358,121
Vehicles costs	0	4,950
	<u>1,209,067</u>	<u>2,519,594</u>
e) Recognition of Pension Surplus/(Deficit)	0	(2,400,000)

9. Taxation

No liability to taxation arises from the surplus/(deficit) on the Income and Expenditure Account as a result of the exempt charitable status of the Association.

10. Tangible Fixed Assets

	Housing Properties held for Letting	Vehicles & Machinery	Total
	£	£	£
Gross Cost:			
At 1 April 2008	632,025	0	632,025
Additions	8,579,418	230,730	8,810,148
Disposals	0	0	0
At 31 March 2009	<u>9,211,443</u>	<u>230,730</u>	<u>9,442,173</u>
Depreciation:			
At 1 April 2008	0	0	0
Charge for the year	(226,315)	(15,422)	(241,737)
Disposals	0	0	0
At 31 March 2009	<u>(226,315)</u>	<u>(15,422)</u>	<u>(241,737)</u>
Social Housing Grant - Gap funding:			
At 1 April 2008	(632,025)	0	(632,025)
Additions	(7,367,976)	0	(7,367,976)
Released to the Income and Expenditure Account	226,315	0	226,315
At 31 March 2009	<u>(7,773,686)</u>	<u>0</u>	<u>(7,773,686)</u>
Net Book Value:			
At 31 March 2009	<u>1,211,442</u>	<u>215,308</u>	<u>1,426,750</u>
At 31 March 2008	0	0	0

The housing properties were recognised in the financial statements at the date of transfer at a £Nil value. Enhancement expenditure (where it is considered that the works undertaken increase the value of the property) has been capitalised at cost.

Depreciation has been charged on housing properties and vehicles and machinery in accordance with the depreciation policy set out in the Principal Accounting Policies.

Gap funding receivable has been recognised as social housing grant, which has been deducted from the depreciated cost of housing properties in order to arrive at a net book value at the balance sheet date. Total Gap funding for the period from the date of transfer (4 February 2008) to the current balance sheet date (31 March 2009) was £8million.

11. Assets held for resale

No assets were held for resale at 31 March 2009 (2008: £321,935). This related to vehicles purchased pending sale/leaseback.

12. Stock

The Building Services Team holds stock in relation to materials needed for repairs. The value of the stock as at 31 March 2009 was **£95,743** (2008: £103,416).

13. Debtors

	2009	2008
	£	£
Rental debtors	781,781	565,277
Less: Provision for bad and doubtful debts	<u>(476,570)</u>	<u>(387,580)</u>
Net rental debtors	305,211	177,697
Cash in transit	288,766	125,496
Other debtors	40,161	63,700
Prepayments	57,618	476,030
VAT debtor	69,769	0
Grant funding	1,895,218	632,025
Share capital: issued, but not paid up	5	5
	<u>2,656,748</u>	<u>1,474,953</u>

14. Creditors: Amounts falling due within one year

	2009	2008
	£	£
Receipts in advance: Rents	173,050	132,553
Receipts in advance: Other	0	140,000
Trade creditors	553,126	480,949
Creditors: Payroll	142,694	111,984
Creditors: VAT	0	19,194
Cash in transit	0	84,889
Accruals and deferred income: Income and expenditure	490,886	5,426,320
Accruals and deferred income: Loan interest	77,119	14,176
Accruals and deferred income: Capital	586,824	396,976
	<u>2,023,699</u>	<u>6,807,041</u>

The average number of days between receipt and payment of purchase invoices was 28 days.

15. Creditors: Amounts falling due after more than one year

	2009	2008
	£	£
Bank loans	<u>9,500,000</u>	<u>3,500,000</u>

At the balance sheet date the Association had drawn down £9.5million of a total loan facility of £45million. The loan is taken from a term loan facility secured on the Association's housing properties. The average interest paid in the period was 4.46%. A repayment of £1.5million was made in June 2009, reducing the outstanding balance of the loan to £8million. Further repayment does not commence until the Association reaches its peak debt, estimated to be 19 years hence. The repayment of the loan is, therefore, classified as repayable in more than five years.

16. Share Capital

At 31 March 2009, 49 £1 shares had been issued.

	2009	2008
	£	£
At 1 April	5	0
Issued	44	5
Cancelled	0	0
At 31 March	49	5

17. Income and Expenditure Account

	2009	2008
	£	£
At 1 April	(4,020,301)	0
Surplus/(Deficit) for the year	4,354,372	(4,050,301)
Unrealised actuarial (Loss)/Gain on pension scheme	(2,320,000)	30,000
At 31 March	(1,985,929)	(4,020,301)

18. Capital Commitments

	2009	2008
	£	£
Capital expenditure that has been contracted for	34,126,143	18,611,812
Less: Capital expenditure to 31 March 2009	(8,711,443)	(632,025)
Capital expenditure contracted for, but has not been provided for in the financial statements	25,414,700	17,979,787
Capital expenditure authorised by the Board	67,000,000	67,000,000
Less: Placed contracts	(34,126,143)	(18,611,812)
Capital expenditure authorised by the Board, but not as yet contracted	32,873,857	48,388,188

The capital commitments will be financed from Gap funding and private finance.

19. Financial Commitments

Non Cancellable Lease Agreements

At 31 March 2009 the Association had annual commitments under non cancellable operating leases expiring as follows:

	2009	2008
	£	£
Vehicles		
Within one year	0	0
Between two and five years	76,366	0
More than five years	0	0
Equipment		
Within one year	69,591	0
Between two and five years	18,372	69,591
More than five years	0	0
Premises		
Within one year	0	0
Between two and five years	331,298	331,298
More than five years	0	0

20. Average Assured Rents

The average assured rents per week at 31 March 2009 were **£54.48** (2008: £51.46).

21. Property Numbers

	2009	2008
	No.	No.
Housing Properties		
1 Bedroom Houses	35	35
2 Bedroom Houses	926	932
3 Bedroom Houses	1,493	1,496
4 Bedroom Houses	29	31
1 Bedroom Flats	621	624
2 Bedroom Flats	17	17
3 Bedroom Flats	2	2
1 Bedroom Bungalows	517	517
2 Bedroom Bungalows	611	611
3 Bedroom Bungalows	25	25
Bedsits	2	2
	<u>4,278</u>	<u>4,292</u>
Other Properties		
Garages	983	983
Shops	9	9
Communal Rooms	9	2
	<u>5,279</u>	<u>5,286</u>

22. Legislative Provisions

The Association is incorporated under the Industrial & Provident Societies Acts 1965 to 2002 and is registered with the Tenant Services Authority as a Registered Social Landlord as defined by the Housing Act 1996.

23. Related Party Disclosure

The Board Members that are also tenants, five during 2008/9, have a standard tenancy agreement and are required to fulfil the same obligations and receive the same benefit as other tenants. They cannot use their position to their advantage.

24. Financial Instruments

Financial instruments are defined in FRS 25, "Financial Instruments: Disclosure and Presentation", as a "contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity". Financial instruments should be identified as financial assets, financial liabilities or equity instruments and accounted for on the appropriate line of the balance sheet.

FRS 29, 'Financial Instruments: Disclosures', requires disclosure of the role that financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Also, financial instruments play a more limited role in creating or changing risk than would be typical of the listed companies to which FRS 26, 'Financial Instruments: Measurement', mainly applies. Financial assets and liabilities are generated by day-to-day operational activities rather than being held in order to change the risks facing the Association.

FRS 29 also requires disclosures relating to the risks associated with financial instruments. There are four types of risk:

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. For the Association, credit risk arises mainly from tenant and other debtor balances. The Association manages this risk by regular review of aged debtor balances and provides for any deemed to be potentially irrecoverable. Once the balance is determined to be irrecoverable the amount is written off. This process is used to mitigate credit risk.

Liquidity risk

Liquidity risk is the risk that the entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Association largely finances its capital expenditure from Gap funding, funds available from financing agreements and internally generated resources.

At the balance sheet date the Association had drawn down £9.5million of a total loan facility of £45million. The loan is taken from a term loan facility secured on the Association's housing properties. The average interest paid was 4.46%.

A repayment of £1.5million was made in June 2009, reducing the outstanding balance of the loan to £8million. Further repayment does not commence until the Association reaches its peak debt, estimated to be 19 years hence. The repayment of the loan is, therefore, classified as repayable in more than five years.

Market Risk

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Of the Association's loan balances at 31 March 2009 of £9.5million, £8million is on a fixed rate and £1.5million variable (repaid in June 2009).

Other than as described above, none of the remaining financial assets or liabilities carry interest rates which vary with market rates and therefore interest rate risk is not deemed material.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in exchange rates. The Association has no foreign currency income or expenditure and therefore is not exposed to significant foreign currency risk.

25. Pensions

The disclosures below relate to the funded liabilities within the Durham County Council Pension Fund (the "Fund") which is part of the Local Government Pension Scheme. The Association participates in the Fund which provides defined benefits, based on members' final pensionable salary.

In accordance with Financial Reporting Standard No. 17, "Retirement Benefits (FRS 17)", disclosure of certain information concerning assets, liabilities, income and expenditure relating to pension schemes is required.

Contributions for the year ended 31 March 2010

The Employer's regular contributions to the Fund for the accounting period 31 March 2010 are estimated to be £0.38million. In addition, Strain on Fund Contributions of £0.03million may be required in the same year in relation to staff retiring early.

Assumptions

The latest actuarial valuation of the Association's liabilities took place as at 4 February 2008. The principal assumptions used by the independent qualified actuaries in updating the latest valuation of the Fund for FRS17 purposes were:

Principal financial assumptions

	31 March 2009 (% pa)	31 March 2008 (% pa)
Inflation	3.6	3.7
Rate of general long-term increase in salaries*	5.1	5.2
Rate of increase to pensions in payment	3.6	3.7
Rate of increase to deferred pensions	3.6	3.7
Discount rate	6.5	6.8

*In addition, the same age related promotional salary scales have been allowed for as used at the actuarial valuation of the Fund as at 31 March 2007.

Post retirement mortality

31 March 2009

31 March 2008

Males

Base table (in 2007)	PNMA00 with allowance for MC improvement factors to 2007	PNMA00 with allowance for MC improvement factors to 2007
Scaling to above base table rates	125%	125%
Cohort improvement factors (from 2007)	80% of LC	100% of MC
Minimum underpin to improvement factors	1.25%	1.00%
Future lifetime from age 65 (currently aged 65)	21.1	20.3
Future lifetime from age 65 (currently aged 45)	23.4	22.2

Females

Base table (in 2007)	PNFA00 with allowance for MC improvement factors to 2007	PNFA00 with allowance for MC improvement factors to 2007
Scaling to above base table rates	125%	125%
Cohort improvement factors (from 2007)	60% of LC	100% of MC
Minimum underpin to improvement factors	1.25%	0.50%
Future lifetime from age 65 (currently aged 65)	23.2	22.4
Future lifetime from age 65 (currently aged 45)	25.3	23.6

Expected return on assets

The approximate split of assets for the Fund as a whole (based on data supplied by the Fund Administering Authority) is shown in the table below. Also shown are the assumed rates of return adopted by the Employer for the purposes of FRS17.

Turnover	Long-term expected rate of return at 31 March 2009 (% pa)*	Asset split at 31 March 2009 (% pa)	Long-term expected rate of return at 31 March 2008 (% pa)*	Asset split at 31 March 2008 (%)
Equities	7.0	45.2	7.6	47.8
Property	6.0	3.9	6.6	4.7
Government bonds	4.0	30.0	4.6	32.2
Corporate bonds	5.8	11.0	6.8	7.9
Other	1.6	9.9	6.0	7.4
Total	5.4	100.0	6.4	100.0

*Following the Amendment to FRS17 issued in December 2006, disclosure of the expected return on assets by asset category is no longer required (only the total rate needs to be disclosed along with the asset values). The overall expected rate of return on Fund assets is a weighted average of the individual expected rates of return on each asset class, and is shown in the bottom row of the above table.

The Association employs a building block approach in determining the rate of return on Fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund as at 31 March 2009.

Reconciliation of funded status to balance sheet

	Value at 31 March 2009 £million	Value at 31 March 2008 £million
Notional value of assets	6.83	7.59
Present value of funded liabilities	8.73	7.25
Net pension (liability)/asset	<u>(1.90)</u>	<u>0.34</u>

Analysis of Income and Expenditure

	Year ended 31 March 2009 £million	Period ended 31 March 2008 £million
Current service cost	0.27	0.05
Past service cost	0.04	0.00
Interest cost	0.51	0.07
Expected return on assets	(0.50)	(0.08)
Expense recognised	<u>0.32</u>	<u>0.04</u>

Changes to the present value of liabilities during the year

	Year ended 31 March 2009 £million	Period ended 31 March 2008 £million
Opening present value of liabilities	7.25	7.83
Current service cost	0.27	0.05
Interest cost	0.51	0.07
Contributions by participants	0.16	0.02
Actuarial losses/(gains) on liabilities	0.55	(0.72)
Net benefits paid out	(0.05)	0.00
Past service cost	0.04	0.00
Closing present value of liabilities	<u>8.73</u>	<u>7.25</u>

Changes to the fair value of assets during the accounting period

	Year ended 31 March 2009 £million	Period ended 31 March 2008 £million
Opening fair value of assets	7.59	5.43
Expected return on assets	0.50	0.08
Actuarial losses on assets	(1.77)	(0.69)
Contributions by Employer	0.40	2.75
Contributions by participants	0.16	0.02
Net benefits paid out #	(0.05)	0.00
Closing fair value of assets	<u>6.83</u>	<u>7.59</u>

Consists of net cash-flow out of the Fund in respect of the employer, excluding contributions and any death in service lump sums paid, and including an approximate allowance for the expected cost of death in service lump sums of £0.01 million for the period ending 31 March 2009.

Actual return on assets

	Year ended 31 March 2009 £million	Period ended 31 March 2008 £million
Expected return on assets	0.50	0.08
Actuarial losses on assets	<u>(1.77)</u>	<u>(0.69)</u>
Actual return on assets	<u>(1.27)</u>	<u>(0.61)</u>

Analysis of amount recognised in Statement of Total Recognised Surpluses and Deficits (STRSD)

	Year ended 31 March 2009 £million	Period ended 31 March 2008 £million
Total actuarial (losses)/gains	<u>(2.32)</u>	<u>0.03</u>
Total (loss)/gain in STRSD	<u>(2.32)</u>	<u>0.03</u>

History of asset values, present value of liabilities, surplus/deficit and experience gains and losses

	Year ended 31 March 2009 £million	Period ended 31 March 2008 £million
Fair value of assets	6.83	7.59
Present value of liabilities	<u>8.73</u>	<u>7.25</u>
(Deficit)/Surplus	<u>(1.90)</u>	<u>0.34</u>

	Year ended 31 March 2009 £million	Period ended 31 March 2008 £million
Experience losses on assets	(1.77)	(0.69)
Experience (losses)/gains on liabilities	<u>(0.55)</u>	<u>0.72</u>

Estimated pension cost in future years

Set out below is an estimate of the charge in future years, together with the assumptions used for this.

Main financial assumptions

	% pa
Discount rate	6.5
Inflation	3.6
Pension increases	3.6
Deferred pension increases	3.6
Salary increases	5.1

Expected return on assets

Asset Class	Assumed return (% pa)
Equities	7.0
Property	6.0
Government bonds	4.0
Corporate bonds	5.8
Other	1.6
Average return	5.4

Analysis of estimated Income and Expenditure Charge

	Period ended 31 March 2010 £million	Period ended 31 March 2011 £million
Current service cost	0.34	0.36
Past service cost	0.00	0.00
Interest cost	0.58	0.62
Expected return on assets	<u>(0.38)</u>	<u>(0.40)</u>
Total	<u>0.54</u>	<u>0.58</u>



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