



Cestria
Community Housing

financial statements for the year ended
31 March 2008

Investing in
homes and communities

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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 Housing Corporation Number L4514

Cestria Community Housing Association is a charitable Housing Association

BOARD

Paul Tinnion (Chair)
Vera Codling (Vice Chair)
Kay Nicol
Ann Smith
Isabel Smith
Pat Tweddle
Alan Holden
Derek Robson
Allen Turner
Steve Hallowell
Linda Henderson Gray
Joan Frost
Adam Moss
Helen Heenan
Sharon Gollan
(resigned on 20 February 2008)

Note that the effective date of appointment of all Board Members was 22 January 2008 when Cestria Community Housing Association Limited was registered with the Housing Corporation. Prior to registration, the above were a Shadow Board making operational and strategic decisions.

COMMITTEES

Performance and Resources Committee

Vera Codling (Chair)
Adam Moss (Vice Chair)
Isabel Smith
Pat Tweddle
Derek Robson
Steve Hallowell
Paul Tinnion (Ex-officio)

Audit Committee

Steve Hallowell (Chair)
Isabel Smith (Vice Chair)
Ann Smith
Adam Moss
Alan Holden
Kay Nicol
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

Company Secretary

Linda Chambers

Company Registration Number

IP30116R

Auditors – Internal

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

Auditors – External

PricewaterhouseCoopers LLP
89 Sandyford Road
Newcastle upon Tyne
NE1 8HW

Funders

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

Solicitors

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

Funding Advisors

Enterprise BWNL
6th Floor, High Holborn House
52-54 High Holborn
London
WC1V 6RL

Public Relations Advisors

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

Bankers

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



Section 2 Board report and operating and financial review

Our business

Cestria Community Housing Association Limited (the Association) was formed on 6 September 2006 and registered with the Housing Corporation on 22 January 2008. Dormant unaudited accounts for the period from incorporation on 6 September 2006 to 31 March 2007 were considered at the Annual General Meeting on 3 December 2007 and these were subsequently filed with the Financial Services Authority. On 4 February 2008 there was the large scale voluntary transfer of almost 4,300 properties from Chester-le-Street District Council to the Association. The financial statements are for the year ended 31 March 2008, however the operating and financial review covers a relatively short period for 2007/8, representing the 'trading period' from the date of transfer up to 31 March 2008.

The Association is incorporated under the Industrial and Provident Societies Acts 1965 to 2002, registration number IP30116R, and is registered with the Housing Corporation in accordance with the Housing Act 1996, registration number L4514.

The Association is formed for the benefit of the community. Its objectives are to carry on the business of providing 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.

All the housing stock is located within the Chester-le-Street district and we are the major social landlord in the area.

The condition of the housing stock is generally poor, with almost half failing to meet the decent homes standard and consequently the Association has embarked upon a comprehensive improvement programme. The improvement programme started on 11 February, one week after transfer, with 2 major contracts being let:

- An £11 million 2 year door and window replacement contract; and
- A £10 million 5 year boiler replacement and central heating programme.

At the end of the financial year, new windows and doors were installed in 128 homes and 39 homes benefited from new heating systems.

The Association is regulated by the Housing Corporation and must comply with the Corporation's Regulatory Code.

At the date of incorporation, 6 September 2006, the three Directors of the Association were Ian Broughton, Paul Stephens and Richard Humphreys. The Directors resigned on 4 June 2007 when the Shadow Board Members were appointed.

The Association is governed by a Board comprising fifteen non-executive members. It is managed by an Executive Team headed by a Chief Executive supported by Directors of Housing and Communities and Finance and Corporate Services.

Housing Associations are subject to a rolling programme of inspections by the Audit Commission who assess how good the service is to tenants and whether the Association is working towards continuous improvement. As a new association, Cestria has not yet been inspected.

Annual General Meeting

The Association's Annual General Meeting has been arranged for 29 September 2008. The shareholders will be invited to this meeting which will consider the Association's Annual Report and Financial Statements for the year ended 31 March 2008. Shareholders will be recommended to confirm the appointment of PricewaterhouseCoopers LLP as external auditors for the year ending 31 March 2009.

Corporate objectives and strategy

The Association's vision is:

"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 being at the heart of what the Association does."

The Association's corporate objectives are to:

- Deliver service excellence;
- Deliver value for money;
- Be a landlord of choice;
- Provide decent homes;
- Work in partnership to deliver sustainable communities;
- Be a reputable, financially robust association; and
- Have an effective, efficient team of staff, valuing equality and diversity.

As a community based association we seek to put tenants at the heart of what we do. We have five tenant Board members and an active programme of engagement with tenants around the work of the Association, including the Cestria Reference Group which is made up of 90 tenants who meet on a monthly basis to discuss a wide cross-section of issues. The Reference Group also has a range of working groups, including the Capital Working Group, which has been key in agreeing the choices available for tenants in the doors and windows programme and central heating programme. Tenants have also been busy helping officers shape the new Community Engagement Strategy that is due to be considered by the Board in November 2008.

We are currently embarking on drafting our first Corporate Plan which will be ready by January 2009. There will be an extensive consultation period during the latter half of 2008/9 to ensure we properly consider the views and aspirations of our tenants and strategic partners.

Operating review

Performance in the year

A summary of the main results is shown in the table below.

	2007/8
	£000
Turnover (including surplus on sale of housing properties)	2,087
Operating Costs (excluding setting up and one-off costs)	<u>(1,184)</u>
Operating Surplus	903
Net Interest Charges	<u>(33)</u>
Surplus for the year	870
Setting up and one-off costs	(2,520)
Pension Deficit	<u>(2,400)</u>
Deficit for the year	<u>(4,050)</u>
Non-financial performance:	
Rent Arrears	3.05%
Voids	1.12%

Dynamics of the social landlord

The Association is affected by a number of external factors including:

- Rent Restructuring – this limits the Association's ability to increase rents charged beyond the rent formula set by the Government;
- Decent Homes Standard – this legislation stipulates the minimum standards of accommodation which must be provided for tenants;
- Loan Covenants – the Association must ensure that it continues to operate within the financial covenants required by its funder;
- The availability of future Gap Funding – the Association has a gap funding agreement with the Department of Communities And Local Government (DCLG) running up to 2013/14;
- Interest rates – the Association's business plan makes assumptions about interest levels;
- Contractors – the Association is dependent on the contractors' ability to deliver the improvement programme; and
- Housing Market Conditions – although the Board does not regard these as having a significant impact on the Association at present, the Association's Business Plan does include forecast income from Right to Buy Sales. If these do not proceed in accordance with projections this may require revisions to the Business Plan.

There are many 'risks' facing social landlords and we define a risk as any event that could prevent the business plan from being achieved if it materialised.

The main risks faced by the Board are reflected in our Risk Register and our Risk Management Strategy and are

reviewed regularly by the Board and the Executive Team.

All known risks, the central measures to manage each risk and the nominated responsible officer are recorded in the Association's 'Risk Register'. Risks are rated in accordance with their impact and severity and are given scores which rank them high, medium or low. The impact of the control measures on reducing such risk ratings is also recorded.

Key risks we have addressed in the early stages of the Association include:

- Risks associated with the procurement of the capital programme – contract prices; failure to deliver 100 day commitments; failure to deliver offer document promises;
- Risks which impact directly on the business plan – pension deficit; void and bad debt levels; rent restructuring; rent collection performance; supporting people income; Building Services trading position; and
- Health and Safety issues which are particularly important to the Association given that we have our own in-house property services team – the Health and Safety audit showed that issues need to be addressed to achieve full compliance with all relevant legislation and good practice.

Investment for the future

The Association is committed to spending approximately £67 million over the next six years on its extensive improvement programme. This includes replacement doors and windows, kitchens and bathrooms, heating systems, rewiring, roofing and boundary walls and fences.

In addition, it intends to spend approximately £2 million each year on planned and responsive maintenance.

Financial review

Accounting policies

The principal accounting policies are set out on pages 13 to 15 of the financial statements. These were approved by, the then, Shadow Board on 14 January 2008.

Capital structure and treasury policy

The Association is financed by long term loan facilities and grant funding from the Department of Communities and Local Government.

Treasury management activities are carried out in accordance with the Association's Treasury Management Policy and with the professional assistance of treasury management advisors, Enterprise BWNL.

As at 31 March 2008, the Association had drawn borrowings of £3.5million from its total facility of £45 million to provide working capital and meet the costs of improvements scheduled for 2007/8.

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 at pages 11 and 12.

Net cash inflow from operating activities are from the management of the housing stock. Returns on investment and servicing of finance are due to interest receivable and interest charges.

The net cash outflow from capital expenditure is the expenditure on improvements to properties which has been capitalised, less grant. The net movement on financing is a new loan.

Current liquidity

The Association held cash of just over £4million and had drawn down £3.5million of its £45million agreed long term loan facilities at 31 March 2008.

The Association's loan agreement includes financial covenants and all these were met for the year ended 31 March 2008.

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.

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 a detailed training programme has been developed to enhance skills, quality and experience. Specifically the Board has focussed on applying specialist knowledge, self management, personal development, leading and motivating staff, directing strategy, representing tenants and other interested parties, analysing and scrutinising reports and performance, teamwork and group decision making.

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 and has been in existence from 4 February 2008 to 31 March 2008, and remains in place.

As at 31 March 2008, the Association did not have a strategy and policy on fraud in place. The Anti Fraud Policy Statement has, however, subsequently been adopted by the Board in July 2008. This, along with the Whistle Blowing Policy and Procedure, 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 Director of Finance and Corporate Services' 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 Cestria 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 to confirm that adequate systems of internal control existed and operated from 4 February to 31 March 2008.

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 detailed annual budgets, detailed management accounts produced monthly and 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 regularly review key performance indicators 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 of 4 February to 31 March 2008, therefore, the Board has not reviewed the fraud register.

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:

- Further development and implementation of risk management arrangements;
- Implementation of the Audit Committee's work programme; and
- Embedding of performance management arrangements.

A detailed action plan with individual responsibilities and timescales has been drawn up to address the areas identified for improvements.

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 2008 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 Annual Report and 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 Annual Report and consider whether it is consistent with the audited financial statements. 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 Housing Corporation Circular '07/07 Internal controls assurance'. We are not required to consider whether the Board's statement on internal control fairly presents the Association's system of internal control, or to form an opinion on the effectiveness of the

Association's system of internal control. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 2008 and of its deficit 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 Association Limited's 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 & Expenditure Account for the Year Ended 31 March 2008

	Notes	2008 £	2007 £
Turnover	(2)	2,001,348	0
Operating Costs	(2) – (4)	<u>(6,102,725)</u>	<u>0</u>
Operating Deficit		(4,101,377)	0
Surplus on sale of housing properties	(5)	<u>85,376</u>	<u>0</u>
Deficit on ordinary activities before financing costs		(4,016,001)	0
Interest Receivable	(6)	36,894	0
Interest Payable	(7)	<u>(71,194)</u>	<u>0</u>
Deficit for the year	(8)	(4,050,301)	0
Revenue Reserve Brought Forward	(16)	0	0
Revenue Reserve Carried Forward	(16)	(4,050,301)	0

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

The results for the period relate wholly to continuing operations.

The notes on pages 13 to 24 form an integral part of these financial statements.

Statement of Total Recognised Surpluses and Deficits (STRSD)

	2008 £	2007 £
Reported deficit for the year	(4,050,301)	0
Unrealised actuarial gain on pension scheme	<u>30,000</u>	<u>0</u>
Total recognised deficit for the Year	(4,020,301)	0

Section 7

Balance Sheet as at 31 March 2008

	Notes	2008 £	2007 £
<u>Fixed Assets</u>			
Housing Properties at cost	(10)	632,025	0
Less: Gap Funding		<u>(632,025)</u>	<u>0</u>
		0	0
<u>Current Assets</u>			
Assets held for resale: vehicles	(11)	321,935	0
Stock	(12)	103,416	0
Debtors falling due within one year	(13)	1,474,953	0
Cash at bank & in hand		<u>4,046,441</u>	<u>0</u>
		5,946,745	0
<u>Current Liabilities</u>			
Creditors: Amounts falling due within one year	(14)	<u>(6,807,041)</u>	<u>0</u>
Net Current Liabilities		(860,296)	0
Pension asset	(24)	<u>340,000</u>	<u>0</u>
Total Net Assets		<u>(520,296)</u>	<u>0</u>
<u>Represented by:</u>			
Creditors: Amounts falling due after more than one year	(15)	3,500,000	0
<u>Capital & Reserves</u>			
Share Capital - Issued, but not paid up	(16)	5	0
Income & Expenditure Reserve	(17)	<u>(4,020,301)</u>	<u>0</u>
		(520,296)	0

The notes on pages 13 to 24 form an integral part of these financial statements.

The financial statements were approved by the Board on 1 September 2008 and signed on its behalf by:

Paul Tinnion *Chair*
Vera Codling *Vice Chair*
Linda Chambers *Company Secretary*

Section 8

Cash Flow Statement for the Year Ended 31 March 2008

	2008 £	2007 £
<u>Net Cash Inflow from Operating Activities</u>	<u>1,048,173</u>	<u>0</u>
<u>Returns on Investments & Servicing of Finance</u>		
Interest received	26,894	0
Interest paid	(57,018)	0
<u>Net Cash Outflow from Returns on Investments and Servicing of Finance</u>	<u>(30,124)</u>	<u>0</u>
<u>Capital Expenditure and Financial Investment</u>		
Purchase and construction of housing properties	(235,049)	0
Receipts from sale of housing properties	85,376	0
Purchase of vehicles for resale	(321,935)	0
<u>Net Cash Outflow from Capital Expenditure and Financial Investment</u>	<u>(471,608)</u>	<u>0</u>
<u>Net Cash Inflow Before Management of Liquid Resources and Financing</u>	<u>546,441</u>	<u>0</u>
<u>Financing</u>		
Loans received	3,500,000	0
<u>Increase in Net Cash</u>	<u>4,046,441</u>	<u>0</u>



Notes to the Cash Flow Statement

1. Reconciliation of Operating Deficit to Net Cash Inflow from Operating Activities

	2008 £	2007 £
Operating Deficit for the year	(4,101,377)	0
Increase in Debtors	(842,923)	0
Increase in Stock	(103,416)	0
Increase in Creditors	6,395,889	0
Pension (FRS17) Adjustment	(300,000)	0
Net Cash Inflow from Operating Activities	1,048,173	0

2. Reconciliation of Cash Flow to Movement in Net Funds – Year ended 31 March 2008

	2008 £	2007 £
Increase in Cash	4,046,441	0
Cash Inflow from Increase in Debt	(3,500,000)	0
Movement in Net Funds resulting from Cash Flow	546,441	0
Net Funds Brought Forward	0	0
Net Funds Carried Forward	546,441	0

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	0	4,046,441	4,046,441
Housing Loans – Long term	0	(3,500,000)	(3,500,000)
Net Funds	0	546,441	546,441

Section 9

Notes to the Financial Statements for the Year Ended 31 March 2008

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 (r) 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 Housing Corporation 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) 2005, 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 (rent debit) 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, property maintenance and depreciation of major improvement works.

(d) Depreciation

Housing Properties are depreciated on a straight line basis over 50 years. 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.

Assets	Depreciation
<u>Improvements to Housing Properties:</u>	
Kitchens	Over 20 years or remaining life of the property, whichever is shorter
Central Heating	As above
External Works	Over the remaining life of the property
Modernisation	Over the remaining life of the property
Walling	Over 40 years
<u>Other Fixed Assets:</u>	
Plant and Machinery	Over 4 years
Office equipment and furniture	Over 5 years
Computer equipment and software	Over 3 years

(e) Social Housing Properties

The stock of Social Housing Properties is valued under the historical cost basis. Cost includes the cost of acquiring land and buildings, development costs and 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 Department of Communities and Local Government (DCLG). Grants claimed are treated as social housing grants and, as such, their value is deducted from the cost of improvements thereby reducing their net current value to £Nil – see also Note 10 below relating to Tangible Fixed Assets.

Such capital expenditure is subsequently subject to the application of the depreciation policy whereby the value of the accumulated values (less any residual values) of the capital asset is reduced over the useful life of the capital expenditure. Going forward, the useful life of the Social Housing Property Stock will be re-assessed annually.

(f) Impairment

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

(g) Capitalisation of major repair costs

The Association capitalises expenditure on Social Housing Properties that is capable of generating future rents, extends the useful life, 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.

(h) Stocks

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

(i) Leased Assets

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

Assets held under finance leases are included in the balance sheet and depreciated in accordance with the accounting policy. The present value of future rentals is shown as a liability. The interest element of rental obligations is charged to the Income and Expenditure Account over the period of the lease in proportion to the capital payments outstanding.

(j) Designated Reserves

The Association designates those reserves that have been set aside for specific uses which prevent them, in the judgment of the Board, from being regarded as part of the free reserves of the Association.

(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 profit and loss 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 95% 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) 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.

(r) 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 Deficit

	Turnover £	Operating Costs £	2008 Operating Deficit £	2007 Operating Deficit £
a) Income & Expenditure from Social Housing Lettings				
Social Housing Lettings	1,854,857	(6,013,494)	(4,158,637)	0
Other Social Housing Activities:				
Supporting People	146,491	(89,231)	57,260	0
Total	<u>2,001,348</u>	<u>(6,102,725)</u>	<u>(4,101,377)</u>	<u>0</u>

	Turnover £	Operating Costs £	2008 Operating Deficit £	2007 Operating Deficit £
(b) Income & Expenditure from Social Housing Lettings				
General Needs Housing Accommodation	1,854,857	(6,013,494)	(4,158,637)	0

	General Needs Housing £	General Needs Housing £
Rents	1,803,546	0
Service Charges	51,311	0
Turnover from Social Housing Lettings	<u>1,854,857</u>	<u>0</u>
Management	(5,453,904)	0
Services	(66,970)	0
Routine Maintenance	(483,213)	0
Bad Debt Provision	(9,407)	0
Operating Costs on Social Housing Lettings	<u>(6,013,494)</u>	<u>0</u>
Operating Deficit on Social Housing Lettings	<u>(4,158,637)</u>	<u>0</u>
Void Losses	<u>27,053</u>	<u>0</u>

3. Directors' Emoluments

None of the Board received any emoluments during the year ended 31 March 2008.

Cestria Community Housing Association has 3 paid Executive Officers. The aggregate amount of emoluments (including benefits in kind and pension contributions) paid to or receivable by the three Executives of the Association during the year was £44,339 (2007:£0) which is made up as follows:

	2008	2007
	£	£
Salary	35,402	0
Benefits in kind (mainly car provision)	3,733	0
Employer's pension contributions	5,204	0
Total	44,339	0

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

	2008	2007
	No.	No.
Annual Equivalent		
£50,000 – £64,999		
£65,000 – £69,999		
£70,000 – £74,999		
£75,000 – £79,999	2	0
£80,000 – £89,999		
£90,000 – £94,999	1	0
£95,000 – £104,999		

The emoluments paid to the current Chief Executive, Mr. Ian Broughton, (excluding pension contributions, but including benefits in kind) were £14,676 (2007:£0)

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:

	2008	2007
Office Staff	75.7	0
Maintenance Staff	30.5	0
Wardens, Caretakers & Cleaners	4.5	0
Total	110.7	0

Staff costs (for the above persons):

	2008	2007
	£	£
Wages & Salaries	416,914	0
Pension Costs	54,329	0
Social Security Costs	31,788	0
Total	503,031	0

5. Surplus on Sale of Housing Properties

	2008	2007
	£	£
Sales proceeds	105,374	0
Less:		
Net book value of housing properties	0	0
Contribution due to the Council	(19,998)	0
	85,376	0

6. Interest Receivable

	2008	2007
	£	£
Interest receivable from bank balances	26,894	0
Other financial income	10,000	0
	<u>36,894</u>	<u>0</u>

7. Interest Payable & Other Similar Charges

	2008	2007
	£	£
Loan Interest	70,214	0
Trustee Security Fee	980	0
Total	<u>71,194</u>	<u>0</u>

8. Deficit on Ordinary Activities

Deficit for the Year on ordinary activities is stated after charging:

	2008	2007
	£	£
a) Auditors' remuneration (external audit services)	17,566	0
b) Bad Debt Provision	9,407	0
c) Set-up Costs:		
Staffing	233,585	0
Implementation costs	1,861,688	0
Loan Arrangement Fee	61,250	0
Premises	358,121	0
Vehicles Costs	4,950	0
Total	<u>2,519,594</u>	<u>0</u>
d) Recognition of Pension Deficit	2,400,000	0

9. Taxation

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

10. Tangible Fixed Assets

Housing Properties	Housing Properties for Letting	2008 Total
<u>Gross Cost</u>	£	£
As at 1 April 2007	0	0
Additions	632,025	632,025
As at 31 March 2008	<u>632,025</u>	<u>632,025</u>

Social housing grant - Gap Funding

As at 1 April 2007	0	0
Additions	<u>(632,025)</u>	<u>(632,025)</u>
As at 31 March 2008	<u>(632,025)</u>	<u>(632,025)</u>

Net book value 31 March 2008

Net book value 31 March 2008	0	0
Net book value 1 April 2007	0	0

The housing properties are recognised in the accounts at the date of transfer at a £Nil value reflecting the opening valuation of the housing stock. Enhancement expenditure (where it is considered that the works undertaken increase the value of the property) has been capitalised at cost and the funding receivable from the Department of Communities and Local Government (DCLG) has been recognised as social housing grant at an equivalent value to the capital expenditure as at 31 March 2008.

Gap funding receivable from DCLG at 31 March 2008 was £632,025. This becomes receivable, as Gap funding, as capital expenditure occurs. In accordance with the transfer agreement no payment was made to the Council for the transfer of ownership.

No depreciation has been charged on housing properties in the current period as the charge would not be material to the financial statements. The depreciation policy set out in the Principal Accounting Policies will be applied to housing properties going forward in the next financial year.

11. Assets held for resale: purchased pending sale/lease back

During the year ended 31 March 2008, 31 vehicles were purchased at a cost of £321,935 (2007: £0). As previously agreed by the Board, the vehicles were subsequently sold and leased back as an operating lease. The operating lease was completed after the Balance Sheet date.

12. Stock

The Building Services department holds stock in relation to materials needed for repairs. The value of the stock as at 31 March 2008 was £103,416 (2007: £0).

13. Debtors

	2008	2007
	£	£
Rental Debtors	565,277	0
Less: Provision for Bad and Doubtful Debts	(387,580)	0
Net arrears	177,697	0
Cash in Transit	125,496	0
Other Debtors	63,700	0
Prepayments	476,030	0
	842,923	0
Grant Funding	632,025	0
Share Capital: issued, but not paid up	5	0
	1,474,953	0

14. Creditors: Amounts Falling Due Within One Year

	2008	2007
	£	£
Receipts in Advance: Rents	132,553	0
Receipts in Advance: Other	140,000	0
Trade Creditors	480,949	0
Creditors: Payroll	1,169	0
Creditors: Payroll – Taxation	69,473	0
Creditors: Payroll – Pensions	38,618	0
Creditors: Payroll – Other	2,724	0
Creditors: VAT	19,194	0
Cash in Transit	84,889	0
Accruals and Deferred Income: Income and Expenditure	5,426,320	0
Accruals and Deferred Income: Loan Interest	14,176	0
Accruals and Deferred Income: Capital	396,976	0
	6,807,041	0

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

	2008	2007
	£	£
Bank loans	3,500,000	0

The Association has drawn down £3,500,000 of a total loan facility of £45 million. The average interest paid in the period was 5.59%. The loan is taken from a term loan facility secured on the Association's housing properties. Repayment does not commence until the Association reaches its peak debt estimated to be 20 years hence. The repayment of the loan is, therefore, classified as repayable in 'more than five years' as follows:

	2008	2007
	£	£
Within one year	0	0
Between two and five years	0	0
More than five years	3,500,000	0
	3,500,000	0

16. Share Capital

As at 31 March 2008 five £1 shares had been allotted to the five independent board members.

17. Income and Expenditure Reserve

	2008
	£
As at 1 April 2007	0
Deficit for the Year - Income and Expenditure Deficit	(4,050,301)
- Actuarial Gain	30,000
As at 31 March 2008	(4,020,301)

18. Capital Commitments

	2008	2007
	£	£
Capital Expenditure that has been contracted for	18,611,812	0
Less: Capital Expenditure to 31 March 2008	(632,025)	0
Capital Expenditure contracted for, but has not been provided for in the Financial Statements	17,979,787	0
Capital Expenditure authorised by the Board	67,000,000	0
Less: Placed contracts	(18,611,812)	0
Capital Expenditure authorised by the Board, but not as yet contracted	48,388,188	0

The capital commitments will be financed from Gap funding of £39 million and the remainder from private finance.

19. Financial Commitments

(a) Non Cancellable Lease Agreements

At 31 March 2008 the Association had annual commitments under non cancellable operating leases expiring as follows:

	2008	2008	2008	2007
	Bowes Offices	High St Office	Total	Total
	£	£	£	£
(i) Land and Buildings				
Within one year	296,048	35,250	331,298	0
Within two and five years	1,184,192	141,000	1,325,192	0
More than five years	0	0	0	0
(ii) Equipment				
Within one year			69,591	0
Within two and five years			69,591	0
More than five years			0	0

(b) Lease Agreements entered into post year ended 31 March 2008

The following lease agreements have been entered into since 31 March 2008 and have the following annual commitments:

	2008	2007
	£	£
(i) Vehicles		
Within one year	76,366	0
Within two and five years	152,732	0
More than five years	0	0

20. Average Assured Rents

The average assured rents as at 31 March 2008 were £51.46 (2007: £0)

21. Property Numbers

	2008	2007
	No.	No.
4 Bedroom Houses	31	0
3 Bedroom Houses	1,496	0
2 Bedroom Houses	932	0
1 Bedroom Houses	35	0
1 Bedroom Flats	624	0
2 Bedroom Flats	17	0
3 Bedroom Flats	2	0
1 Bedroom Bungalows	517	0
2 Bedroom Bungalows	611	0
3 Bedroom Bungalows	25	0
Bedsits	2	0
Total Housing Properties	4,292	0
Garages	983	0
Shops	9	0
Communal Rooms	2	0
Total Properties	5,286	0

22. Legislative Provisions

The Association is incorporated under the Industrial & Provident Societies Acts 1965 to 2002 and is registered with the Housing Corporation 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 2007/8, 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. Pensions

The disclosures below relate to the Durham County Council Pension Fund (the "Fund") which is part of the Local Government Pension Scheme. Cestria Community Housing 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 ending 31 March 2009

Regular Employer contributions to the Fund for the year ending 31 March 2009 are estimated to be £360,000.

Assumptions

The latest actuarial valuation of the Fund took place with an effective calculation date of 4 February 2008. The principal assumptions used by the independent qualified actuaries in updating the latest valuation of the Fund for FRS17 purposes were:

Main financial assumptions

	31 March 2008 (% pa) £	4 February 2008 (% pa) £
Inflation	3.7	3.5
Rate of general long-term increase in salaries	5.2	5.0
Rate of increase to pensions in payment	3.7	3.5
Rate of increase to deferred pensions	3.7	3.5
Discount rate	6.8	6.2

Mortality assumptions

The mortality assumptions are based on the PNA00 series standard mortality tables with allowance for future mortality improvements in line with the "medium Cohort" projection model, subject to a minimum level of annual improvement of 1% per annum for males and 0.5% per annum for females. Mortality rates in the underlying base table are further adjusted by the use of scaling factors to reflect the actual mortality experience of the Fund. To facilitate comparison with other employers, a pensioner who is currently aged 65 is assumed to live on average for a further 20.3 years if they are male and a further 22.4 years if they are female.

Assets

The bid value of assets of the Durham County Council Pension Fund as at 28 February 2008 has been estimated at £1,384,900 (only a proportion of these assets are allocated to the Employer). The assets as at 31 March 2008 have been estimated using index returns appropriate to the mix of assets between 28 February 2008 and 31 March 2008.

The asset values, for the entire Fund, used as at the accounting date are set out below.

Turnover	Long-term rate of return expected at 31 March 2008 (% pa)	Estimated Value at 31 March 2008 (% pa)	Long-term rate of return expected at 4 February 2008 (% pa)
Equities	7.6	659.4	7.5
Property	6.6	65.9	6.5
Government bonds	4.6	443.0	4.5
Corporate bonds	6.8	109.3	6.2
Other	6.0	100.1	6.0
Total	6.4	1,377.7	6.3

Cestria Community Housing 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 2008.

Reconciliation of funded status to balance sheet

	Value at 31 March 2008 £	Value at 4 February 2008 £
Fair value of assets	7,590,000	5,430,000
Present value of funded liabilities	7,250,000	7,830,000
Net pension asset / (liability)	340,000	(2,400,000)

Analysis of Income and Expenditure Charge

	Year ending 31 March 2008 £
Current service cost	50,000
Interest cost	70,000
Expected return on assets	(80,000)
Expense recognised in Income and Expenditure Charge	40,000

Changes to the present value of liabilities during the year

	Year ending 31 March 2008
	£
Opening present value of liabilities	7,830,000
Current service cost	50,000
Interest cost	70,000
Contributions by participants	20,000
Actuarial gains on liabilities	(720,000)
Closing present value of liabilities	<u>7,250,000</u>

Changes to the fair value of assets during the year

	Year ending 31 March 2008
	£
Opening fair value of assets	5,430,000
Expected return on assets	80,000
Actuarial losses on assets	(690,000)
Contributions by Employer	2,750,000
Contributions by participants	20,000
Closing fair value of assets	<u>7,590,000</u>

Actual return on assets

	Year ending 31 March 2008
	£
Expected return on assets	80,000
Actuarial loss on assets	(690,000)
Actual return on assets	<u>(610,000)</u>

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

	Year ending 31 March 2008
	£
Total actuarial gains	30,000
Total gain in STRSD	<u>30,000</u>

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

	As at 31 March 2008
	£
Fair value of assets	7,590,000
Present value of liabilities	7,250,000
Surplus	<u>340,000</u>

	Year ending 31 March 2008
	£
Experience losses on assets	(690,000)

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	6.8
Inflation	3.7
Pension increases	3.7
Deferred pension increases	3.7
Salary increases	5.2

Expected return on assets

Asset Class	Assumed return (% pa)
Equities	7.6
Property	6.6
Government bonds	4.6
Corporate bonds	6.8
Other	6.0
Average return	6.4

Analysis of Income and Expenditure charge – funded benefits

	For year ending 31 March 2009	For year ending 31 March 2010
	£	£
Current service cost	290,000	310,000
Interest cost	510,000	570,000
Expected return on assets	(500,000)	(600,000)
Total	<u>300,000</u>	<u>280,000</u>

