



SEDGFIELD BOROUGH HOMES LTD

Report and Financial Statements

**For the Period from 15 October 2008 to
31 March 2010**

Registered Industrial and Provident Society No 30568R

SEDGEFIELD BOROUGH HOMES
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For the period ended 31 March 2010

Tenant Services Authority registration number	L4538
Registered office:	Green Lane Offices, Spennymoor, Co Durham, DL16 6JQ
Board:	William Waters (Chair and Board Member to 29.09.09) Bernd Bangel (Chair from 29.09.09) Alan Cargill Ian Gillespie (from 29.09.09) Julia Histon (to 25.02.10) Doug Hollingworth Joanne Jackson Emily Jones Jonathon Mallen-Beadle (from 25.03.10) John Moran (from 29.09.09) Geoff O'Hehir (to 25.06.09) Enid Paylor Ian Youll John Robinson Brian Stephens
Chief Executive	Colin Steel
Directors:	Alan Smith (Director of Finance) Alan Boddy (Director of Corporate Services) Wayne Harris (Director of Property Services) Ian Brown (Director of Housing & Community Services)
Bankers:	Nat West PLC 21 Market Street Ferryhill Co Durham DL17 8JN
Solicitors:	Trowers & Hamlins LLP Sceptre Court 40 Tower Hill London EC3N 4DX
Auditors:	Grant Thornton UK LLP Chartered Accountants No1 Whitehall Riverside Leeds LS1 4BN

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OPERATING AND FINANCIAL REVIEW AND BOARD REPORT
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The Board of Sedgefield Borough Homes is pleased to present its first report together with the audited financial statements of Sedgefield Borough Homes Limited (the Association) for the period from 15 October 2008 to 31 March 2010.

Activities

The Association's principal activities are the development and management of affordable housing.

The Association's head office is based in Spennymoor, Co Durham and its properties are all in Co Durham, principally in the area of the former Sedgefield Borough Council.

The Association is an Industrial and Provident Society with charitable objectives and operates two key business streams:

- housing for rent, primarily by families who are unable to rent or buy at open market rates
- supported housing and care for people who need additional housing-related support or additional care.

The Association manages over 8,500 affordable housing units.

Board members and executive directors

The present board members and executive directors of the Association are set out inside the front cover (page i).

This year there have been changes to the Board as follows:

- William Walters (Chair) who was a Council nomination to the Board was replaced by John Moran
- Geoff O'Hehir and Julia Histon resigned from the Board on the 25/06/09 and 25/02/10 respectively. We are pleased to welcome two new Board members; Ian Gillespie, bringing asset management experience and Jonathon Mallen-Beadle who will strengthen the financial skills of the Board, being Director of Finance and Corporate Services at Gateshead Housing.

The executive directors are the chief executive and other members of the Association's senior management team. They hold no interest in the Association's shares and act as executives within the authority delegated by the board. Association insurance policies indemnify board members and officers against liability when acting for the Association.

Pensions

The executive directors are members of the Durham County Council Pension Fund, a defined benefit (final salary) pension scheme. They participate in the scheme on the same terms as all other eligible staff and the Association contributes to the scheme on behalf of its employees.

Other benefits

The directors are entitled to an allowance for the provision of a car. Details of executive remuneration are included in note 10 to the audited financial statements.

Values, Objectives and strategy

The Association's objectives and strategy are set out in an interim corporate plan that is reviewed and approved by the board each year. The five key objectives are summarised as follows:

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- **Well Governed and Viable** – to improve financial strength and governance
- **Effective people** - to invest in our people
- **Continuous Improvement** - to deliver excellent services through new ways of working
- **Efficient Assets** - to invest in our homes and provide new homes
- **Customer focused** - to meet our customers' needs and provide excellent services

Performance and development

Senior management and the board monitor achievement of the Association’s objectives by measuring performance against the targets that are set out below. The board agrees targets each year that are designed to manage development and deliver continuous service improvement. During the term of the interim corporate plan we will:

Objective	Target
<p>Well governed and viable - to improve financial strength and governance</p>	<ul style="list-style-type: none"> • Achieve our financial plan and loan covenants • Develop a procurement strategy to maximise value for money in procurement activity • Develop an efficiency and value for money strategy to ensure continued financial viability • Maximise income collection via an Income Management policy supported by the introduction of a range of modern collection methods • Undertake an overall assessment of the performance of the Board and the effectiveness of governance arrangements • Further strengthen the protection of assets by reviewing fraud arrangements, operational risk management and internal audit arrangement
<p>Effective people - to invest in our people</p>	<ul style="list-style-type: none"> • Introduce a Customer Excellence training programme for all staff • Introduce a competency framework setting out the expected behaviours of all staff. This framework will be the basis on which all performance will be measured • Introduce a Management Development programme based on the “competencies for a successful SBH Manager” • Develop an employee award scheme which recognises achievement and contribution amongst staff • Commence our cultural change programme to support staff through the many changes ahead
<p>Continuous improvement - to deliver excellent services through new ways of working</p>	<ul style="list-style-type: none"> • Implement our Corporate Performance Management framework to ensure we are all working towards achieving the mission and vision of SBH • Develop an Equality and Diversity strategy to ensure we embrace diversity, address inequality and meet the needs of excluded groups • Develop positive working relationships with stakeholders, partners and groups • Have undertaken and acted on our annual customer and staff satisfaction surveys • Have a robust approach to service improvement which is informed by customers • Develop a business intelligence strategy to ensure decisions and policies are based on sound business reasons • Develop a marketing and communications strategy to ensure our customers are well informed and our reputation is first class
<p>Efficient assets - to invest in our homes and provide new homes</p>	<ul style="list-style-type: none"> • Develop an Asset Management strategy to determine our approach towards property improvement and disposal • Achieve citizen charter status • Ensure all properties have fully functional smoke and carbon monoxide detectors • Continue to deliver investment in our homes • Develop a sustainability strategy to reduce our “carbon footprint” and improve the energy efficiency of our homes • Implement the Improvement plan to maximise the effectiveness of our strategic partnerships.

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<p>Customer focused - to meet our customers' needs and provide excellent services</p>	<ul style="list-style-type: none"> • Develop and implement a resident involvement strategy to ensure customers are truly engaged and empowered to shape the services they receive • Develop a Customer Access strategy to ensure improvements to the way customers access the services they receive • Deliver environmental improvements to contribute to the longer term sustainability of neighbourhoods • Explore new methods of rent payment that meet the needs of our tenants • Develop local standards of service delivery with our tenants
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In addition to the targets set out in the Associations Interim Corporate Plan there are a set of performance measures which are monitored and reported to the Operations and Performance Committee on a quarterly basis. Our performance against financial performance indicators is set out in the table on pages 3 and 4 and are summarised below.

Finance

Sedgefield Borough Homes came into being during a period of major financial uncertainty. Rent levels were set by Durham County Council before transfer and were in accordance with the guidance issued by the Tenant's Services Authority and Department of Communities and Local Government on Rent Restructuring.

The budget was drawn together by building up costs, notably Salaries, from zero and others e.g. repairs and maintenance based on information drawn from previous budgets allocated through the Housing Revenue Account and adjusted for non recoverable VAT.



Close monitoring was undertaken during the first six months of operations and a full budget review undertaken at the end of that period to realign budgets where necessary.

All Funders' covenants were met in the first year.

The board has approved that specific funds be set aside within reserves to cover the following:

- Insurance – set aside to meet any liabilities arising from uninsured risks.
- Pensions – set aside to meet any potential increases in Employers Pension liability as a result of Actuarial revaluations.
- Mortgage Rescue Scheme Fund - Proceeds from Right to Buy sales used to fund acquisition of properties under the Governments mortgage rescue scheme.

The table below shows those performance measures which are key to the Association and which will form the basis of our monitoring service improvement during 2010/11. Commentary on some of these indicators follows the table.

Performance Indicator	2009/10 Target	Actual versus Target	Performance score
Average time taken to re-let housing (days)	29		41.84
% of urgent repairs completed within Government time limits	97%		98.3%

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Average time taken to complete non-urgent repairs (days)	20	☺	12.5
% of non-decent homes	11%	☺	2.07%
% of urgent repairs completed on time	85%	☺	92%
Proportion of rent collected	98.8%	☹	97.65%
Rent arrears of current tenants as a proportion of rent roll	1.75%	☹	1.85%
% of rent lost through dwellings becoming vacant	1.3%	☹	1.47%
Number of working days / shifts lost due to sickness absence (Total)	10.5	☹	11.03
Employee turnover	8.2%	☺	0.72%

Rent losses from voids

Our target for the year was to manage our housing properties to minimise the length of time they remained empty between lettings and keep related losses below 1.3% of rental income receivable. Our target was not achieved for the year with overall rent losses being 1.47%.

This drop in performance reflects the reducing demand across the sheltered housing and other specific areas of our stock. It is expected that the Asset Management Strategy which is currently being developed will recommend measures to be put in place to address the issues of properties with low demand; however this will not be a quick fix. The introduction of Choice Based Lettings has produced improved demand for general needs property but the impact of the new void property procedures has had an initial slow down in properties being returned for letting. A full roll out of the current pilot scheme across the whole stock will ultimately lead to reduced turn round times.

The target for the coming year is to reduce rent losses to 1.0% of rental income with the focus for our housing letting team in the coming year will be to reduce the length of time between a property becoming vacant and being let.

Rent arrears

Overall rent arrears in respect of current tenancies at the year-end stood at 1.85% against an operational target of 1.75% due partly to the timing of a payment of housing benefit arrears, paid shortly after the year-end. Our target for the coming year is to manage rent arrears within 1.75% of rental income.

The cumulative figure for the proportion of rent collected has again seen a slight decline in performance, with the figure standing at 97.65% against a first year target of 98.8%. The reason for this dip in performance can be directly related to the stock transfer to SBH and delays in commencing recovery action due to the late assignment of debt from the former Sedgefield Borough Council.

Asset management

We are continuing to improve our residential accommodation. During 2009/10 we invested approximately £15.0m to ensure all our homes continue to meet the decent homes standard and provide enhanced improvements such as bathroom and kitchen upgrades and heating systems. The

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Business Plan for 2009/10 contained spend in this area of approximately £21.5m. However a slower than anticipated start to the programme accounts for some of the under spend, whilst effective procurement and re-profiling within the programme has given rise to significant cost savings to the Association.

The end of year performance achieved for non urgent repairs was 12.5 days against an anticipated target of 20 days. The performance has still been achieved even after taking account of the extreme weather conditions early in 2010 and the higher volume of repair calls that subsequently arose.

At the end of the 2008/09 financial year 12.5% of the housing stock transferred from Sedgefield Borough Council were classified as non decent stock. The position at the 31 March 2010 is that only 2.07% of stock remain non decent. The Association has until 31 December 2010 to have all homes decent and on the current trajectory this will be achieved by the end of August 2010.

Employer of Choice

The average level of sickness per employee for the period April 2009 – March 2010 has reduced down to an average of 11.03 days compared to the final year when those staff that were employed by Sedgefield Borough Council when the average sickness level was 13.37 days.

Since April 2010 there has been a significant reduction in the long term sickness amongst the employees such that by the end of the first quarter of 2010/11 the average was down to 5.53 days.

Risks and uncertainties

Risks that may prevent the Association achieving its objectives were considered very early after transfer. The risks are recorded and assessed in terms of their impact and probability. Major risks, presenting the greatest threats are reported to the Audit and Risk Committee quarterly together with action taken to manage the risks, including assessments of key controls, and the outcome of the action.

15 strategic risks were identified of which five are being effectively managed the other ten have “intolerable scores” and these are the major risks to successful achievement of the Association’s objectives going forward these are shown below:

Key risk	Key actions being undertaken
<p>1.Failure to manage capacity to deliver improvements</p>	<p>A review of customer access arrangements leading to</p> <ul style="list-style-type: none"> • A review of the associations staffing structure • A closure of area offices to better utilise resources <p>Implementation of a new performance management framework.</p> <p>A review of partnering arrangements that includes</p> <ul style="list-style-type: none"> • The removal of duplication by sharing resources
<p>2. Failure to re-launch SBH as a new Housing Association</p>	<p>A culture change programme is underway that includes:</p> <ul style="list-style-type: none"> • The introduction of a new Staff Appraisal System • The introduction of a Staff Competency Framework • A Complete Marketing and Communications Strategy • The Re-branding of the Association • A review of the communications framework

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Key risk	Key actions being undertaken
3. Failure to deliver improvements to partnering arrangements	<p>A major review of assets is underway to produce a robust asset management strategy</p> <p>Work is ongoing with Mears to complete and implement a 3 Star Plan</p> <p>The association will introduce a new customer service centre to improve diagnosis and responsiveness to repairs and maintenance requests</p>
4. Failure to recognise and react to the current economic climate	<p>A number of reviews are underway or being implemented that will improve use of resources and/or deliver efficiencies. These include:</p> <ul style="list-style-type: none"> • Partnering arrangements Review • Asset Management • Income Management Strategy and Policy • Annual Business Plan review • Customer Access • National standards and local offers to include resident involvement and tenant scrutiny • Business Intelligence Strategy • Performance Management Framework • Development Strategy
5. Failure to deliver effective asset management	<p>The asset management programme review will:</p> <ul style="list-style-type: none"> • Identify and implement an Asset Management model • Complete detailed Stock Condition Survey and its Financial Implications • Embed standard Housing Data into Asset Model • Complete Identification of Non Property Assets <p>Ongoing work with new partners will:</p> <ul style="list-style-type: none"> • Ensure Partners provide relevant survey and installation data • Determine/ confirm information required from surveys to properly inform asset management strategy • Develop programme with partners using the asset management strategy as the basis • Consider potential for changes in asset management approach
6. Failure to effectively manage the associations finances	<p>A number of initiatives are underway that will improve the financial position of the association. These include:</p> <ul style="list-style-type: none"> • Partnering review – changing the balance between responsive and planned repairs • Developing and implementing an Income management strategy to maximise Income • Developing the rent plan to maximise rental income • Implement the asset management review to identify VFM / efficiency savings • Develop an approach to embed the Value for Money standard <p>Ongoing work to protect the Association's assets includes:</p> <ul style="list-style-type: none"> • Completion of the fraud awareness review & staff training
7. Failure to have data protection and security arrangements	<p>A policy review is underway to</p> <ul style="list-style-type: none"> • Implement staff training and Awareness programme • Produce a Document Retention Policy • Introduce Business Continuity Planning • Update key ICT systems– Housing Management • Complete a Business Intelligence Review • Produce a Document Storage Strategy
8. Failure to deliver tenants promises	<p>Review mechanisms are designed to:</p> <ul style="list-style-type: none"> • Improve awareness – Staff, Tenants and Board • Ensure that Work plan Development linked to Business Plan • Review current relevance of promises <p>The Asset Management Review will</p> <ul style="list-style-type: none"> • Deliver promises relating to capital works • Develop consultation processes

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Key risk	Key actions being undertaken
9. Failure to manage performance	<p>The new performance management framework will be in place at the end of quarter 1 2010 and will:</p> <ul style="list-style-type: none"> • Introduce new, more relevant performance measures • Contain a promises delivery reporting process • Inform the development of Local Offers • Include and monitor self assessment action plans to achieve National Standards
10. Failure to deliver the corporate improvement programme	<p>A number of reviews have been completed and are currently being implemented. The programme is being kept under review and will be supported by</p> <ul style="list-style-type: none"> • Business Intelligence and customer profile gathering • Improved Partnership Involvement via 3 star plan • Performance Management framework implementation <ul style="list-style-type: none"> • Self Assessments against National Standards • Development of Local Offers • Forward Plan Review

Financial position

The Association's income and expenditure accounts and balance sheets are summarised in Table 1 (page 10) and the following paragraphs highlight key features of the Association's financial position at 31 March 2010.

Accounting policies

The Association's principal accounting policies are set out on pages 20 - 23 of the financial statements. The policies that are most critical to the financial results relate to accounting for housing properties and include: capitalisation of costs and housing property depreciation.

During our annual review of accounting policies we considered whether our housing properties should be separated into components for financial reporting purposes. We concluded that the early adoption of component accounting would be beneficial to the Association. The fixed assets were categorised into separate components for depreciation purposes as set out in the accounting policies note referred to above.

Housing properties

At 31 March 2010 the Association owned 8,550 housing properties (8,556 at the date of transfer). The properties are carried in the balance sheet at historic cost (after depreciation) amounting to £18.78m. Our investment in housing properties this year was funded through a mixture of loan finance and working capital.

The Association's treasury management arrangements are considered below.

Pension costs

The Association is an Admitted Body to the Durham County Council Pension Fund. This is a final salary scheme, offering good benefits for our staff. The Association has contributed to the scheme in accordance with levels, set by the actuaries, of 14.7%. After the period end £1.7m was paid to DCC to be set against the pension deficit that arose on transfer (note 14).

The next actuarial valuation of the DCCPF is due at 31 March 2010, the outcome of which will be known by October 2010.

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Capital structure and treasury policy

The Association borrowed £10m during the year, to finance the first year of its capital investment programme. By the year end Association borrowings had reduced to £6m all of which falls due to be paid after five years as shown below.

Maturity	2010 £m
Within one year	-
Between one and two years	-
Between two and five years	-
After five years	6.0
	<hr/>
	6.0

The Association borrows from RBS, Barclays and Abbey (now Santander), at both fixed and floating rates of interest. Interest rate swaps are used to generate the desired interest profile and to manage the Association's exposure to interest rate fluctuations. The Association's policy is to have outstanding at any one time, a maximum of 30% variable rate loans, and 100% fixed rate loans. At the year-end, 100 % of the Association's borrowings were at fixed rates.

The fixed rate of interest on the outstanding amount is 6.1953% including margin. In the current market, it is unlikely that re-financing of these loans would result in a lower rate of interest payable. However, the revised Business Plan of the Association suggests that there may be scope for re-profiling of the loan portfolio, with the possibility of cancelling down some of the future commitment of the Association.

The Association's lending agreements require compliance with a number of financial and non-financial covenants. The Association's position is monitored on an on-going basis and reported to the Operations and Performance committee each quarter. Recent reports confirmed that the Association was in compliance with its loan covenants at the balance sheet date and the board expects to remain compliant in the foreseeable future.

The Association borrows and lends only in sterling and so is not exposed to currency risk.

Cash flows

Cash inflows and outflows during the year are shown in the cash flow statement (page 19).

The cash outflow from operating activities this year was £5.953m. Cashflow after taking account of loan funding was an inflow of £47k, against a budgeted cash flow deficit of £16.875m per the transfer plan. This favourable position has arisen as a result of effective procurement within and re-profiling of the Association's Investment Programme as well as other Efficiency Savings as detailed in the Association's VFM Statement.

Future developments

A key influence on the timing of borrowings is the rate at which the Association's Capital Investment programme in respect of modernising the existing housing stock takes place. The board has approved plans to spend approximately £25m during the next financial year to improve general housing (£6m in respect of bringing homes up to the decent homes standard and £19m on Capital improvements to the

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overall stock). Some £20m of the investment will be through new borrowings with the balance funded through the Association's rental income stream.

Loan facilities at the 31 March 2010 amounted to £90m which are still available to draw down under existing arrangements.

During 2010/11 initial works will commence on the construction of the Association's new offices which are estimated to cost £5.25m (£750,000 in 2010/11). The new build development will mean that all staff will be located together for the first time and this will result in the closure of all area offices by December 2011.

Expenditure of approximately £235,000 has been approved by the Board to be spent during the next financial year on ICT systems / equipment in line with the Associations ICT strategy.

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Table 1 – Association’s financial highlights, year 1 summary

For the period ended 31 March	2010
Income and Expenditure account (£’000)	
Total turnover	26,622
Operating surplus	1,411
Surplus for the year transferred to reserves	<u>694</u>
Balance Sheet (£’000)	
Housing properties, net of depreciation	18,784
Other fixed assets	<u>355</u>
Total Fixed assets	19,139
Current assets	2,112
Current liabilities	<u>(7,624)</u>
Total assets less current liabilities	<u>13,627</u>
Long term liabilities	6,393
Pensions liability	9,240
Revenue Reserve	<u>(2,006)</u>
	<u>13,627</u>
Housing properties owned at year end:	No
Social housing	8,550
Non-social housing	-
	8,550
Statistics: -	
Operating surplus as % of turnover	5.3%
Surplus for year as % of income from lettings	2.6%
Rent losses (<i>voids and bad debts as % of rent and service charges receivable</i>)	1.7%
Liquidity (<i>current assets divided by current liabilities</i>)	0.27
Total reserves per home owned	(£233)

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Internal controls assurance

The board acknowledges its overall responsibility, for establishing and maintaining the whole system of internal control and for reviewing its effectiveness.

The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and to provide reasonable assurance against material misstatement or loss.

The process for identifying, evaluating and managing the significant risks faced by the group is ongoing, has been in place throughout the period commencing 15th October 2008 up to the date of approval of the report and financial statements.

Key elements of the control framework include:

- Board approved terms of reference and delegated authorities for audit and risk, operations and performance and human resources committees
- Clearly defined management responsibilities for the identification, evaluation and control of significant risks
- Robust strategic and business planning processes, with detailed financial budgets and forecasts
- Formal recruitment, retention, training and development policies for all staff
- Established authorisation and appraisal procedures for significant new initiatives and commitments
- A sophisticated approach to treasury management which is subject to external review each year
- Regular reporting to the appropriate committee on key business objectives, targets and outcomes
- Board approved whistle-blowing and anti-fraud and corruption policies
- Board approved fraud policies, covering prevention, detection and reporting, together with recoverability of assets
- Regular monitoring of loan covenants and requirements for new loan facilities.

The board cannot delegate ultimate responsibility for the system of internal control but has delegated authority to the Audit and Risk committee to regularly review the effectiveness of the system of internal control. The board receives Audit and Risk committee meeting minutes and where applicable would initiate follow up actions. The Audit and Risk committee has received the chief executive's annual review of the effectiveness of the system of internal control for the Association, and the annual report of the internal auditor, and has reported its findings to the board.

National Housing Federation (NHF) Code of Governance

The Association has adopted a governance pack which is designed to comply with the 2009 edition of the NHF's Code of Excellence in Governance. Formal adoption of a code of governance, in satisfaction of the Tenants Services Authority standards, is to be approved by the Board on the 26th August 2010 and a report detailing compliance with it will be published for consideration by no later than November 2010

- At last year's Annual General Meeting, William Waters resigned as chairman and Bernd Bangel was elected chairman of the board.

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Donations

The Association donated £121 to the British Heart Foundation and £200 to UNICEF in respect of the Haiti disaster appeal.

No political donations were made.

Statement of Skills, qualities and experience required of Board Members, the Policy for admitting new shareholders and electing tenant board members

The skills, qualities and experience required of Board Members, policy for admitting new shareholders and procedure for electing tenant board members are detailed within the Board Member/Shareholding and Recruitment Policy and Procedure approved by Board.

Statement of the Board's obligations to the Association and responsibilities of the board for the report and financial statements

The board is responsible for overall control of the Association, conducting its business to ensure financial viability, proper governance and proper management in line with its terms of reference (detailed within standing orders) and preparing the report and financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Industrial and Provident Societies Acts and registered social landlord legislation in the United Kingdom require the board to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Association at the end of the period and of the surplus or deficit of the Association for the period then ended.

In preparing those financial statements the board is required to:

- Select suitable accounting policies and apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- Follow applicable United Kingdom Accounting Standards and the Statement of Recommended Practice: Accounting by registered social landlords (2008), subject to any material departures disclosed and explained in the financial statements.
- Prepare the financial statements on a going concern basis.

The board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Association and enable it to ensure that the financial statements comply with the Industrial and Provident Societies Acts 1965 to 2002, the Housing Act 1996 (to 31 March 2010), the Housing and Regeneration Act 2008 (from 1 April 2010) and the Accounting Requirements for Registered Social Landlords General Determination 2006. It is also responsible for safeguarding the assets of the Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Going concern

The board has a reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future, being a period of twelve months after the date on which the report and financial statements are signed. For this reason, it continues to adopt the going concern basis in the financial statements.

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Annual general meeting

The annual general meeting will be held on 16th September 2010 at Durham leadership Centre, Spennymoor, Co. Durham.

Disclosure of information to auditors

At the date of making this report each of the Association's directors, as set out on page (i), confirm the following:

- So far as each Board member is aware, there is no relevant information needed by the Association's auditors in connection with preparing their report of which the Association's auditors are unaware
- Each Board member has taken all the steps that he ought to have taken as a Board member in order to make themselves aware of any relevant information needed by the Association's auditors in connection with preparing their report and to establish that the Association's auditors are aware of that information.

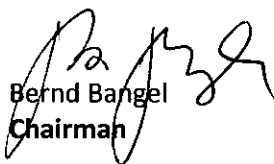
External auditors

A resolution to re-appoint Grant Thornton LLP will be proposed at the forthcoming annual general meeting.

Statement of compliance

In preparing this Operating and Financial Review and Board report, the board has followed the principles set out in the SORP 2008.

The report of the board was approved by the board on 26th August 2010 and signed on its behalf by:


Bernd Bangel
Chairman

SEDGEFIELD BOROUGH HOMES

Period ended 31 March 2010

Independent auditor's report to the members of Sedgefield Borough Homes

We have audited the financial statements of Sedgefield Borough Homes for the period ended 31 March 2010 which comprise the income and expenditure account, the balance sheet, the cash flow statement, the statement of total recognised surpluses and deficits, the reconciliation of movement in funds and the related notes.

This report is made solely to the association's members, as a body, in accordance with regulations made under Section 4 of the Friendly and Industrial and Provident Societies Act 1968. Our audit work has been undertaken so that we might state to the association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the association and the association's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the board and auditors

The directors' responsibilities for preparing the financial statements in accordance with the applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Responsibilities of the board (on page 12).

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

We report to you, our opinion as to whether the financial statements give a true and fair view in accordance with Chapter 9 of the Friendly and Industrial and Provident Societies Act 1968, and whether the financial statements are in compliance with Chapter 4 of Part 2 of the Housing and Regeneration Act 2008 and the Accounting Requirements for Registered Social Landlords General Determination 2006.

In addition, in accordance with Chapter 9 of the Friendly and Industrial and Provident Societies Act 1968 we report to you if, in our opinion, the association has not kept proper books of account, or maintained a satisfactory system of control, or the financial statements are not in agreement with the books of account of the Association; or we have not received all the information and explanations we require for our audit.

We read the other information accompanying the financial statements and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

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

SEDGEFIELD BOROUGH HOMES

Period ended 31 March 2010

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 2010 and of its income and expenditure, for the period then ended.
- The financial statements are in compliance with Chapter 4 or Part 2 of the Housing and Regeneration Act 2008, and the Accounting Requirements for Registered Social Landlords General Determination 2006.



Grant Thornton UK LLP
Chartered Accountants and Registered Auditors
Leeds,
England

26 August 2010

SEDGEFIELD BOROUGH HOMES
INCOME AND EXPENDITURE ACCOUNT

For the period from 15 October 2008 to 31 March 2010

	Note	2010 £'000
Turnover	3	26,622
Operating costs	3	(18,725)
Exceptional operating costs	5	(6,486)
Operating surplus		<hr/> 1,411
Surplus on sale of fixed assets – housing properties	6	102
Interest receivable and other income	7	11
Interest payable and similar charges	8	(830)
Surplus on ordinary activities before taxation		<hr/> 694
Tax on surplus on ordinary activities		-
Surplus for the financial year	18	<hr/> <hr/> 694

The notes on pages 20 to 39 form part of the financial statements

All activities of the association are classed as continuing

SEDGEFIELD BOROUGH HOMES**STATEMENT OF TOTAL RECOGNISED SURPLUSES AND DEFICITS**For the period from 15 October 2008 to 31 March 2010

STATEMENT OF TOTAL RECOGNISED SURPLUSES AND DEFICITS

	Note	2010 £'000
Surplus for the financial year		694
Actuarial gain/(loss) relating to pension scheme	9	(2,700)
		<hr/>
Total recognised surpluses and deficits relating to the year		(2,006)
		<hr/> <hr/>

RECONCILIATION OF MOVEMENTS IN ASSOCIATION'S FUNDS

	2010 £'000
Opening total funds	-
Total recognised surpluses and deficits relating to the year	(2,006)
	<hr/>
Closing total funds	(2,006)
	<hr/> <hr/>

The notes on pages 20 to 39 form part of the financial statements

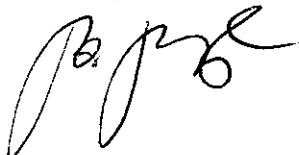
SEDGEFIELD BOROUGH HOMES
BALANCE SHEET

As at 31 March 2010

	Note	2010 £'000
Tangible fixed assets		
Housing properties	11	18,784
		<hr/> 18,784
Other tangible fixed assets	12	355
		<hr/> 19,139
Current assets		
Debtors	13	2,065
Cash at bank and in hand		47
		<hr/> 2,112
Creditors: Amounts falling due within one year	14	(7,624)
		<hr/> (5,512)
Net current liabilities		<hr/> (5,512)
Total assets less current liabilities		<hr/> 13,627
Creditors:		
Amounts falling due after more than one year	15	6,393
Provisions for liabilities and charges		
Net pension liability	9	9,240
		<hr/> 15,633
Capital and reserves		
Revenue reserve	18	(2,006)
		<hr/> 13,627
		<hr/> <hr/> 13,627

The financial statements were approved by the Board of Directors on 26 August 2010

Bernd Bangel
Chairman



Ian Youll
Vice chairman



Alan Smith
Secretary



The notes on pages 20 to 39 form part of these financial statements

SEDGEFIELD BOROUGH HOMES
CASH FLOW STATEMENT

For Period from 15 October 2008 to 31 March 2010

	Note	2010 £'000
Net cash inflow from operating activities	19	13,535
Returns on investments and servicing of finance		-----
Interest received		11
Interest paid		(310)
Net cash outflow from returns on investments and servicing of finance		----- (299)
Taxation		-----
Corporation tax paid		-
Capital expenditure and financial investment		-----
Purchase and construction of housing properties		(3,814)
Investment/improvement of housing properties		(15,105)
Purchase of other fixed assets		(369)
Investment/improvement of other assets		(7)
Sale of housing properties		106
Net cash outflow from capital expenditure and financial investment		----- (19,189)
Financing		-----
Loans received		10,000
Loans repaid		(4,000)
Net cash inflow from financing		----- 6,000
Increase/(decrease) in cash		----- 47 =====

The notes on pages 20 to 39 form part of these financial statements

SEDGEFIELD BOROUGH HOMES

NOTES TO THE REPORT AND FINANCIAL STATEMENTS

For the period ended 31 March 2010

1 Legal status

The Association is registered under the Industrial and Provident Societies Act 1965 and is registered with the TSA as a housing provider.

2 Accounting Policies

Basis of Accounting

This is the Association's first reporting period and covers the period from 15 October 2008 to 31 March 2010, it having traded from 30th March 2009.

The financial statements are prepared in accordance with UK Generally Accepted Accounting Principles (UK GAAP) and, the Statement of Recommended Practice (SORP) 2008: Accounting by Registered Social Landlords 2008 and comply with the Accounting Requirements for Registered Social Landlords' General Determination 2006.

Turnover

Turnover represents rental income receivable for the period (i.e. rent due (rent debit) less rent loss due to voids), service charges receivable, any revenue grants receivable and income from any other goods or services included at invoiced value (excluding VAT) and commission on water rates collection.

Revenue Recognition

Rental income is recognised from the point when properties become available for letting.

Social Housing Properties and Other Fixed Assets

Social Housing Properties are principally available for rent and are stated at cost less depreciation. Cost includes the cost of acquiring land and buildings, development costs, incidental costs of acquisition, directly attributable development administration costs and interest charges incurred in the development period up to the date of practical completion of the scheme. Cost also includes expenditure on the replacement of key building components incurred as part of the planned improvement programme.

Where expenditure is incurred on an asset which does not meet the definition of capital expenditure, such as general repairs to the housing stock, it will be charged to the Income and Expenditure Account in the year in which it is incurred.

Any single repair costing £1,000 or more will be separately assessed to determine whether capitalisation is appropriate.

The Association will not capitalise expenditure on assets such as land, equipment and computer software which costs less than the following de-minimus thresholds and it will be charged to the Income and Expenditure Account in the year in which it is incurred.

SEDGEFIELD BOROUGH HOMES
NOTES TO THE REPORT AND FINANCIAL STATEMENTS

For the period ended 31 March 2010

Asset

Land	£ 1,000
Office equipment and furniture	£10,000
Computer equipment and software	£ 5,000
Vehicles and plant	£10,000

Depreciation of Tangible Fixed Assets

Depreciation charges reflect the write down of the net book value of fixed assets to their estimated residual value over their estimated useful lives, on a straight line basis. No depreciation is charged for land.

The following useful economic lives for identified components have been applied:

<u>Fixed Asset Classification</u>	<u>Asset Life</u>
Existing Buildings	50 years
<u>Improvements to Housing Properties</u>	
Kitchens and Bathrooms	15 years
Central Heating	15 years
Roofing and External Works	up to 50 years
Rewiring Works	15 years
Doors and Windows	15 years
<u>Improvement to Other Properties</u>	
Roofing and External works – Garages	up to 50 years
<u>Other Fixed Assets</u>	
Office Equipment and Furniture	5 years
Computer Equipment	3 years

SEDGEFIELD BOROUGH HOMES

NOTES TO THE REPORT AND FINANCIAL STATEMENTS

For the period ended 31 March 2010

Impairment

The Association undertakes impairment reviews when the useful life of the housing properties exceeds 50 years. Other assets are reviewed for impairment if there is an indication that impairment may have occurred.

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

Leased Assets

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

Designated Reserves

The Association will designate 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.

Pensions

The Association participates in the Durham County Council Local Government 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 are assessed in accordance with the advice of an independent qualified actuary.

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.

Rental arrears

A provision for bad and doubtful debts will be made on an estimation of those debts at the balance sheet date which are considered to be potentially irrecoverable.

Value Added Tax (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 reclaimed 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.

Development Agreement

The Association has entered into agreements with Sedgefield Borough Council (the Council) whereby the undertaking of catch up repairs and improvement works remained with the Council with that obligation subcontracted to the Association. The related debtor and creditor balances in relation to the transactions under these agreements have been offset in the balance sheet.

SEDGEFIELD BOROUGH HOMES
NOTES TO THE REPORT AND FINANCIAL STATEMENTS

For the period ended 31 March 2010

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 net book 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 legal completion after deducting the element of proceeds that is payable to the local authority under the right to buy sharing arrangement.

Interest

Interest payable is charged to the Income and Expenditure account in the year.

Liquid Resources

For the purposes of the cash flow statement, cash comprises cash in hand and deposits repayable on demand less overdrafts repayable on demand. Liquid resources are current asset investments that are readily disposable without curtailing or disrupting the business and are readily convertible into known amounts of cash at or close to their carrying values.

Set up Costs

Set up costs on the initial transfer from Sedgefield Borough Council are charged to the Income and Expenditure Account on an accruals basis in the period to which they relate.

Taxation

The Association has charitable status and therefore is exempt from Corporation Tax on its charitable activities by virtue of section 505(1) Income and Corporation Taxes Act 1988 and from capital gains tax by virtue of Section 145 Capital Gains Tax Act 1979.

3 Particulars of turnover, cost of sales, operating costs and operating surplus (before exceptional costs)

Continuing activities

	Turnover	Operating costs	Operating surplus before exceptional costs
	£ '000	£ '000	£ '000
Social housing lettings	25,382	(18,229)	7,153
Garage lettings	705	(358)	347
Non-social housing activities			
Lettings	250	(138)	112
Other Income	285	-	285
	26,622	(18,725)	7,897

SEDGEFIELD BOROUGH HOMES
NOTES TO THE REPORT AND FINANCIAL STATEMENTS

For the period ended 31 March 2010

Particulars of income and expenditure from social housing lettings

	2010		
	General needs housing £'000	Housing for older people £'000	Total £'000
Rent receivable net of identifiable service charges	16,470	8,762	25,232
Service income	29	121	150
Net rental income	16,499	8,883	25,382
Turnover from social housing lettings	16,499	8,883	25,382
Management and Support Services	(6,839)	(4,984)	(11,823)
Routine maintenance	(2,490)	(1,415)	(3,905)
Planned maintenance	(691)	(393)	(1,084)
Bad debts	(32)	(18)	(50)
Depreciation of housing properties	(264)	(150)	(414)
Other costs	(608)	(345)	(953)
Operating costs on social housing lettings	(10,924)	(7,305)	(18,229)
Operating surplus (before exceptional costs) on social housing lettings	5,575	1,578	7,153
Void losses	170	209	379

Particulars of turnover from non-social housing lettings

	2010 £'000
Commercial properties	189
Other	61
	<hr/>
	250
	<hr/>

SEDGEFIELD BOROUGH HOMES
NOTES TO THE REPORT AND FINANCIAL STATEMENTS

For the period ended 31 March 2010

4 Accommodation in management and development

At the end of the year accommodation in management for each class of accommodation was as follows:

	2010
	No
Social housing	
General housing	5,452
Supported housing and housing for older people	3,098
Total owned	8,550
Accommodation managed for others	-
Total managed	-
Total owned and managed	8,550

5 Operating surplus

The operating surplus is arrived at after charging:

	2010
	£ '000
Depreciation of housing properties	425
Depreciation of other tangible fixed assets	23
Loss on disposal of non housing properties	2
Operating lease rentals	
- land and buildings	251
- office equipment and computers	159
- motor vehicles	37
Auditors' remuneration (including VAT)	
- for audit services	21
Exceptional Set Up costs	
- Management costs incurred on setting up the Association	336
- Pension deficit arising on stock transfer	6,150
	<hr/>
	6,486

SEDGEFIELD BOROUGH HOMES
NOTES TO THE REPORT AND FINANCIAL STATEMENTS

For the period ended 31 March 2010

6 Surplus on sale of fixed assets - housing properties

	2010 £ '000
Disposal proceeds	260
Less administration charges	(8)
Less amount payable to Durham County Council	(146)
Net disposal proceeds	<u>106</u>
Carrying value of fixed assets	(4)
	<u>102</u>

7 Interest receivable and other income

	2010 £ '000
Interest receivable	11
	<u>11</u>

8 Interest payable and similar charges

	2010 £ '000
Loans and bank overdrafts	400
Interest costs for pension scheme	430
	<u>830</u>

9 Employees

Average monthly number of employees expressed as full time equivalents:

	2010 No
Administration	55
Housing	75
Property (Repairs & Investment)	30
	<u>160</u>

SEDGEFIELD BOROUGH HOMES
NOTES TO THE REPORT AND FINANCIAL STATEMENTS

For the period ended 31 March 2010

Employee costs:

	2010 £ '000
Wages and salaries	4,110
Social security costs	291
Other pension costs	597
	<u>4,998</u>

The Association's employees are eligible to be members of Durham County Council Local Government Pension Scheme. Further information is given below.

Durham County Council Local Government Pension Scheme

Durham County Council Pension Fund (Association)

The DCCPF is a multi-employer scheme, administered by Durham County Council under the regulations governing the Local Government Pension Scheme, a defined benefit scheme. The most recent formal actuarial valuation was completed as at 31 March 2007 and rolled forward, allowing for the different financial assumptions required under FRS 17, to 31 March 2010 by a qualified independent actuary.

The employers' contributions to the DCCPF by the Association for the year ended 31 March 2010 were £550,000 at a contribution rate of 14.7% of pensionable salaries, set until the next funding valuation at 31 March 2010.

Estimated employers' contributions to the DCCPF during the accounting period commencing 1 April 2010 are £2,250,000. In addition an estimated further contribution of £3,654,000 will be made from the VAT Shelter before 31 March 2011.

Financial assumptions

	31 March 2010 % per annum
Discount rate	5.5
Future salary increases	5.4
Future pension increases	3.9
Inflation assumption	3.9

Mortality assumptions

The post-retirement mortality assumptions adopted to value the benefit obligation at March 2010 are consistent with those used for the formal funding valuation as at 31 March 2007 and are based on the PANMA00 series of 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 1.25% for both males and females. Mortality rates in the underlying base table are further adjusted by the use of scaling factors to reflect actual mortality experience of the Fund. The table below shows the assumptions made.

SEDGEFIELD BOROUGH HOMES
NOTES TO THE REPORT AND FINANCIAL STATEMENTS

For the period ended 31 March 2010

The assumed life expectations on retirement at age 65 are:

	2010
	No. of years
Retiring today:	
- Males	21.2
- Females	23.5
Retiring in 20 years:	
- Males	23.3
- Females	25.4

Expected return on assets

The expected return on assets is based on the long-term future expected investment return for each asset class as at the beginning of the period (i.e. as at 30 March 2009 for the year to 31 March 2010). The return on gilts and other bonds are assumed to be the gilt yield and corporate bond yield (with an adjustment to reflect default risk) respectively at the relevant date. The return on equities and property is then assumed to be a margin above gilt yields.

The expected returns on assets are:

	1 April 2010	% Asset Split at 31
	% pa	March 2010
Equities	8.0%	57.1
Gilts	4.5%	25.4
Bonds	5.5%	9.6
Properties	8.5%	4.9
Cash	0.7%	3.0

Analysis of the amount charged to the income and expenditure account:

Year ended 31 March	2010
	£ '000
Current service cost	510
Expected return on scheme assets	(420)
Interest on scheme liabilities	850
Total	940
Actual return on scheme assets	2,360

Analysis of amount recognised in Statement of total recognised surpluses and deficits

Year ended 31 March	2010
	£'000
Actuarial gain/(loss) in pension scheme recognised in STRSD	(2,700)
Cumulative actuarial gain/(loss) recognised in STRSD	(2,700)

SEDGEFIELD BOROUGH HOMES
NOTES TO THE REPORT AND FINANCIAL STATEMENTS

For the period ended 31 March 2010

Amounts recognised in the balance sheet

	2010
	£'000
Net pension liability at 31 March	
Present value of funded obligation	(19,040)
Fair value of scheme assets (bid value)	9,800
	<hr/>
	(9,240)
Present value of unfunded obligations	-
Unrecognised past service cost	-
Net liability recognised in balance sheet	<hr/> (9,240) <hr/>

Reconciliation of opening and closing balances of the present value of scheme liabilities

	2010
	£'000
Opening scheme liabilities	(12,560)
Current service cost	(510)
Interest cost	(850)
Contributions by scheme participants	(250)
Actuarial losses (gains)	(4,640)
Benefits paid	(230)
	<hr/>
Closing scheme liabilities	(19,040) <hr/>

SEDGEFIELD BOROUGH HOMES
NOTES TO THE REPORT AND FINANCIAL STATEMENTS

For the period ended 31 March 2010

Reconciliation of opening and closing balances of the fair value of scheme assets

	2010
	£'000
Opening fair value of scheme assets	6,410
Expected return on scheme assets	420
Actuarial gains (losses)	1,940
Contributions by employer	550
Contributions by scheme participants	250
Benefits paid	230
	<hr/>
Closing fair value of scheme assets	9,800
	<hr/>

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

	Period ended
	31 March 2010
	£M's
Fair Value of assets	9.80
Present value of liabilities	(19.04)
	<hr/>
Surplus / (deficit)	(9.24)
	<hr/>

In accordance with Paragraph 77(o) of FRS17 (as revised), the assets for the current period and previous three periods are measured at current bid price. Asset values previously measured at mid-market value for periods ending 2008 and 2007 have been re-measured for this purpose. The asset value for the period ending 2006 is shown at mid-market value and has not been measured as permitted by FRS17 (as revised).

History of experience gains and losses

	Period ended
	31 March 2010
Experience gains / (losses) on assets	
Amount (£M's)	1.94
Percentage of Assets	19.8%
Experience gains / (losses) on liabilities	
Amount (£M's)	-
Percentage of the present value of the liabilities	0%

SEDGEFIELD BOROUGH HOMES
NOTES TO THE REPORT AND FINANCIAL STATEMENTS

For the period ended 31 March 2010

In accordance with Paragraph 79 of FRS17 (as revised), unfunded liabilities are disclosed separately for periods beginning on or after 6th April 2007. The history of experience gain / (loss) on liabilities shown has not been re-stated for periods ending 2007 and 2006 and includes the experiences relating to unfunded liabilities

Estimated pension cost in future years

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

Financial assumptions

	% per annum
Discount rate	5.5
Future salary increases	5.4
Future pension increases	3.9
Inflation assumption	3.9

The expected returns on assets are:

Asset Class	% pa
Equities	8.0%
Gilts	4.5%
Bonds	5.5%
Properties	8.5%
Cash	0.7%
Other	8.0%

Analysis of Income and Expenditure charge – Funded Benefits

	2011	2012
	£'000	£'000
Current Service cost	830	870
Interest Cost	1,080	1,200
Expected Return on assets	(730)	(880)
Total	1,180	1,190

SEDGEFIELD BOROUGH HOMES
NOTES TO THE REPORT AND FINANCIAL STATEMENTS

For the period ended 31 March 2010

10 Board members and executive directors

	Basic salary and Benefits in Kind	Pension contributions	Total
	£'000	£'000	£'000
Executive directors	428	61	489

None of the Board members received emoluments. The emoluments of the highest paid director, excluding pension contributions, were £108,000. The pension contribution made during the period was £15,000.

The highest paid director is a member of the Durham County Council Pension Fund. He is an ordinary member of the pension scheme and no enhanced or special terms apply. The Association does not make any further contribution to an individual pension arrangement for this director.

SEDGEFIELD BOROUGH HOMES
NOTES TO THE REPORT AND FINANCIAL STATEMENTS

For the period ended 31 March 2010

11 Tangible fixed assets – properties

Housing properties	Social housing properties held for letting £'000	Non-social housing properties held for letting £'000	Total housing properties £'000
Cost			
At 15 October 2008	-	-	-
Additions on transfer	3,814	287	4,101
Works to existing properties	15,105	7	15,112
Disposals	(4)	-	(4)
At 31 March 2010	<u>18,915</u>	<u>294</u>	<u>19,209</u>
Depreciation and impairment			
At 15 October 2008	-	-	-
Charged in period	(421)	(4)	(425)
At 31 March 2010	<u>(421)</u>	<u>(4)</u>	<u>(425)</u>
Net Book Value			
At 31 March 2010	<u>18,494</u>	<u>290</u>	<u>18,784</u>

Expenditure on works to existing properties

	2010 £'000
Amounts capitalised as components	15,112
Amounts charged to the income and expenditure account	452
	<u>15,564</u>

Housing properties book value, net of depreciation and grants

	2010 £'000
Freehold land and buildings	18,784
	<u>18,784</u>

SEDGEFIELD BOROUGH HOMES
NOTES TO THE REPORT AND FINANCIAL STATEMENTS

For the period ended 31 March 2010

12 Tangible fixed assets – other

	Land and buildings under construction £'000	Computers and office equipment £'000	Total £'000
Cost			
At 15 October 2008	-	-	-
Additions	296	82	378
Disposals	-	-	-
At 31 March 2010	<u>296</u>	<u>82</u>	<u>378</u>
Depreciation			
At 15 October 2008	-	-	-
Charged in the period	-	(23)	(23)
At 31 March 2010	<u>-</u>	<u>(23)</u>	<u>(23)</u>
Net Book Value			
At 31 March 2010	<u>296</u>	<u>59</u>	<u>355</u>

13 Debtors

	2010 £'000
Due within one year	
Rent and service charges receivable	2,036
Less: provision for bad and doubtful debts	<u>(627)</u>
	1,409
Trade debtors	66
Other debtors	389
Prepayments and accrued income	201
	<u>2,065</u>

SEDGEFIELD BOROUGH HOMES
NOTES TO THE REPORT AND FINANCIAL STATEMENTS

For the period ended 31 March 2010

14 Creditors: amounts falling due within one year

	2010
	£'000
Trade creditors	923
Rent and service charges received in advance	66
Other taxation and social security	98
Other creditors	1,897
Accruals and deferred income	4,640
	<hr/>
	7,624
	<hr/>

Included in Other creditors is £1.7m owed to DCC in respect of the VAT shelter.

15 Creditors: amounts falling due after more than one year

	2010
	£'000
Debt (note 16)	6,000
Trade creditors	393
	<hr/>
	6,393
	<hr/>

16 Debt analysis.

Borrowings

	2010
	£'000
Due after more than one year	
Bank loans	6,000
	<hr/>
	6,000
	<hr/>

Security

The bank loans are secured by a floating charge over the assets of the Association and by fixed charges on individual properties.

Terms of repayment and interest rates

The bank loan is repayable upon maturity at a fixed rate of interest of 4.1953% together with the Banks margin which is currently 2%. The loan matures in 2034.

At 31 March 2010 the Association had available further loan facilities of £90m.

SEDGEFIELD BOROUGH HOMES
NOTES TO THE REPORT AND FINANCIAL STATEMENTS

For the period ended 31 March 2010

Based on the lender's earliest repayment date, borrowings are repayable as follows:

	2010
	£'000
Within one year or on demand	-
One year or more but less than two years	-
Two years or more but less than five years	-
Five years or more	6,000
	<u>6,000</u>

The obligations under finance leases are repayable by equal instalments in less than five years.

17 Non-equity share capital

	2010
	£
Shares of £1 each issued and fully paid	
At 1 April	9
Shares issued during the year	2
Shares surrendered during the year	(2)
	<u>9</u>
At 31 March	<u>9</u>

The shares provide members with the right to vote at general meetings of the Association, but do not provide any rights to dividends or distributions on a winding up.

18 Reserves

	Revenue reserve	Total reserves
	£'000	£'000
At 15 October 2008	-	-
Surplus for the year	694	694
Actuarial deficit relating to pension scheme	(2,700)	(2,700)
	<u>(2,006)</u>	<u>(2,006)</u>
At 31 March 2010	<u>(2,006)</u>	<u>(2,006)</u>

At 31 March 2010, the revenue reserve included a £9,240,000 pension liability.

SEDGEFIELD BOROUGH HOMES
NOTES TO THE REPORT AND FINANCIAL STATEMENTS

For the period ended 31 March 2010

19 Net cash inflow from operating activities

	2010 £'000
Operating surplus	1,411
Pension deficit on set up	6,150
Depreciation of tangible fixed assets	448
Loss on disposal of tangible fixed assets	2
Defined benefit pension scheme operating charge	510
Defined benefit pension scheme contributions paid	(550)
	<hr/>
	7,971
Working capital movements	
Increase in stocks	(296)
Increase in Debtors	(2,065)
Increase in Creditors	7,925
	<hr/>
Net cash outflow from operating activities	13,535
	<hr/> <hr/>

20 Reconciliation of net cash flow to movement in net debt

	2010 £'000
Increase in cash	47
Cash inflow from increase in debt	(6,000)
	<hr/>
Change in net debt resulting from cash flows	(5,953)
	<hr/>
Movement in net debt for the period	(5,953)
Net debt at 15 October 2008	-
	<hr/>
Net debt at 31 March 2010	(5,953)
	<hr/> <hr/>

SEDGEFIELD BOROUGH HOMES
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For the period ended 31 March 2010

21 Analysis of changes in net debt	15 October 2008 £'000	Cashflow £'000	31 March 2010 £'000
Cash at bank and in hand	-	47	47
Changes in cash	-	47	47
Loans	-	(6,000)	(6,000)
Changes in debt	-	(6,000)	(6,000)
Changes in net debt	-	(5,953)	(5,953)

22 Capital commitments

	2010 £'000
Capital expenditure	
Expenditure contracted for but not provided in the accounts	12,279
Expenditure authorised by the board, but not contracted	68,279
	<u>80,558</u>

The above commitments will be financed through borrowings which are available for draw-down under existing loan arrangements.

Stock transfer obligations regarding housing properties –

The Association entered into a Stock Transfer Agreement to acquire the housing properties of Sedgefield Borough Council (SBC) on 30th March 2009. Immediately prior to entering into the Stock Transfer Agreement, SBC contracted with the Association to complete the refurbishment works necessary to bring the housing properties up to an agreed standard. The contract was for a fixed sum of £248.694m equal to the expected costs of the work. At transfer, the Association contracted with SBC to acquire the benefit of SBC's obligation to carry out the refurbishment works £248.694m plus the housing properties at a price equal to the agreed value of the property in its unenhanced condition (£4.1m). A right of set off exists between the contracts. These contracts have enabled the Association to recover VAT on improvement costs that would otherwise have been expensed.

SEDGEFIELD BOROUGH HOMES
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At the time of transfer, no monies were deemed due to SBC in relation to the above transactions, by virtue of the right to set off these contracts.

The impact of these transactions is that whilst SBC has a legal obligation to complete the improvement works, this work has been contracted back to the Association who are also legally obligated. The underlying substance of the transaction is therefore that the Association has acquired the properties in their unenhanced condition at their agreed value, and will complete certain agreed improvements in line with guarantees to tenants of not less than £248.694m. The risks and responsibilities to the Association arising from this arrangement would be identical had these transactions not been entered into. As a result, the contractual assets and liabilities have been ignored for accounts purposes.

The Association has a liability in respect of the deficit on the Durham County Council Pension Fund in respect of employees who transferred from Sedgefield Borough Council to Sedgefield Borough Homes on the 30th March 2009. The liability amounting to £6.52m is being paid off from proceeds from the VAT shelter over a three year period ending 31 March 2012. If by the 31 March 2012 there are insufficient funds recovered through the VAT shelter the Association will use its existing funding arrangements to repay any shortfall and recover them from future VAT shelter receipts.

23 Contingent assets / liabilities

The Association had no contingent assets or liabilities as at the 31 March 2010.

24 Leasing commitments

	2010	
	Land and Buildings £'000	Other Assets £'000
In one year or less	251	185
Between one and two years	-	3
Between two to five years	-	6
Over five years	-	-
	<hr/> 251	<hr/> 194

25 Related parties

There are four tenant members of the board, Bernd Bangel, Emily Jones, Joanne Jackson and Alan Cargill. Their tenancies are on normal commercial terms and they are not able to use their position to their advantage.

Four members of the Board are Councillors with Durham County Council (Brian Stephens, John Robinson, and Enid Paylor. During 2009/10 William Waters a former Councillor with Sedgefield Borough Council was replaced by John Moran) a local authority having nomination rights over tenancies for certain group properties. All transactions with the council are on normal commercial terms and none of them are able to use their position to any advantage.