



SEDGFIELD BOROUGH HOMES LTD

Report and Financial Statements

For the year ended 31 March 2011

Registered Industrial and Provident Society No 30568R

SEDGEFIELD BOROUGH HOMES
REPORT AND FINANCIAL STATEMENTS
For the year ended 31 March 2011

Industrial and Provident Society registration number	30568R
Tenant Services Authority registration number	L4538
Registered office:	Green Lane Offices, Spennymoor, Co Durham, DL16 6JQ
Board:	Bernd Bangel (Chair to 16.09.10 & Board Member to 08.10.10) Ian Youll (Chair from 16.09.10) Alan Cargill Ian Gillespie Doug Hollingworth Lucy Howvells (from 16.09.10) Joanne Jackson (to 16.09.10) Emily Jones Heather Linford (from 16.09.10) Jonathon Mallen-Beadle Ian Meachem (from 24.03.11) John Moran Enid Paylor (to 16.09.10) John Robinson (to 16.09.10) Brian Stephens Kevin Thompson (from 16.09.10)
Chief Executive	Colin Steel
Executive Directors:	Alan Smith (Finance and Governance) Alan Boddy (People and Communities) Wayne Harris (Homes and Assets) Ian Brown (Director of Housing and Customer Services) resigned 1 st July 2010
Bankers:	Nat West PLC 21 Market Street Ferryhill Co Durham DL17 8JN
Solicitors:	Trowers & Hamblins 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 are pleased to present this report together with the audited financial statements of Sedgefield Borough Homes Limited (the Association) for the year from 1 April 2010 to 31 March 2011.

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 mainly 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 for people who need additional housing-related support.

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:

- Bernd Bangel (Chair) who was a Tenant Board Member was replaced by Ian Youll.
- Enid Paylor and John Robinson who were Council Nominations to the Board were replaced by Lucy Hovvels and Kevin Thompson.
- Bernd Bangel and Joanne Jackson resigned from the Board on the 08/10/10 and 16/09/10 respectively. We are pleased to welcome our new Tenant Board Members Heather Linford and Ian Meachem.

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 Executive 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.

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Objectives and strategy

The Association’s objectives and strategy are set out in an interim corporate plan that was approved by the Board during 2009/10 and which is currently being reviewed to take account of changing priorities and emerging issues. The five key objectives are summarised as follows:

- **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 which runs to September 2011 we will:

Objective	Target
Well governed and viable - to improve financial strength and governance	<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
Effective people - to invest in our people	<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
Continuous improvement - to deliver excellent services through new ways of working	<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

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Efficient assets - to invest in our homes and provide new homes	<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.
Customer focused - to meet our customers' needs and provide excellent services	<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

A new corporate plan has been developed and was approved by the Board in July 2011. In addition to the targets set out in the Association's Interim Corporate Plan there are a set of performance measures which are monitored and reported to the Performance and Development Committee on a quarterly basis. Our performance against financial performance indicators are set out in the table on page 4 and are summarised below.

Finance

After the financial uncertainties of the previous year, the financial reporting framework that had been established on transfer settled down. Rent setting was based on TSA guidance and the 30 year Business Plan was migrated to "Brixx" a financial planning software tool which strengthened the financial planning arrangements.

The 2010/11 budget preparation allowed for the real incidence of costs incurred by Sedgefield Borough Homes in its first year of operation and better reflected the Association's spend priorities. Our Funders and the TSA received quarterly management accounts on accordance with the Covenant requirements and enhanced arrangements were put in place for budget monitoring on a monthly basis.

Internal Audit arrangements continued to work well and the recommendations made on all reports have been reviewed and an action plan has been established to ensure they are all implemented within six months of the audit report. Overall assurance for 2010/11 improved to Moderate.

During 2011/12, a three year Medium Term Financial plan will be developed and aligned to the emerging priorities of the Corporate Plan and the Association's "More for Less Programme".

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.

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

Performance Indicator	2010/11 Target	Actual versus Target	Performance score
Average time taken to re-let housing (days)	28	☹	42.96
% of urgent repairs completed on time	98%	☺	98.32%
% of emergency repairs completed on time	100%	☹	92.00%
Average time taken to complete non-urgent repairs (days)	30	☺	9.13
% of repairs where an appointment which had been made was kept	98%	☺	99.52%
% of properties with a valid landlord gas safety record	100%	☹	99.95%
% of dwellings failing to meet Decent Homes Standard	0%	☹	1.91%
Proportion of rent collected as a % of rent owed	98.8%	☺	99.11%
Rent arrears of current tenants as a proportion of rent roll	1.75%	☺	1.68%
% of rent lost through dwellings becoming vacant	1.0%	☹	1.10%
Number of working days / shifts lost due to sickness absence (Total)	8.0	☺	7.51
Employee turnover	4.5%	☹	15.79%

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% of rental income receivable. Our target was not achieved for the year with overall rent losses being 1.10%.

This dip 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 and asbestos procedures has had an initial slow down in properties being returned for letting. A full roll out of the pilot scheme across the whole stock will ultimately lead to reduced turn round times.

The target for the 2011/12 year is to restrict overall rent losses to 1.2% of rental income reflecting further decline in demand for specific housing types and detrimental impacts from welfare reform changes. The focus for our housing letting team in the 2012 year will be to reduce the length of time between a property becoming vacant and being let.

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Rent arrears

Overall rent arrears in respect of current tenancies at the year-end stood at 1.68% against an operational target of 1.75% after accounting for the timing of a payment of housing benefit arrears, paid shortly after the year end. Our target for the coming year is to manage all rent arrears (current and former tenants) within 2.8% of rental income.

Overall performance during 2010/11 was better than anticipated particularly as traditional payment options of Cash offices and door to door rent collection were phased out during the year and replaced by payment cards and more direct debit payment dates. Following a staffing restructure responsibility for all rent arrears was centralised in one dedicated team, who also have responsibilities for financial inclusion initiatives to help sustain tenancies.

The relaxation of the target to 2.8% reflects concerns around the current economic climate and the pending impact of welfare benefit reforms, though sbh will be taking all measures possible to ensure the target is not breached.

Asset management

We are continuing to improve our residential accommodation. During 2010/11 we invested £22.3m 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 Business Plan for 2010/11 assumed expenditure in this area of approximately £21.15m. This higher than planned investment was a result of increasing the number of improvements completed, after a slower than anticipated start to the programme in 2009/10. In addition effective procurement has given rise to significant cost savings to the Association. This also resulted in a higher volume of improvement works being finished to take advantage of reduced purchase costs.

During the year we acquired 8 properties under the Mortgage Rescue Scheme at a net cost of £251k.

The end of year performance achieved for non urgent repairs was 9.13 days against an anticipated target of 30 days. The performance has still been achieved even after taking account of the extreme weather conditions early in 2011 and the higher volume of repair calls that subsequently arose. Discussions are currently taking place with our repairs and maintenance partner to determine the reasons for this level of performance.

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 2011 is that only 1.91% of stock remain non decent. Whilst the Association had until 31 December 2010 to have all homes decent, the properties, some 163 units are not being made decent pending the outcome of the asset management strategy.

Employer of Choice

The average level of sickness per employee for the period April 2010 – March 2011 has reduced down to an average of 7.51 days (2009/10 11.03 days)

Since April 2011 there has been a significant reduction in the long term sickness amongst the employees such that by the end of the first quarter of 2011/12 the average was down to 4.90 days.

Risks and uncertainties

Risks that may prevent the Association achieving its objectives are considered by the Association's strategic risk group on a quarterly basis. 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.

During 2010/11 a full review of the Association’s risk management framework (which included updating the Risk Management policy and strategy) was undertaken following some research by Zurich Municipal in a report entitled “Tough Choices”. As part of the review the previous 15 strategic risks were reassessed against the ZM report and realigned to reflect emerging risks brought about by the increasing demand for services and uncertainties about the Coalition Government’s agenda.

The revised strategic risks that were approved by the Audit and Risk Committee on the 6th April are shown in the table below.

Risk	Key Initiatives/Programmes/Plans
<p>1. Failure to focus on the customer</p>	<p>On-going work to ensure all customers can engage effectively with sbh includes:</p> <ul style="list-style-type: none"> • Develop and implement Neighbourhood Plans • Maximising business intelligence via customer profiling • Implement phase 2 of the Customer Access Review • Develop and implement the Anti social Behaviour strategy plan • Implement the Resident Involvement Action plan • Review the Promises Action plan
<p>2. Failure to achieve Co-Regulation</p>	<p>Actions and initiatives planned to reduce / mitigate against regulatory failure will include:</p> <ul style="list-style-type: none"> • Development of the local offer • Review of the self-assessment action plans • Update of the 30 year Business plan • Implementation of the Resident Involvement Action plan
<p>3. Failure to deliver the Corporate Improvement Programme</p>	<p>A number of reviews have been completed and the action plans implemented. The programme is being kept under review and will be supported by:</p> <ul style="list-style-type: none"> • Development of business intelligence strategy • Commencement of a cultural change programme • Implementation of the Marketing and Communications action plan • Continued development of the Performance Management Framework
<p>4. Failure to deliver effective asset management</p>	<p>The asset management programme review will:</p> <ul style="list-style-type: none"> • See the completion of the Asset Management Strategy • Assist in the development of Neighbourhood plans • Influence the repairs and maintenance action plan • Inform the Development Action Plan • Produce a strategy for sheltered housing schemes
<p>5. Failure in the Supply Chain</p>	<p>In the current economic climate this risk has been expanded to look at all critical partnership and supply contracts. The planned actions will include:</p> <ul style="list-style-type: none"> • Strategic Partnering review and associated action plans • Continued development of a Business Continuity Plan • Instigating regular financial checks of major suppliers/ contractors
<p>6. Failure to implement our Green Agenda</p>	<p>A new risk designed to ensure that sbh develops sustainable policies and practices that reduce the carbon footprint, these include:</p> <ul style="list-style-type: none"> • Development and implementation of a Fuel Poverty strategy and a preferred energy supplier for tenants • Production of a Sustainability action plan • Develop a recycling scheme • Creation of a sbh green action plan • Ensure all Procurements consider the green agenda and sustainable issues.

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<p>7. Failure to manage organisational capacity</p>	<p>Continual progress has been made since transfer to increase the capacity of the organisation , this progress will continue with the introduction of the following planned initiatives:</p> <ul style="list-style-type: none"> • Implementation of the outcomes of the Customer Access Review action plan • The introduction of the Effective People action plan • Development of the workforce plan • Production of a Continuous Improvement Action plan
<p>8. Failure to maintain a positive reputation</p>	<p>A cultural change programme is being implemented that will amongst other things:</p> <ul style="list-style-type: none"> • Develop a Scrutiny Action plan • Implement a Marketing and Communications Action plan • See a re-launch and rebranding of sbh following the move to new premises • Deliver the Value for Money action plan designed to bend resources to support emerging initiatives • Development of a Benefit Reform action plan
<p>9. Failure to recognise and react to the current political and economic climate</p>	<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 • Annual Business plan Review • Implementation of the Business intelligence strategy • Conclude phase 2 of the Customer access Review • Finalise the Asset Management strategy and commence implementation of its outcomes. <p>The Association is currently reviewing the likely impact due to the Government's welfare reforms.</p>
<p>10. Failure to effectively manage the Association's finances</p>	<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"> • Further development of the rent plan to maximise rental income • Development and introduction of a service charges strategy • Development of a Medium term Financial Plan to support the Corporate Plan priorities • Continue to embed the Value for Money Standard and develop the More for Less programme (M4LP) to bend resources to meet emerging priorities • Implement the asset management strategy to identify further efficiency savings
<p>11. Failure to maintain effective corporate governance</p>	<p>Further strengthening of the Association's governance arrangement will continue in 2011/12 including:</p> <ul style="list-style-type: none"> • Development of a Governance action plan • A review of the Board Development plan • A rules review • Development and implementation of a Resident Involvement action plan
<p>12. Failure to manage effective procurement</p>	<p>Following the appointment of a procurement Coordinator a number of new initiatives will be implemented to improve the management of the procurement process across sbh and manage some of the risks identified in an internal audit review, these include:</p> <ul style="list-style-type: none"> • Development of an on-line procurement tool kit • Strengthening Anti-Fraud and Corruption arrangements • A Spend Analysis review. • Introduction of procurement cards. • Retender of Grounds maintenance service • Review of Contract Procedure Rules

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<p>13. Failure to effectively manage business continuity incidents</p>	<p>Development of a Business Continuity plan for sbh has been undertaken during the year, this will be supplemented in 2011/12 as follows:</p> <ul style="list-style-type: none"> • Development of operational risk registers • Completion of a Business Impact Analysis • Joint training exercises with the Civil Contingency Unit to test the Business Continuity plan • Communicating the plan to all staff within sbh
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Financial position

The Association’s income and expenditure accounts and balance sheets are summarised in Table 1 (page 11) and the following paragraphs highlight key features of the Association’s financial position at 31 March 2011.

The overall surplus for the year amounts to £11.031m compared to a budgeted surplus of £5.594m, an increase of £5.437m.

The main features that account for this increased surplus are:

- Change in the inflation measure (RPI to CPI) for pensions resulting in a past service cost pension credit.
- Pension cost adjustments in accordance with Financial Reporting Standard 17.

Accounting policies

The Association’s principal accounting policies are set out on pages 21 - 24 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.

The Association has adopted the Statement of Recommended Practice (SORP) Accounting by Registered Social Housing Providers Updated 2010 as at 31st March 2011. As a result the fixed assets have been categorised into separate components for depreciation purposes as set out in the accounting policies note referred to above.

Housing properties

At 31 March 2011 the Association owned 8,540 housing properties (8,550 at 31st March 2010). The properties are carried in the balance sheet at historic cost (after depreciation and grant) amounting to £39.64m (£18.78m at March 2010).

Our investment in housing properties this year was funded through a mixture of loan finance, mortgage rescue scheme grants and working capital.

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% during 2010/11. During the year £4.979m was paid to DCC to be set against the pension deficit that arose on transfer.

A full actuarial valuation of the DCCPF has been undertaken as at 31st March 2010 and the next actuarial valuation is due at 31 March 2013, the outcome of which will be known by November 2013.

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VAT Shelter

As part of the transfer arrangements sbh entered into a VAT shelter agreement with the Council which enables them to recover the VAT incurred on the capital investment works to the housing stock. The agreement provided for the first £7.06m to be set-aside in order to clear the deficit on the Pension Fund in respect of those staff that TUPE transferred to sbh after which any further proceeds would be split in the ratio 55:45 between sbh and Durham County Council.

Capital structure and treasury policy

The Association's treasury management arrangements are considered below.

The Association borrowed a further £20m during the year, to finance its capital investment programme. By the year end Association borrowings totalled £26m all of which falls due to be paid after five years as shown below.

Maturity	2011	2010
	£m	£m
Within one year	-	-
Between one and two years	-	-
Between two and five years	-	-
After five years	26.0	6.0
	<u>26.0</u>	<u>6.0</u>

The Association borrows from RBS, Barclays and 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 range of interest rates on the outstanding amounts varies between 6.1959% and 6.3359% including margins. 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 had cash balances of £364k at 31st March 2011 (2010 £47k). The Association monitors cash flow forecasts closely to ensure sufficient funds are available to meet liabilities when they fall due, whilst not incurring unnecessary finance costs, by only drawing on loan facilities when required.

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

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Cash flows

Cash inflows and outflows during the year are shown in the cash flow statement (page 20).

The cash outflow from operating activities this year was £19.683m. Cashflow after taking account of loan funding was an inflow of £317k, against a budgeted cash flow deficit of £18.770m per the business plan.

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 and building its new offices takes place. The Board has approved plans to spend approximately £27.6m during the next financial year to improve general housing (£6m in respect of bringing homes up to the decent homes standard and £21.6m on Capital improvements to the overall stock). £15.5m of the investment will be through new borrowings with the balance funded through the Association's rental income stream and accumulated reserves.

Loan facilities at the 31 March 2011 amounted to £70m which are still available to draw down under existing arrangements.

During 2010/11 work has commenced on the construction of the Association's new offices at an overall cost of £5.25m. Payments in the region of £2.584m will be incurred in 2011/12 which should complete the build project. 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 £211,000 has been approved by the Board to be spent during the next financial year on ICT systems / equipment in line with the Association's ICT strategy. A further £312,000 has been approved for the replacement of 2,900 smoke alarms in tenanted properties and the provision of telephone and audio visual equipment for the new DurhamGate offices.

The association has been awarded a Homes and Community Agency grant to enable them to build 100 new housing units over the next four years with an expectation that 14 units will be available to rent by March 2012.

Agreement has been reached with Broadacres Housing Association to acquire 40 social housing units from them, 20 by the 31st March 2012 and the remaining units within the three year period to March 2015.

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Table 1 – Association highlights, two year summary
For the year ended 31 March
Income and Expenditure account (£'000)

	2011	2010
Total turnover	27,201	26,622
Operating surplus	9,218	1,411
Surplus for the year transferred to reserves	<u>11,031</u>	<u>694</u>
Balance Sheet (£'000)		
Housing properties, net of depreciation	40,378	18,784
Social Housing Grant and other grants	<u>(734)</u>	<u>-</u>
	39,644	18,784
Other fixed assets	<u>2,796</u>	<u>355</u>
Total Fixed assets	42,440	19,139
Current assets	2,936	2,112
Current liabilities	<u>(7,340)</u>	<u>(7,624)</u>
Total assets less current liabilities	<u>38,036</u>	<u>13,627</u>
Long term liabilities	26,201	6,393
Pensions liability	3,630	9,240
Revenue Reserve	8,205	(2,006)
	<u>38,036</u>	<u>13,627</u>
Housing properties owned at year end:		
Social housing	No. 8,540	No. 8,550
Non-social housing	-	-
	8,540	8,550
Statistics: -		
Operating surplus as % of turnover	33.9%	5.3%
Surplus for year as % of turnover	40.6%	2.6%
Rent losses (<i>voids and bad debts as % of rent and service charges receivable</i>)	1.6%	1.7%
Liquidity (<i>current assets divided by current liabilities</i>)	(0.40)	(0.27)
Total reserves per home owned	£961	(£235)

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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.

Key elements of the control framework include:

- Adoption and compliance with the NHF 'Excellence in Governance code'.
- Board approved terms of reference and delegated authorities for audit and risk, performance and development, human resources committees and a scheme of delegation for the Chief Executive and Executive Directors.
- 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 2010 edition of the NHF's Code of Excellence in Governance ("the Code"). In accordance with the Tenants Services Authority's Governance and Financial Viability standard the Code (being an appropriate code) was adopted by Board in August 2010 and a compliance report against that code was received by Board at

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its meeting in November 2010. We will report annually on compliance against the code and this report will evidence the effectiveness of our arrangements.

At last year's Annual General Meeting, Bernd Bangel resigned as chair and Ian Youll was elected chair of the Board.

Donations

The Association donated £500 to the County Durham society for the blind and partially sighted, £400 to the Great North Air Ambulance and £80 to the St Mary Magdalene Heritage experience.

No political donations were made.

Statement of the responsibilities of the Board for the report and financial statements

The Board is responsible for preparing the report and financial statements in accordance with applicable law and regulations.

Industrial and Provident Societies Acts and registered social landlord legislation requires the Board to prepare financial statements for each financial year. Under the law the Board Members have elected to prepare financial statements in accordance with United Kingdom Generally Accepted Accounting practice (United Kingdom Accounting Standards and applicable laws). Under the Industrial Provident Society legislation the Board must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and surplus and deficit of the Association for that period.

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.
- State whether applicable UK Accounting Standards and the *Statement of Recommended Practice (SORP) Accounting by Registered Housing Providers Update 2010* have been followed, subject to any material departures disclosed and explained in the financial statements.
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Association will continue in business.

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 2011), the Housing and Regeneration Act 2008 (from 1 April 2011) 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.

The Board is responsible for ensuring that the report of the Board is prepared in accordance with the Statement of Recommended Practice (SORP) Accounting by Registered Housing providers update 2010.

The Board is responsible for the maintenance and integrity of the corporate and financial information on the Association's website.

SEDGEFIELD BOROUGH HOMES
OPERATING AND FINANCIAL REVIEW AND BOARD REPORT
For the year ended 31 March 2011

Going concern

The Association's business activities, its current financial position and factors likely to affect its future development are set out within this Operating and Financial Review. The Association has in place long-term debt facilities (including £70 million of undrawn facilities at 31 March 2011), which provide adequate resources to finance committed reinvestment and development programmes, along with the Association's day to day operations. The Association also has a long-term business plan which shows that it is able to service these debt facilities whilst continuing to comply with lenders' covenants.

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.

Annual general meeting

The annual general meeting will be held on 15th September 2011 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 2010.

The report of the Board was approved by the Board on 15th September 2011 and signed on its behalf by:



Ian Youll
Chairman

SEDGEFIELD BOROUGH HOMES

Year ended 31 March 2011

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

We have audited the financial statements of Sedgfield Borough Homes Limited for the year ended 31 March 2011 which comprise the income and expenditure account, the statement of total recognised surpluses and deficits, the reconciliation of movement in funds, the balance sheet, the cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the housing 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 housing 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 housing Association and the housing Association's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of the Board and auditors

As explained more fully in the Statement of Board Responsibilities (set out on page 13), the Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

- Give a true and fair view of the state of the Association's affairs as at 31 March 2011 and of the Association's surplus for the year then ended;
- Have been properly prepared in accordance with the requirements of the Industrial and Provident Societies Acts 1965 to 2002, the Housing and Regeneration Act 2008 and the Accounting Requirements for Registered Social Landlords General Determination 2006.

SEDGFIELD BOROUGH HOMES

Year ended 31 March 2011

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Industrial and Provident Societies Acts 1965 to 2002 require us to report if, in our opinion:

- A satisfactory system of control over transactions has not been maintained; or
- The Association has not kept proper accounting records; or
- The financial statements are not in agreement with the books of account; or
- We have not received all the information and explanations we need for our audit.



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

23rd September 2011

SEDGEFIELD BOROUGH HOMES
INCOME AND EXPENDITURE ACCOUNT

For the year from 1 April 2010 to 31 March 2011

	Note	2011 £'000	2010 £'000
Turnover	3	27,201	26,622
Operating costs	3	(19,726)	(18,725)
Exceptional operating income/(costs)	5	1,743	(6,486)
Operating surplus		<u>9,218</u>	<u>1,411</u>
Surplus on sale of fixed assets – housing properties	6	283	102
Interest receivable and other income	7	3,396	11
Interest payable and similar charges	8	(1,866)	(830)
Surplus on ordinary activities before taxation		<u>11,031</u>	<u>694</u>
Tax on surplus on ordinary activities		-	-
Surplus for the financial year	18	<u><u>11,031</u></u>	<u><u>694</u></u>

The notes on pages 21 to 40 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 year from 1 April 2010 to 31 March 2011

STATEMENT OF TOTAL RECOGNISED SURPLUSES AND DEFICITS

	Note	2011 £'000	2010 £'000
Surplus for the financial year		11,031	694
Actuarial gain/(loss) relating to pension scheme	9	(820)	(2,700)
		<hr/>	<hr/>
Total recognised surpluses and deficits relating to the year		<u>10,211</u>	<u>(2,006)</u>

RECONCILIATION OF MOVEMENTS IN ASSOCIATION'S FUNDS

	2011 £'000	2010 £'000
Opening total funds	(2,006)	-
Total recognised surpluses and deficits relating to the year	<hr/> 10,211	<hr/> (2,006)
Closing total funds	<u>8,205</u>	<u>(2,006)</u>

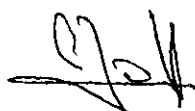
The notes on pages 21 to 40 form part of the financial statements

SEDGEFIELD BOROUGH HOMES
BALANCE SHEET

As at 31 March 2011

	Note	2011 £'000	2010 £'000
Tangible fixed assets			
Housing properties	11	39,644	18,784
		39,644	18,784
Other tangible fixed assets	12	2,796	355
		42,440	19,139
Current assets			
Debtors	13	2,572	2,065
Cash at bank and in hand		364	47
		2,936	2,112
Creditors: Amounts falling due within one year	14	(7,340)	(7,624)
Net current liabilities		(4,404)	(5,512)
Total assets less current liabilities		38,036	13,627
Creditors:			
Amounts falling due after more than one year	15	26,201	6,393
Provisions for liabilities and charges			
Net pension liability	9	3,630	9,240
		29,831	15,633
Capital and reserves			
Revenue reserve	18	8,205	(2,006)
		38,036	13,627

The financial statements were approved by the Board of Directors on 15th September 2011.



Ian Youll
Chair



Alan Cargill
Vice chair



Alan Smith
Secretary

The notes on pages 21 to 40 form part of these financial statements

SEDGEFIELD BOROUGH HOMES
CASH FLOW STATEMENT

For the year ended 31 March 2011

	Note	2011 £'000	2010 £'000
Net cash inflow from operating activities	19	6,459	13,535
Returns on investments and servicing of finance			
Interest received		56	11
Interest paid		(1,336)	(310)
Net cash outflow from returns on investments and servicing of finance		(1,280)	(299)
Taxation			
Corporation tax paid		-	-
Capital expenditure and financial investment			
Purchase and construction of housing properties		(852)	(3,814)
Capital grant received		734	-
Investment/improvement of housing properties		(22,606)	(15,105)
Purchase of other fixed assets		(2,464)	(369)
Investment/improvement of other assets		-	(7)
Sale of housing properties		315	106
Sale of other fixed assets		11	-
Net cash outflow from capital expenditure and financial investment		(19,683)	(19,189)
Financing			
Loans received		20,000	10,000
Loans repaid		-	(4,000)
Net cash inflow from financing		20,000	6,000
Increase/(decrease) in cash		317	47

The notes on pages 21 to 40 form part of these financial statements

SEDGEFIELD BOROUGH HOMES

NOTES TO THE REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2011

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

The financial statements are prepared in accordance with UK Generally Accepted Accounting Principles (UK GAAP) and, the Statement of Recommended Practice (SORP): Accounting by Registered Social Housing Providers Update (2010) 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 grant

Social housing grant (SHG) is receivable from the HCA and is utilised to reduce the capital costs of housing properties, including land costs. SHG due from the HCA or received in advance is included as a current asset or liability. SHG received in respect of revenue expenditure is credited to the income and expenditure account in the same period as the expenditure to which it relates.

SHG is subordinated to the repayment of loans by agreement with the HCA. SHG released on sale of a property may be repayable but is normally available to be recycled and is credited to a Recycled Capital Grant Fund and included in the balance sheet in creditors.

Other grants

Other grants are receivable from local authorities and other organisations. Capital grants are utilised to reduce the capital costs of housing properties, including land costs. Grants in respect of revenue expenditure are credited to the income and expenditure account in the same period as the expenditure to which they relate.

Website development costs

The Association has developed a website which is used to promote its activities and as a management tool for monitoring and evaluating responsive repairs. Planning, design and content development costs are charged as operating costs as incurred. Ongoing costs of maintaining and operating the website are charged as operating costs as incurred.

SEDGEFIELD BOROUGH HOMES
NOTES TO THE REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2011

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.

Asset

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

Assets under construction

No depreciation is charged during the period of construction.

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 Structure	50 years
Kitchens and Bathrooms	15 years
Central Heating	15 years
Roofing and External Works	up to 50 years

SEDGEFIELD BOROUGH HOMES

NOTES TO THE REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2011

Rewiring Works 15 years

Doors and Windows 15 years

Other Fixed Assets

Office Equipment and Furniture 5 years

Computer Equipment 3 years

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.

SEDGEFIELD BOROUGH HOMES
NOTES TO THE REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2011

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 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.

Development Agreement

The Association has entered into agreements with Durham County 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.

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.

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.

SEDGEFIELD BOROUGH HOMES
NOTES TO THE REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2011

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

Continuing activities

	2011		
	Turnover	Operating costs	Operating surplus before exceptional costs
	£ '000	£ '000	£ '000
Social housing lettings	25,880	(19,189)	6,691
Garage lettings	721	(322)	399
Non-social housing activities			
Lettings	231	(215)	16
Other Income	369	-	369
	<u>27,201</u>	<u>(19,726)</u>	<u>7,475</u>

	2010		
	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
	<u>26,622</u>	<u>(18,725)</u>	<u>7,897</u>

SEDGEFIELD BOROUGH HOMES
NOTES TO THE REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2011

Particulars of income and expenditure from social housing lettings

	2011			2010
	General needs housing £'000	Housing for older people £'000	Total £'000	Restated Total £'000
Rent receivable net of identifiable service charges	16,700	9,024	25,724	25,232
Service income	20	136	156	150
Net rental income	16,720	9,160	25,880	25,382
Turnover from social housing lettings	16,720	9,160	25,880	25,382
Management and Support Services	(4,228)	(4,068)	(8,296)	(9,604)
Routine maintenance	(4,419)	(2,395)	(6,814)	(6,124)
Planned maintenance	(887)	(506)	(1,393)	(1,084)
Bad debts	(98)	(53)	(151)	(50)
Depreciation of housing properties	(1,608)	(171)	(1,779)	(414)
Other costs	(481)	(275)	(756)	(953)
Operating costs on social housing lettings	(11,721)	(7,468)	(19,189)	(18,229)
Operating surplus (before exceptional costs) on social housing lettings	4,999	1,692	6,691	7,153
Void losses	162	125	287	379

2010 figures have been restated to bring the allocation of costs in line with 2011.

Particulars of turnover from non-social housing lettings

	2011 £'000	2010 £'000
Commercial properties	172	189
Other	59	61
	<u>231</u>	<u>250</u>

SEDGEFIELD BOROUGH HOMES
NOTES TO THE REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2011

4 Accommodation in management and development

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

	2011	2010
	No	No
Social housing		
General housing	5,442	5,452
Supported housing and housing for older people	3,098	3,098
Total owned	<u>8,540</u>	<u>8,550</u>
Accommodation managed for others	-	-
Total managed	<u>-</u>	<u>-</u>
Total owned and managed	<u>8,540</u>	<u>8,550</u>

5 Operating surplus

The operating surplus is arrived at after charging:

	2011	2010
	£ '000	£ '000
Depreciation of housing properties	1,779	425
Depreciation of other tangible fixed assets	23	23
Loss on disposal of non housing properties	39	2
Operating lease rentals		
- land and buildings	266	251
- office equipment and computers	308	159
- motor vehicles	9	37
Auditors' remuneration (including VAT)		
- for audit services	25	21
- other services	3	-
Exceptional Set Up costs/(income)		
- Management costs incurred on setting up the Association	-	336
- Pension deficit arising on stock transfer	-	6,150
- Pension past service cost credit	(1,743)	-
	<u>(1,743)</u>	<u>6,486</u>

During the accounting period CPI has been used as an inflation measure to value future liabilities instead of RPI. The resultant reduction in liabilities of £1.743m has been treated as a change in benefit and therefore a past service cost gain adjusted through the Income and Expenditure account.

SEDGEFIELD BOROUGH HOMES
NOTES TO THE REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2011

6 Surplus on sale of fixed assets - housing properties

	2011 £ '000	2010 £ '000
Disposal proceeds	743	260
Less administration charges	(24)	(8)
Less amount payable to Durham County Council	(404)	(146)
Net disposal proceeds	<u>315</u>	<u>106</u>
Carrying value of fixed assets	<u>(32)</u>	<u>(4)</u>
	<u>283</u>	<u>102</u>

7 Interest receivable and other income

	2011 £ '000	2010 £ '000
Interest receivable	56	11
VAT shelter income	3,340	-
	<u>3,396</u>	<u>11</u>

8 Interest payable and similar charges

	2011 £ '000	2010 £ '000
Loans and bank overdrafts	1,636	400
Interest costs for pension scheme	230	430
	<u>1,866</u>	<u>830</u>

9 Employees

Average monthly number of employees expressed as full time equivalents:

	2011 No.	2010 No.
Administration	58	55
Housing	83	75
Property (Repairs & Investment)	24	30
	<u>165</u>	<u>160</u>

SEDGEFIELD BOROUGH HOMES
NOTES TO THE REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2011

Employee costs:

	2011	2010
	£ '000	£ '000
Wages and salaries	4,598	4,110
Social security costs	322	291
Other pension costs	956	597
	<u>5,876</u>	<u>4,998</u>

Included in Employee cost are costs of early retirement and voluntary redundancy totalling £505,783 (2010 £nil).

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 2010 and rolled forward, allowing for the different financial assumptions required under FRS 17, to 31 March 2011 by a qualified independent actuary.

The employers' contributions to the DCCPF by the Association for the year ended 31 March 2011 were £524,100 at a contribution rate of 14.7% of pensionable salaries. Following the revaluation of the Fund the revised employer's contribution rate applicable from 1st April 2011 has reduced to 12.5%.

Estimated employers' contributions to the DCCPF during the accounting period commencing 1 April 2011 are £584,000. In addition an estimated further contribution of £2,080,000 will be made from the VAT Shelter before 31 March 2012.

Financial assumptions

	31 March	31 March
	2011	2010
	% per	% per
	annum	annum
Discount rate	5.4	5.5
Future salary increases	5.3	5.4
Future pension increases	2.9	3.9
Inflation assumption - RPI	3.8	3.9
Inflation assumption - CPI	2.9	n/a

Mortality assumptions

The mortality assumptions are based on the recent actual mortality experience of members within the Fund and allow for expected future mortality improvements.

SEDGEFIELD BOROUGH HOMES
NOTES TO THE REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2011

The assumed life expectations on retirement at age 65 are:

	2011	2010
	No. of years	No. of years
Retiring today:		
- Males	21.9	21.2
- Females	24.0	23.3
Retiring in 20 years:		
- Males	23.7	23.5
- Females	26.0	25.4

Expected return on assets

Sbh 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 assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the fund at 31st March 2011

The expected returns on assets are:

	1 April 2011	% Asset Split at 31
	% pa	March 2011
Equities	8.4%	55.9
Gilts	4.4%	25.4
Bonds	5.1%	10.2
Properties	7.9%	5.6
Cash	1.5%	2.9

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

Year ended 31 March	2011	2010
	£'000	£'000
Current service cost	710	510
Past Service Cost	(1,690)	-
Expected return on scheme assets	(760)	(420)
Interest on scheme liabilities	990	850
Total	<u>(750)</u>	<u>940</u>
Actual return on scheme assets	<u>1,120</u>	<u>2,360</u>

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

Year ended 31 March	2011	2010
	£'000	£'000
Actuarial gain/(loss) in pension scheme recognised in STRSD	<u>(820)</u>	<u>(2,700)</u>
Cumulative actuarial gain/(loss) recognised in STRSD	<u>(3,520)</u>	<u>(2,700)</u>

SEDGEFIELD BOROUGH HOMES
NOTES TO THE REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2011

Amounts recognised in the balance sheet

Net pension liability at 31 March	2011	2010
	£'000	£'000
Present value of funded obligation	(20,100)	(19,040)
Fair value of scheme assets (bid value)	16,470	9,800
Net liability recognised in balance sheet	(3,630)	(9,240)

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

	2011	2010
	£'000	£'000
Opening scheme liabilities	(19,040)	(12,560)
Current service cost	(710)	(510)
Past Service Cost	1,690	-
Interest cost	(990)	(850)
Contributions by scheme participants	(260)	(250)
Actuarial losses (gains)	(1,180)	(4,640)
Benefits paid	390	(230)
Closing scheme liabilities	(20,100)	(19,040)

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

	2011	2010
	£'000	£'000
Opening fair value of scheme assets	9,800	6,410
Expected return on scheme assets	760	420
Actuarial gains (losses)	360	1,940
Contributions by employer	5,680	550
Contributions by scheme participants	260	250
Benefits paid	(390)	230
Closing fair value of scheme assets	16,470	9,800

SEDGEFIELD BOROUGH HOMES
NOTES TO THE REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2011

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

	Year ended 31 March 2011 £'000	Period ended 31 March 2010 £'000
Fair Value of assets	16,470	9,800
Present value of liabilities	(20,100)	(19,040)
Surplus / (deficit)	<u>(3,630)</u>	<u>(9,240)</u>

History of experience gains and losses

	Year ended 31 March 2011	Period ended 31 March 2010
Experience gains / (losses) on assets		
Amount (£000's)	360	1,940
Percentage of Assets	2.2%	19.8%
Experience gains / (losses) on liabilities		
Amount (£000's)	(1,150)	-
Percentage of the present value of the liabilities	-5.7%	0%

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	5.4
Future salary increases	5.3
Future pension increases	2.9
Inflation assumption - RPI	3.8
Inflation assumption – CPI	2.9

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The expected returns on assets are:

Asset Class	% pa
Equities	8.4%
Gilts	4.4%
Bonds	5.1%
Properties	7.9%
Cash	1.5%
Other	8.4%
Average Return	6.8%

Analysis of Estimated Income and Expenditure charge for years ended 2012 and 2013 – Funded Benefits

	2012	2013
	£'000	£'000
Current Service cost	740	760
Interest Cost	1,100	1,230
Expected Return on assets	(1,120)	(1,410)
Total	720	580

10 Board Members and Executive Directors

	2011		2010	
	Basic salary and Benefits in Kind	Pension contributions	Total	Total
	£'000	£'000	£'000	£'000
Executive Directors	396	53	449	489

None of the Board members received emoluments. The emoluments of the highest paid Director, excluding pension contributions, were £110,000 (2010 £108,000). The pension contributions made during the period were £15,000 (2010 £15,000).

The highest paid Director is a member of the Durham County Council Pension Fund. They are 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.

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11 Tangible fixed assets – properties

Housing properties	Social housing properties held for letting £'000	Non- social housing properties held for letting £'000	Housing properties for letting under construction £'000	Total housing properties £'000
Cost				
At 1 April 2010	18,915	294	-	19,209
Additions	705	51	96	852
Works to existing properties	22,310	-	-	22,310
Transferred from other fixed assets	296	-	-	296
Disposals	(33)	(51)	-	(84)
At 31 March 2011	<u>42,193</u>	<u>294</u>	<u>96</u>	<u>42,583</u>
Depreciation and impairment				
At 1 April 2010	(421)	(4)	-	(425)
Charged in year	(1,775)	(4)	-	(1,779)
On disposals	(1)	-	-	(1)
At 31 March 2011	<u>(2,197)</u>	<u>(8)</u>	<u>-</u>	<u>(2,205)</u>
Other grants				
At 1 April 2010	-	-	-	-
Additions	(734)	-	-	(734)
At 31 March 2011	<u>(734)</u>	<u>-</u>	<u>-</u>	<u>(734)</u>
Net Book Value				
At 31 March 2011	<u>39,262</u>	<u>286</u>	<u>96</u>	<u>39,644</u>
At 31 March 2010	<u>18,494</u>	<u>290</u>	<u>-</u>	<u>18,784</u>

Expenditure on works to existing properties

	2011 £'000	2010 £'000
Amounts capitalised as components	23,458	15,112
Amounts charged to the income and expenditure account	482	452
	<u>23,940</u>	<u>15,564</u>

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For the year ended 31 March 2011

Housing properties book value, net of depreciation and grants

	2011	2010
	£'000	£'000
Freehold land and buildings	39,644	18,784
	<u>39,644</u>	<u>18,784</u>

12 Tangible fixed assets – other

	Land and buildings under construction £'000	Computers and office equipment £'000	Total £'000
Cost			
At 1 April 2010	296	82	378
Additions	2,705	55	2,760
Transferred to properties	(296)	-	(296)
Disposals	-	-	-
At 31 March 2011	<u>2,705</u>	<u>137</u>	<u>2,842</u>
Depreciation			
At 1 April 2010	-	(23)	(23)
Charged in year	-	(23)	(23)
At 31 March 2011	<u>-</u>	<u>(46)</u>	<u>(46)</u>
Net Book Value			
At 31 March 2011	<u>2,705</u>	<u>91</u>	<u>2,796</u>
At 31 March 2010	<u>296</u>	<u>59</u>	<u>355</u>

13 Debtors

	2011	2010
	£'000	£'000
Due within one year		
Rent and service charges receivable	2,058	2,036
Less: provision for bad and doubtful debts	(430)	(627)
	<u>1,628</u>	<u>1,409</u>
Trade debtors	37	66
Other debtors	857	389
Prepayments and accrued income	50	201
	<u>2,572</u>	<u>2,065</u>

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14 Creditors: amounts falling due within one year

	2011	2010
	£'000	£'000
Trade creditors	2,008	923
Rent and service charges received in advance	69	66
Other taxation and social security	110	98
Other creditors	799	1,897
Accruals and deferred income	4,354	4,640
	<u>7,340</u>	<u>7,624</u>

Included in Other creditors is £0.341m (2010 £1.7m) owed to DCC in respect of the VAT shelter.

15 Creditors: amounts falling due after more than one year

	2011	2010
	£'000	£'000
Debt (note 16)	26,000	6,000
Trade creditors	201	393
	<u>26,201</u>	<u>6,393</u>

16 Debt analysis.

Borrowings

	2011	2010
	£'000	£'000
Due after more than one year		
Bank loans	26,000	6,000
	<u>26,000</u>	<u>6,000</u>

Security

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

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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 Bank's margin which is currently 2%. The loan matures in 2034.

At 31 March 2011 the Association had available further loan facilities of £70m (2010 £90m).

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

	2011	2010
	£'000	£'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	26,000	6,000
	<u>26,000</u>	<u>6,000</u>

17 Non-equity share capital

	2011	2010
	£	£
Shares of £1 each issued and fully paid		
At 1 April	9	9
Shares issued during the year	4	2
Shares surrendered during the year	(4)	(2)
At 31 March	<u>9</u>	<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	Total
	reserve	reserves
	£'000	£'000
At 1 April 2010	(2,006)	(2,006)
Surplus for the year	11,031	11,031
Actuarial loss relating to pension scheme	(820)	(820)
At 31 March 2011	<u>8,205</u>	<u>8,205</u>

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For the year ended 31 March 2011

19 Net cash inflow from operating activities

	2011	2010
	£'000	£'000
Operating surplus	9,218	1,411
Pension deficit on set up	-	6,150
Depreciation of tangible fixed assets	1,802	448
Loss on disposal of tangible fixed assets	39	2
Defined benefit pension scheme operating charge	710	510
Defined benefit pension scheme contributions paid	(5,680)	(550)
VAT shelter income	3,340	-
	<u>9,429</u>	<u>7,971</u>
Working capital movements		
Increase in stocks	-	(296)
Increase/(decrease) in Debtors	(507)	(2,065)
Increase/(decrease) in Creditors	(2,463)	7,925
	<u>6,459</u>	<u>13,535</u>

20 Reconciliation of net cash flow to movement in net debt

	2011	2010
	£'000	£'000
Increase in cash	317	47
Cash inflow from increase in debt	(20,000)	(6,000)
	<u>(19,683)</u>	<u>(5,953)</u>
Change in net debt resulting from cash flows		
Movement in net debt for the period	(19,683)	(5,953)
Net debt at 1 April	(5,953)	-
	<u>(25,636)</u>	<u>(5,953)</u>

21 Analysis of changes in net debt

	1 April 2010	Cashflow	31 March 2011
	£'000	£'000	£'000
Cash at bank and in hand	47	317	364
	<u>47</u>	<u>317</u>	<u>364</u>
Changes in cash			
Loans	(6,000)	(20,000)	(26,000)
	<u>(6,000)</u>	<u>(20,000)</u>	<u>(26,000)</u>
Changes in debt			
	(6,000)	(20,000)	(26,000)
	<u>(6,000)</u>	<u>(20,000)</u>	<u>(26,000)</u>
Changes in net debt			
	(5,953)	(19,683)	(25,636)
	<u>(5,953)</u>	<u>(19,683)</u>	<u>(25,636)</u>

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For the year ended 31 March 2011

22 Capital commitments

	2011	2010
	£'000	£'000
Capital expenditure		
Expenditure contracted for but not provided in the accounts	18,765	12,279
Expenditure authorised by the Board, but not contracted	42,861	68,279
	61,626	80,558

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

Stock transfer obligations regarding housing properties

The Association entered into a Stock Transfer Agreement to acquire the housing properties of the former Sedgfield 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.

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 Sedgfield Borough Council to Sedgfield 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.

Following transfer and a full valuation of the pension fund in respect of sbh's liability the agreed amount to be paid over to clear the transfer deficit was £7.060m.

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For the year ended 31 March 2011

During the year £4.979m was paid into the fund followed by £0.341m paid after the balance sheet date. VAT shelter receipts from 1st April 2011 to 31st July 2011 amounted to approximately £0.943m. It is anticipated that further VAT shelter receipts during the year ending 31st March 2012 will exceed the remaining deficit. Any further sums received from the VAT shelter will be split between Durham County Council and sbh in the ratio 45:55. Sbh's share will be used to fund new development works.

23 Contingent assets / liabilities

The Association had no contingent assets or liabilities as at the 31 March 2011.

24 Leasing commitments

	2011		2010	
	Land and Buildings £'000	Other Assets £'000	Land and Buildings £'000	Other Assets £'000
In one year or less	200	267	251	185
Between one and two years	-	3	-	3
Between two to five years	-	7	-	6
Over five years	-	-	-	-
	<u>200</u>	<u>277</u>	<u>251</u>	<u>194</u>

25 Related parties

There are four tenant members of the Board, Emily Jones, Alan Cargill, Heather Linford and Ian Meachem. Their tenancies are on normal commercial terms and they are not able to use their position to their advantage.

Four members of the Board (Brian Stephens, John Moran, Lucy Hovvels and Kevin Thompson) are Councillors with Durham County Council a local authority having nomination rights over tenancies for certain association properties. During the year Enid Paylor and John Robinson who were Council Board Members were replaced by Lucy Hovvels and Kevin Thompson. All transactions with the council are on normal commercial terms and none of them are able to use their position to any advantage.

