



Company Number: 4619469
TSA Registration Number: L4431

ERIMUS HOUSING LIMITED

Annual Report and Financial Statements

Year Ended 31 March 2010

Contents

Section	Page
Board Members, Executive Directors, Advisors and Bankers	2
Report of the Board	3
Operating and Financial Review	7
Statement of Responsibilities of the Board	13
Independent Auditor's Report to the Members of Erimus Housing Limited	14
Consolidated Income and Expenditure Account	16
Company Income and Expenditure Account	17
Statement of Total Recognised Surpluses and Deficits	18
Note of Historical Cost Surpluses and Deficits	18
Reconciliation of Group's and Company's Movements in Funds	18
Consolidated Balance Sheet	19
Company Balance Sheet	20
Consolidated Cash Flow Statement	21
Notes to the Financial Statements	22

Board Members, Executive Directors, Advisors and Bankers

Board

Chair	Mike Carr
Vice Chair	Edna Donnelly
Other Members	Bob Brady Moirá Britton Brian Kelly Ann Lymer (to 15 September 2009) Hugh McGouran Alexander McQueen Peter Porley (to 10 November 2009) Josephine Pottinger Peter Purvis Sarah Robson Jenny Shepherd Nicola Walker

Executive Director

Managing Director Christine Smith

Secretary

Paul Fiddaman (from 16 November 2009)
Brenda Kirby (to 16 November 2009)

Registered Office

4th Floor
Centre North East
73-75 Albert Road
Middlesbrough
TS1 2RU

Registered Number

Registered as a company limited by guarantee, No: 4619469
Registered by the Tenant Services Authority, No: L4431
Registered Charity No: 1106102

Auditors

PricewaterhouseCoopers LLP
89 Sandyford Road
Newcastle-upon-Tyne
NE1 8HW

Solicitors

Pinsent Masons
3 Colmore Circus
Birmingham
B4 6BH

Bankers

Lloyds Banking Group
1st Floor
31-32 Park Row
Leeds
LS1 5JD

Report of the Board

The board presents its report and the group's audited financial statements for the year ended 31 March 2010.

Principal activities

Erimus Housing Limited ("the company") is a not-for-profit registered provider. It is a registered charity, and is governed by a voluntary board. The company operates primarily in Middlesbrough, where its head office is located. The other member of the Erimus Housing group ("the group") is Optimus Homes Limited, a wholly owned private limited company that carries out the development and sale of residential properties.

"Group" is used to indicate that a comment relates both of the above named entities together or that a value is the consolidated value.

Erimus Housing Limited is a wholly owned subsidiary of Fabrick Housing Group Limited. Where a comment relates to Fabrick Housing Group the term 'Fabrick Group' will be used.

The group's principal activities are the development, improvement and management of social housing, and the provision of housing related services to those who need them.

Business review

Details of the group's performance for the year and future plans are set out in the Operating and Financial Review that follows the Report of the Board.

Housing property assets

Details of changes to the group's fixed assets are shown in notes 13 and 14 to the financial statements. Housing properties are carried at valuation and changes in values are considered in the Operating and Financial Review.

Reserves

After the transfer of the surplus for the year of £7.5m (deficit 2009: £18.9m) at the year-end, the group's reserves amounted to £141.2m (2009: £23.9m), including a revaluation surplus on housing properties of £185m (2009: £67.8m).

Donations

The group donated £nil to a number of local charities and community groups (total donations in 2009: £7,000) and made no political donations (2009: £nil).

Payment of creditors

In line with government guidance, the group's policy is to pay purchase invoices within 30 days of receipt, or earlier if agreed with the supplier.

Financing and treasury management

The group's approach to risk and treasury management is outlined in the Operating and Financial Review.

Employees

The strength of the group lies in the quality and commitment of its employees. The group's ability to meet its objectives and commitments to tenants in an efficient and effective manner depends on the contribution of employees throughout the group.

The group provides information on its objectives, progress and activities through regular managers' and departmental meetings, one-to-ones and a regular staff newsletter. A Joint Consultative Committee of elected staff and union representatives, board members and executive directors meets quarterly to discuss issues relevant to employment matters.

The group is committed to equal opportunities for all employees and in particular it supports the employment of disabled people, both in recruitment and in the retention of employees who become disabled whilst in the employment of the group. The group has adopted the Code of Practice on Race Equality arising from the Race and Housing Inquiry Challenge Report 2000, and achieved the Investors in Diversity accreditation during the year.

Report of the Board (continued)

Health and safety

The board is aware of its responsibilities on all matters relating to health and safety. The group has prepared detailed health and safety policies and provides staff training and education on health and safety matters.

Board members and executive director

The present board members and the executive director of the group are set out on page 2. The board members are drawn from a wide background bringing together professional, commercial and local experience.

The executive director is the Managing Director. She holds no interest in the group's shares and acts as an executive within the authority delegated by the board.

The group has insurance policies that indemnify its board members and executive director against liability when acting for the group.

Service contracts

The executive director is employed on the same terms as other staff, except that her notice period is three months and she receives a 10% car allowance in addition to her basic salary.

Pensions

The executive director is a member of the Teesside Pension Fund, a defined benefit final salary pension scheme. The executive director participates in the scheme on the same terms as all other eligible staff. The group contributes to the scheme on behalf of its employees.

NHF Code of Governance

We are pleased to report that the group complies with the principal recommendations of the NHF Code of Governance (revised 2004).

The Fabrick Group Audit and Risk Committee has agreed a protocol with the external auditors, which sets out policies for determining what non-audit work can be undertaken by the external auditors, and procedures for periodic review and selection of external auditors. The level of fees paid for their work is set out in note 5 to the financial statements.

Tenant involvement

We actively encourage tenants' involvement in decision-making by promoting formal mechanisms of tenant involvement. The group has two tenant board members and three vacant posts at the year-end, and has established clear reporting arrangements between tenant groups and the board.

Complaints

The group has a clear and simple complaints policy that we issue to all tenants. During the year it received 142 (2009: 364) complaints. Of these, 126 were resolved satisfactorily. The group is continuing to investigate and take action in respect of the remaining 16 complaints, which relate primarily to repairs performance.

Internal controls assurance

The board acknowledges that it has overall responsibility for establishing and maintaining the whole system of internal control and for reviewing the effectiveness of the system of internal control for the group.

The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The process for identifying, evaluating and managing the significant risks faced by the group is ongoing, and is in the process of being further developed. All reports to the board include consideration of any risk management issues arising from the report.

Report of the Board (continued)

Internal controls assurance (continued)

The group recognises the importance of a strong framework for internal control, and has maintained its control framework during the year. The key elements of the internal control framework include:

- Board approved terms of reference and delegated authorities for the Fabrick Group Audit and Risk and Nominations and Remuneration Committees, and the Operations and Development Committee;
- Clearly defined management responsibility for the identification, evaluation and control of significant risks;
- Robust strategic and business planning processes;
- Development of a corporate risk register and subsequent quarterly review of the risk register by the board;
- Detailed financial budgets and forecasts for subsequent years;
- Formal recruitment, retention, training and development policies;
- Formal authorisation and appraisal procedures for all significant new initiatives and commitments;
- A considered and prudent approach to treasury management which is subject to review on an annual basis;
- Regular reporting to senior management and the appropriate committee of key performance indicators to assess progress towards the achievement of key business objectives, targets and outcomes;
- Board approved whistle-blowing and anti-theft and corruption policies; and
- Detailed policies and procedures in each area of the group's work.

A fraud register is maintained and is reviewed by the Fabrick Group Audit and Risk Committee on a quarterly basis. There were no frauds reported in the year.

The board cannot delegate ultimate responsibility for the system of internal control, but it can, and has, delegated authority to the Fabrick Group Audit and Risk Committee to regularly review the effectiveness of the system of internal control. The board receives annual reports from the Fabrick Group Audit and Risk Committee together with minutes of the Fabrick Group Audit and Risk Committee meetings.

The means by which the Fabrick Group Audit and Risk Committee reviews the effectiveness of the system of internal control include:

- Considering risk reports;
- Internal audit reports;
- Management assurances;
- The external audit management letter; and
- Specialist reviews on areas such as treasury, health and safety, and supporting people services.

The Fabrick Group Audit and Risk Committee has received the Group Chief Executive's annual review of the effectiveness of the system of internal control and has reported its findings to the board. The board has in turn conducted its own annual review of the effectiveness of the system of internal control.

Going concern

After making enquiries the board has a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. 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 14 September 2010.

Report of the Board (continued)

Disclosure of information to auditors

At the date of making this report each of the group's directors, as set out on page 2, confirm the following:

- so far as each director is aware, there is no relevant information needed by the company's auditors in connection with preparing their report of which the company's auditors are unaware, and
- each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant information needed by the company's auditors in connection with preparing their report and to establish that the company's auditors are aware of that information

External auditors

A resolution to re-appoint PricewaterhouseCoopers LLP as the group's auditors will be proposed at the forthcoming annual general meeting.

Approval

The report of the board was approved by the board on 12 August 2010 and signed on its behalf by:

Paul Fiddaman
Secretary

Operating and Financial Review

Background

Activities

Erimus Housing Limited ("the company") owns and manages around 10,400 properties in Middlesbrough and Stockton, the majority of which were acquired as a result of stock transfer from the local authorities in 2004 and 2007. The company is a registered charity, limited by guarantee, and is registered with the Tenant Services Authority ("TSA"). The Erimus Group ("the group") includes a non-registered subsidiary, Optimus Homes, which is a wholly-owned private limited company that carries out the development and sale of residential properties.

The two key business streams of the group remain;

- The provision of general needs affordable rented homes;
- The provision of supported housing for people who need additional support to maintain their independence.

Since 1st April 2008, Erimus Housing Limited has been a subsidiary of Fabrick Housing Group Limited ("Fabrick"), a company limited by guarantee. Fabrick was formed as a result of the decision to work in partnership with Tees Valley Housing Limited to maximise the growth potential of both partners and to realise efficiencies. Fabrick is a strategic, non-asset holding organisation and is registered with the TSA. It is governed by a Board made up of three representatives each from the company and Tees Valley Housing Limited, and a further three independent board members, supplemented by a co-opted tenant board member.

The benefits of membership of Fabrick have been significant, both in terms of efficiency, and enhanced service delivery. The company is now well placed to meet the significant challenges ahead, and to pursue its ambitious agenda in historically challenging times.

The company has now completed its five year investment programme in its existing properties, and this has led to a much improved financial result. The company has begun trading at surplus earlier than expected in its original business plans, and now feels it has significant financial capacity to meet its future aspirations.

Objectives and Strategy

Fabrick Housing Group has defined its vision as "*shaping the fabric of everyday life*", in recognition of the broad contribution it will make to creating places where people will choose to live.

The company has reviewed its own vision to reflect its contribution to that of Fabrick Housing Group, which is, "*Providing homes and strengthening communities in the Tees Valley*". The Vision is set out in the group's five-year Operational Plan 2010 – 15, which also sets out the group's values and describes the strategic priorities for the group. These can be summarised as follows:

- To provide outstanding services to our customers;
- To provide opportunities for people and communities to thrive;
- To achieve sustainable growth;
- To be the employer of choice;
- To achieve business excellence.

The Operational Plan describes the actions that will be carried out in order to achieve these priorities, and also sets out the performance indicators that will be used to measure progress towards them and the associated targets.

Performance Review

Overview

In last year's review, the Board was observing the progression from credit crunch to global economic recession. Whilst the recovery now appears to be underway, there is clearly a fragility about it, and the group faces a number of significant continuing challenges. The negative RPI figure in September has led to lower than expected rental growth in 2010/11, and this has required the company to be disciplined in

Operating and Financial Review (continued)

Overview (Continued)

realising its planned efficiencies. The group is well advanced in its plans to meet the new regulatory framework, and is bracing itself for the impact of the expected cuts in government funding.

Nevertheless, the group has delivered strong performance against its key objectives during the year. It has benefitted from an initiative across the Fabrick Group known as the "Weave" project. This was an exercise in which all services have been reviewed by teams of staff from across Fabrick, based on significant consultation with tenants to ensure their needs are fully met. This has resulted in the redesign of key services, and the implementation of harmonised ICT systems across the group to support staff in delivering excellent services. This process has led to strengthened performance across the range of the company's services whilst identifying more efficient ways of working. Some of the key outcomes from this process are identified below

Performance Indicators

The group's board and senior management have agreed a series of performance indicators to enable them to monitor the group's achievement of its objectives. The key performance indicators achieved by the group for the year analysed by strategic priority are set out below:

To provide outstanding services to our customers

Description	2006/07	2007/08	2008/09	2009/10	Target
% Customer satisfaction with repairs service (STATUS survey)	72.2%	79.1%	79.5%	82.8%	85%
% overall customer satisfaction (STATUS Survey)	75.6%	80.3%	84.1%	88.7%	87%
Overall average re-let time (days)	55	43	31	24	24

As a direct result of the performance improvement activity undertaken across the group under the "Weave" project, the company has been able to maintain the strong positive trends in its performance. Over the years since its formation, the company has more than halved the time taken to re-let its properties. At the point of its formation, the company was experiencing bottom quartile levels of tenant satisfaction with its repairs service, and with its overall service, and this has now strengthened to top quartile overall, compared with its peers.

The Board is confident that its performance improvement processes, now strengthened by a strong focus on customer needs, will deliver further improvements in future years.

To provide opportunities for people and communities to thrive

Description	2006/07	2007/08	2008/09	2009/10	Target
% Homes failing the Decent Homes Standard	41%	27%	7%	0.0%	0.4%
% Dwellings vacant and available to let	0.7%	0.7%	0.4%	0.7%	0.6%
% Lettings to BME residents	5.5%	4.6%	8.6%	8.1%	9.0%
No of homeless cases averted due to intervention/ advice	-	347	312	368	151

Operating and Financial Review (continued)

The company has successfully completed its initial five year investment plan, and all applicable properties (other than a small number scheduled for demolition as part of a Middlesbrough Council regeneration scheme) have been brought up to the Decent Homes Standard.

The proportion of dwellings vacant and available to let remains in the top quartile nationally, although a rise in tenancy turnover and a number of new property handovers contributed to a rise in this indicator compared to previous years. The company's properties continue to attract people from Black and Minority Ethnic Communities, and the work of our homelessness prevention team continues to excel.

To achieve sustainable growth

Description	2006/07	2007/08	2008/09	2009/10	Target
No of new homes provided	4	101	36	119	50

Although the challenges arising from the credit crunch were significant, as land values and selling prices tumbled, and difficulties in access to mortgage finance curtailed property sales activity, the company has outperformed its development targets in the year. The company has rapidly developed a strong relationship with the Homes and Communities Agency, and has identified capacity to pursue an ambitious development and regeneration agenda in the future.

To be the employer of choice

Description	2006/07	2007/08	2008/09	2009/10	Target
% Staff time lost through sickness	3.9%	4.5%	4.8%	4.0%	3.5%
Staff turnover % of all staff	13.4%	10.9%	12.0%	6.2%	12.0%

The company is pleased to note the increase in staff attendance, and the reduction in turnover. These factors are partly a reflection of the uncertain economic climate, and partly a reflection of the huge staff commitment which has been strengthened by their involvement in the Weave project and the improved service delivery that has arisen. The company has been involved in a process of harmonising the Fabrick Group's terms and conditions, and the process is ongoing at the year end.

To achieve business excellence

The company has retained its focus on excellent business practice during the year, and has benefited from a number of efficiencies arising from the group structure. Fabrick Housing Group has robust arrangements for risk management, value for money and procurement and has monitored the effectiveness of these arrangements through the committee structure and board reporting. The company has been participating in a review of its governance arrangements which will ensure that it is well placed to deliver its obligations under the new governance framework of the Tenant Services Authority. The company is pleased to report that it has met all of its loan covenants during the period, and continues to enjoy the support of its key partners in all areas of its activities.

Risk Management

The Fabrick Housing Group risk management strategy sets out the espoused culture of ensuring that risk management is embedded at all levels within the organisation.

The Board and corporate management team consider key strategic risks as a separate exercise annually, and all reports include consideration of risk management implications. This exercise includes consideration of how far existing controls safeguard the group from the impact of the identified risks.

Operating and Financial Review (continued)

Risk Management (continued)

Where additional actions or controls are considered appropriate, these are noted and responsibility for delivering them is assigned. The key residual risks identified as part of this process this year were:

Risk	Additional risk actions or controls	Corporate objective
Fail to have adequate resources in place due to impact of credit crunch and negative RPI	Continue to review business plans regularly, and maintain dialogue with key funding partners	To provide opportunities for people and places to thrive/ To provide outstanding services to customers
Fail to meet new regulatory requirements	Action plan prepared and monitored by board	To provide outstanding services to our customers
Failure to meet equality and diversity objectives and social inclusion objectives	Ensure Single Equality Scheme reflects developing legislation	To provide opportunities for people and places to thrive
Fail to deliver our environmental strategy	Group environmental strategy to develop	To provide opportunities for people and places to thrive/ To deliver sustainable growth
Failure to demonstrate a strong health and safety culture	Quarterly reporting to Corporate Management Team, and Joint Consultative Council	To be an employer of choice
Fail to manage staff expectations regarding harmonisation of terms and conditions	Develop future process for formal negotiation and consultation	To be an employer of choice
Fail to meet financial covenants	Continue to monitor financial performance on a monthly basis	To achieve business excellence

The risk identification process is also carried out in each department of the company to ensure that key operational risks are understood and responded to appropriately. Each department then has a series of risk actions embedded in its annual plan.

The key risk actions identified during this process are monitored by the Fabrick Group Audit and Risk Committee on an annual basis.

Financial Position

The group's Income and Expenditure Account is shown on Page 16 of the Financial Statements, and its Balance Sheet as at 31st March is shown on page 19. The table on page 12 shows the historical performance of the group. The following paragraphs highlight key features of the group's financial performance during the year, and its position as at 31 March 2010.

Operating and Financial Review (continued)

Accounting Policies

The group's principal accounting policies are set out in the notes to the financial statements on pages 22 to 25. The policies critical to the understanding of the financial results are the inclusion of the housing properties at valuation, depreciation and impairment. The group adopted the Statement of Recommended Practice for Registered Social Landlords (2008) last year, and there have been no significant changes in accounting policies in the year.

Housing Properties

At 31 March 2010, the company owned 10,434 properties (2009: 10,621).

The board appointed Savills as external professional valuers to carry out an annual valuation of the group's housing properties for accounts purposes as at 31 March 2010. The value of the properties on an existing use for social housing basis, including properties under construction, was £228.5m (2009: £91.7m), and this valuation has been reflected in the valuation of the properties in the financial statements. On valuation, the surplus of £117.7m (2009: £25.7m) has been taken to a revaluation reserve. It should be noted that Savills also reported on the value of the properties for loan security purposes, which is reported as £212m (2009: £95.4m). An impairment provision has been included of £0.2m (2009: £3.3m) to reflect properties that are likely to be demolished as part of future regeneration activity.

Pension Costs

The group participates in two pension schemes; the Social Housing Pension Scheme (SHPS), and the Teesside Pension Fund (TPF). Both of these are final salary schemes offering comparable benefits to staff. The group contributes to each scheme in accordance with the levels set by the scheme actuaries. The group's contribution rate has varied between 12% and 18.5%. The group's share of the deficit of the Teesside Pension Fund has increased during the year as a result of an actuarial review.

Details of the actuarial assumptions used for both schemes are shown in note 10 to the financial statements.

Capital Structure and Treasury Policy

The group has a £105m loan facility with a syndicate arranged and administered by the Royal Bank of Canada, whose membership also includes The Lloyds Banking Group and Nationwide Building Society. The group has a policy of keeping between 60% - 80% of its drawn funds at fixed rates of interest. At the year end, 61% of borrowings were at fixed rates of interest. The group has also entered into a series of forward fixing arrangements to protect it from the risk of adverse interest rate movements.

During the year, the group has drawn down a further £14.3m to partly fund the improvement of its homes. At the year end, total borrowings under this facility amounted to £82m (2009: £67.7m), all of which falls due for repayment after more than five years.

The group prepares detailed 30 year financial projections, which indicate that the group's future plans can be met from existing loan facilities.

Cash Flows

Cash inflows and outflows during the year are shown in the Cash Flow Statement on page 21 of the financial statements.

The group experienced a cash inflow from operating activities of £5.7m (2009: outflow £17.2m). This is after charging major repairs to the housing stock of £9.3m to the income and expenditure account (2009: £27.1m). The cash inflow funded mainly by loans received of £14.3m, was used to fund the purchase and construction of housing properties, resulting in a net increase in cash of £1.1m (2009: decrease of £1.2m).

Future Developments

The group has plans to deliver over 300 new properties in the next five years, which will be partly funded by grant from the Homes and Communities Agency. The company is in the process of developing its plans for the ongoing improvement of its housing properties, and has included the outcomes from its current Stock Condition Survey within its 30 year financial projections to ensure that these can be met as a priority for resource allocation within the group's strategic plans.

Statement of compliance

In preparing this Operating and Financial Review, the board has followed the principles set out in Part 3 of the SORP "Accounting by Registered Social Landlords" issued in January 2008.

Operating and Financial Review (continued)

Historical financial Performance

For the year ended 31 March	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Forecast
Income and expenditure Account (£'000)					
Turnover	32,897	34,566	35,315	39,354	39,763
Income from lettings	32,031	33,114	33,757	36,441	37,442
Operating surplus/ (deficit)	(18,702)	(22,262)	(16,744)	10,143	6,254
Surplus / (deficit) for the year transferred to reserves	(11,492)	(20,057)	(18,857)	7,480	2,542
Balance sheet (£'000)					
Housing properties	37,591	62,705	91,684	228,457	229,865
Other fixed assets	2,359	2,821	3,416	3,992	5,692
Total fixed assets	39,949	65,526	95,100	232,449	235,557
Net current assets/ (Liabilities)	(4,750)	(7,052)	(6,547)	(833)	(3,142)
Total assets less current liabilities	30,896	58,474	88,553	231,616	232,415
Loans due after >1year	19,444	40,000	64,000	82,028	87,090
Pensions Liability	5,939	1,605	590	8,364	590
Reserves: restricted	1,637	-	-	-	-
: designated	4,086	5,261	5,319	6,498	5,319
: revenue	(17,776)	(34,304)	(49,200)	(50,315)	(49,192)
: revaluation	23,505	45,912	67,844	185,041	188,608
: total	30,010	16,869	23,963	141,224	144,735
Total Financing and Reserves	30,896	58,474	88,553	231,616	232,415
Accommodation figures					
Social Housing stock owned at Year end	10,981	10,845	10,621	10,434	10,538
Non social housing	454	507	524	481	481

Statement of the Responsibilities of the Board

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

Company law requires the Board to prepare financial statements for each financial year. Under that law the Board have prepared the Group and Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law 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 of the Group and the Company and of the surplus or deficit of the Company and Group for that period. In preparing these financial statements, the Board is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Board is responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board is responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditors' Report to the members of Erimus Housing Limited

We have audited the financial statements of Erimus Housing Limited for the year ended 31 March 2010 which comprise the Group and Company Income and Expenditure Account, the Group and Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognised Surpluses and Deficits, the Group Statement of Historical Cost Surpluses and Deficits 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).

Respective responsibilities of the board and auditors

As explained more fully in the Statement of Board's 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 Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the members of Erimus Housing Limited as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group and Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view of the statement of the Group and Company's affairs as at 31 March 2010 and of the Group and Company's surplus and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of Companies Act 2006, Schedule 1 to the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Report of the Board for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent Auditors' Report to the members of Erimus Housing Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Group and Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Group or Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Janet Eilbeck (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne

The maintenance and integrity of the Erimus Housing Limited website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

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

Consolidated Income and Expenditure Account

For the year ended 31 March 2010

	Note	2010 £'000	2009 £'000
Turnover: continuing activities	3	39,354	35,315
Operating costs	3	(29,211)	(52,059)
Operating surplus/(deficit): continuing activities	3	10,143	(16,744)
Surplus on sale of fixed assets - housing properties	6	212	730
Surplus/(deficit) on sale of other tangible fixed assets		-	6
Interest receivable and other income	7	450	61
Interest payable and similar charges	8	(3,195)	(3,196)
Other finance income/(expenditure)	9	(126)	286
Surplus on ordinary activities before taxation		7,484	(18,857)
Tax on surplus on ordinary activities	11	(4)	-
Surplus/(deficit) for the financial year	22	7,480	(18,857)

The notes from page 22 onwards form an integral part of these financial statements.

Company Income and Expenditure Account

For the year ended 31 March 2010

	Note	2010 £'000	2009 £'000
Turnover: continuing activities	3	39,049	35,075
Operating costs	3	(28,913)	(51,837)
Operating surplus/(deficit): continuing activities	3	10,136	(16,762)
Surplus on sale of fixed assets - housing properties	6	212	730
Surplus/(deficit) on sale of other tangible fixed assets		-	6
Interest receivable and other income	7	512	175
Interest payable and similar charges	8	(3,195)	(3,196)
Other finance income/(expenditure)	9	(126)	286
Surplus on ordinary activities before taxation		7,539	(18,761)
Tax on surplus on ordinary activities	11	-	-
Surplus/(deficit) for the financial year	22	7,539	(18,761)

The notes from page 22 onwards form an integral part of these financial statements.

Statement of Total Recognised Surpluses and Deficits

For the year ended 31 March 2010

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Surplus/(deficit) for the financial year	7,480	(18,857)	7,539	(18,761)
Unrealised surplus on revaluation of housing properties	117,808	25,731	117,754	25,685
Reversal of prior period impairments	130	-	130	-
Actuarial (loss)/gain relating to pension scheme	(8,157)	220	(8,157)	220
Total recognised surpluses and (deficits) relating to the year	<u>117,261</u>	<u>7,094</u>	<u>117,266</u>	<u>7,144</u>

Note of Historical Cost Surpluses and Deficits

For the year ended 31 March 2010

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Reported surplus/(deficit) on ordinary activities	7,480	(18,857)	7,539	(18,761)
Realisation of property revaluation (losses) / gains	(46)	310	(46)	310
Excess of actual depreciation & impairment charge over historical cost depreciation & impairment	669	3,489	669	3,489
Historical cost surplus/(deficit) on ordinary activities	<u>8,103</u>	<u>(15,058)</u>	<u>8,162</u>	<u>(14,962)</u>

Reconciliation of Movements in Funds

For the year ended 31 March 2010

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Opening total funds	23,963	16,869	24,047	16,903
Total recognised surpluses and (deficits) relating to the year	<u>117,261</u>	<u>7,094</u>	<u>117,266</u>	<u>7,144</u>
Closing total funds	<u>141,224</u>	<u>23,963</u>	<u>141,313</u>	<u>24,047</u>

Consolidated Balance Sheet

As at 31 March 2010

	Note	2010 £'000	2009 £'000
Tangible fixed assets			
Housing properties	13	228,457	91,684
Other tangible fixed assets	14	3,992	3,416
		<u>232,449</u>	<u>95,100</u>
Current assets			
Properties for sale	16	1,523	3,603
Stock		-	299
Debtors	17	3,559	2,887
Cash at bank and in hand		1,653	601
		<u>6,735</u>	<u>7,390</u>
Creditors: Amounts falling due within one year	18	(7,568)	(13,937)
Net current liabilities		<u>(833)</u>	<u>(6,547)</u>
Total assets less current liabilities		<u>231,616</u>	<u>88,553</u>
Creditors: Amounts falling due after more than one year	19	82,028	64,000
Net pension liability	10	8,364	590
		<u>90,392</u>	<u>64,590</u>
Capital and reserves			
Revaluation reserve	22	185,041	67,844
Designated reserve	22	6,498	5,319
Revenue reserve	22	(50,315)	(49,200)
Consolidated funds		<u>141,224</u>	<u>23,963</u>
		<u>231,616</u>	<u>88,553</u>

The notes from page 22 onwards form an integral part of these financial statements.

The financial statements were approved by the board on 12 August 2010 and signed on its behalf by:

Edna Donnelly
Vice Chair

Paul Fiddaman
Secretary

Company Balance Sheet

As at 31 March 2010

	Note	2010 £'000	2009 £'000
Tangible fixed assets			
Housing properties	13	228,506	91,731
Other tangible fixed assets	14	3,992	3,416
		<u>232,498</u>	<u>95,147</u>
Current assets			
Properties for sale	16	1,579	563
Stock		-	299
Debtors	17	7,747	6,044
Cash at bank and in hand		1,546	502
		<u>10,872</u>	<u>7,408</u>
Creditors: Amounts falling due within one year	18	(11,665)	(13,918)
		<u>(793)</u>	<u>(6,510)</u>
Net current liabilities			
		<u>231,705</u>	<u>88,637</u>
Total assets less current liabilities			
Creditors: Amounts falling due after more than one year	19	82,028	64,000
Net pension liability	10	8,364	590
		<u>90,392</u>	<u>64,590</u>
Capital and reserves			
Revaluation reserve	22	184,941	67,798
Designated reserves	22	6,498	5,319
Revenue reserve	22	(50,126)	(49,070)
		<u>141,313</u>	<u>24,047</u>
Company's funds			
		<u>231,705</u>	<u>88,637</u>

The notes from page 22 onwards form an integral part of these financial statements.

The financial statements were approved by the board on 12 August 2010 and signed on its behalf by:

Edna Donnelly
Vice Chair

Paul Fiddaman
Secretary

Consolidated Cash Flow Statement

For the year ended 31 March 2010

	Note	2010 £'000	2009 £'000
Net cash inflow/(outflow) from operating activities	27	<u>5,694</u>	<u>(17,176)</u>
Returns on investments and servicing of finance			
Interest received		728	61
Interest paid		(3,173)	(3,031)
		<u>(2,445)</u>	<u>(2,970)</u>
Capital expenditure			
Purchase and construction of housing properties		(19,975)	(8,676)
Purchase of other fixed assets		(1,275)	(1,334)
Social housing grant received		3,365	1,866
Sale of housing properties		1,388	1,397
Sale of other fixed assets		-	6
		<u>(16,497)</u>	<u>(6,741)</u>
Financing			
Loans received		14,300	25,700
		<u>14,300</u>	<u>25,700</u>
Increase/(decrease) in cash	28	<u><u>1,052</u></u>	<u><u>(1,187)</u></u>

The notes from page 22 onwards form an integral part of these financial statements.

Notes to the Financial Statements

1. Legal status

The company is registered under the Companies Act 2006 and is registered as a social landlord with the Tenant Services Authority. The company is limited by guarantee and is a registered charity.

2. Accounting policies

Basis of accounting

The financial statements of the group and company are prepared in accordance with applicable accounting standards and the Statement of Recommended Practice: accounting by Registered Social Landlords, issued in January 2008 (SORP 2008), and comply with the Accounting Requirements for registered social landlords General Determination 2006.

Basis of consolidation

The group accounts consolidate the accounts of the company and its subsidiary at 31 March using acquisition accounting.

Turnover

Turnover comprises rental income receivable in the year, income from shared ownership first tranche sales, other services included at the invoiced value (excluding VAT) of goods and services supplied in the year and revenue grants receivable in the year. Income from first tranche sales and sales of properties built for sale is recognised at the point of legal completion of the sale.

Value added tax

The group charges value added tax (VAT) on some of its income and is able to recover part of the VAT it incurs on expenditure. The financial statements include VAT to the extent that it is suffered by the group and not recoverable from HM Revenue & Customs. The balance of VAT payable or recoverable at the year-end is included as a current liability or asset.

Interest payable

Interest is capitalised on borrowings to finance developments to the extent that it accrues in respect of the period of development if it represents either:

- a) interest on borrowings specifically financing the development programme after deduction of interest on social housing grant (SHG) in advance; or
- b) interest on borrowings of the association as a whole after deduction of interest on SHG in advance to the extent that they can be deemed to be financing the development programme.

Other interest payable is charged to the income and expenditure account in the year.

Pensions

The group participates in two funded multi-employer defined benefit schemes, the Social Housing Pension Scheme ('SHPS') and the Teesside Pension Fund (TPF).

For the SHPS, it has not been possible to identify the share of underlying assets and liabilities belonging to individual participating employers. The income and expenditure charge represents the employer contribution payable to the scheme for the accounting period.

For the TPF, 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 other changes in fair value of assets and liabilities being recognised in the statement of total recognised surpluses and deficits.

Supported housing managed by agencies

The treatment of income and expenditure in respect of supported housing projects depends on the nature of the partnership arrangements between the group and its managing agents and on whether the group carries the financial risk.

Notes to the Financial Statements

2. Accounting policies (continued)

Where the group holds the support contract with the Supporting People administering authority and carries the financial risk, all of the project's income and expenditure is included in the group's income and expenditure account (see note 3).

Where the agency holds the support contract with the Supporting People administering authority and carries the financial risk, the income and expenditure account includes only that income and expenditure which relates solely to the group. Other income and expenditure of projects in this category is excluded from the group's income and expenditure account (see note 4).

Housing properties

Housing properties are principally properties available for rent, and properties subject to shared ownership leases.

Completed housing properties are stated at Existing Use Value for Social Housing (EUV-SH) and the valuations are kept up to date, with the exception of Intermediate Market Rent properties which are stated at Market Value.

Housing properties under construction are stated at cost less related social housing grant and other capital grants. Cost includes the cost of acquiring land and buildings, development costs, interest charges incurred during the development period, and expenditure incurred in respect of improvements.

Shared ownership properties are split proportionately between current and fixed assets based on the element relating to expected first tranche sales. The first tranche proportion is classed as a current asset and related sales proceeds included in turnover. The remaining element is classed as fixed asset and included in housing properties at cost, less any provisions needed for depreciation or impairment.

Improvements that enhance the economic benefits of the assets such as works which result in an increase in the net rental income, or result in a significant extension of the useful economic life of the property in the business, are capitalised as improvements. Only direct overhead costs associated with new developments or improvements are capitalised.

Social housing grant

Social housing grant (SHG) is receivable from the Homes and Communities Agency (HCA, formerly the Housing Corporation) 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.

True and fair override

Under the requirements of the SORP, capital grants are shown as a deduction from the cost of housing properties in the balance sheet (see note 13). This is a departure from the rules under Schedule 4 of the Companies Act 2006 but in the opinion of the board is a relevant accounting policy, comparable to that adopted by other registered providers in order to present a true and fair view.

Depreciation of housing properties

Freehold land is not depreciated. Depreciation of buildings is provided on the cost net of social housing grant, or valuation so as to write down the net book value of housing properties to their estimated residual value, on a straight line basis over their estimated useful lives in the business.

Notes to the Financial Statements

2. Accounting policies (continued)

The group's housing properties are depreciated at a rate of 0.8% – 1.25% per annum.

Impairment

Housing properties that are depreciated over a period in excess of 50 years are subject to impairment reviews annually. 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 the recoverable amount. Any such write down is charged to operating surplus unless it is a reversal of a past revaluation surplus in which case it is taken to the statement of total recognised gains and losses.

Other tangible fixed assets

Depreciation is provided evenly on the cost of other tangible fixed assets to write them down to their estimated residual values over their expected useful lives.

The principal annual rates used for other assets are:

Freehold buildings.....	2-3%
Furniture, fixtures and fittings	10%
Computers and office equipment	20%
Motor vehicles	25%
Other plant and equipment.....	25%
Service Charge equipment.....	2.86-10%

Leased assets

Rentals payable under operating leases are charged to the income and expenditure account on a straight-line basis over the lease term.

Properties for sale

Shared ownership first tranche sales, completed properties for outright sale and property under construction are valued at the lower of cost and net realisable value. Cost comprises materials, direct labour and direct development overheads. Net realisable value is based on estimated sales price after allowing for all further costs of completion and disposal.

Stocks

Stocks are valued at the lower of cost and estimated net realisable value. Net realisable value is based on estimated sales price.

Creditors

The group entered into a VAT arrangement with Middlesbrough Borough Council as part of the stock transfer on 15 November 2004, enabling the group to recover VAT on the improvement works it carries out as part of its property investment programme. It is intended that the savings arising under this arrangement are available for investment in additional regeneration projects. Of the savings arising under the VAT arrangement, a proportion (currently 30%) is held for expenditure on housing projects determined by a community forum. The membership of the community forum includes the group and Middlesbrough Borough Council. The board has therefore transferred a proportion of the VAT savings arising in the year to creditors, to be applied in accordance with the wishes of the community forum.

Reserves

The group establishes *designated reserves* where reserves are earmarked for a particular purpose.

VAT Reserve – Designated

The board has designated an amount equal to the group's share of the savings arising from the VAT arrangement described above (currently 70%) to a VAT reserve, which is available for future regeneration activity.

Notes to the Financial Statements

2. Accounting policies (continued)

Revaluation Reserve

Where housing properties are revalued, the difference between the valuation and the carrying value of housing properties is credited to the revaluation reserve.

Notes to the Financial Statements

3. Turnover, cost of sales, operating costs and operating surplus/(deficit)

Group - continuing activities

	2010		
	Turnover	Operating costs	Operating surplus/ (deficit)
	£'000	£'000	£'000
Social housing lettings	36,441	(26,646)	9,795
Other social housing activities			
First tranche shared ownership sales	485	(362)	123
Management services	613	(742)	(129)
Exceptional operating costs	-	-	-
	1,098	(1,104)	(6)
Non-social housing activities			
Lettings	566	(350)	216
Development for sale	610	(577)	33
Other	639	(534)	105
	1,815	(1,461)	354
	39,354	(29,211)	10,143

Group - continuing activities

	2009		
	Turnover	Operating costs	Operating surplus/ (deficit)
	£'000	£'000	£'000
Social housing lettings	33,757	(50,290)	(16,533)
Other social housing activities			
First tranche shared ownership sales	275	(275)	-
Management services	245	(330)	(85)
Exceptional operating costs	-	(525)	(525)
	520	(1,130)	(610)
Non-social housing activities			
Lettings	586	(339)	247
Development for sale	240	(219)	21
Other	212	(81)	131
	1,038	(639)	399
	35,315	(52,059)	(16,744)

Notes to the Financial Statements

3. Turnover, cost of sales, operating costs and operating surplus/(deficit)

Company - continuing activities

	2010		
	Turnover	Operating costs	Operating surplus/ (deficit)
	£'000	£'000	£'000
Social housing lettings	36,441	(26,646)	9,795
Other social housing activities			
First tranche shared ownership sales	485	(374)	111
Management services	613	(742)	(129)
Exceptional operating costs	-	-	-
	1,098	(1,116)	(18)
Non-social housing activities			
Lettings	566	(350)	216
Other	639	(536)	103
Development for sale	305	(265)	40
	1,510	(1,151)	359
	39,049	(28,913)	10,136

Company - continuing activities

	2009		
	Turnover	Operating costs	Operating surplus/ (deficit)
	£'000	£'000	£'000
Social housing lettings	33,757	(50,290)	(16,533)
Other social housing activities			
First tranche shared ownership sales	275	(275)	-
Management services	245	(330)	(85)
Exceptional operating costs	-	(525)	(525)
	520	(1,130)	(610)
Non-social housing activities			
Lettings	586	(339)	247
Other	212	(78)	134
	798	(417)	381
	35,075	(51,837)	(16,762)

Notes to the Financial Statements

3. Turnover, cost of sales, operating costs and operating surplus/ (deficit) continued

Particulars of income and expenditure from social housing lettings
Group and Company

	2010 General Housing £'000	2010 Supported Housing £'000	2010 Shared Ownership £'000	2010 Total £'000	2009 Total £'000
Turnover from social housing lettings					
Rent receivable net of identifiable service charges	30,758	4,358	59	35,175	32,478
Charges for support services	10	640	-	650	647
Service charges receivable	403	213	-	616	632
Net rental income	31,171	5,211	59	36,441	33,757
Turnover from social housing lettings	31,171	5,211	59	36,441	33,757
Expenditure on social housing lettings					
Management	(4,899)	(863)	-	(5,762)	(6,661)
Services	(2,108)	(1,380)	(5)	(3,493)	(3,424)
Routine maintenance	(5,104)	(733)	(1)	(5,838)	(7,466)
Planned maintenance	(943)	(105)	-	(1,048)	(1,284)
Major repairs expenditure	(8,710)	(579)	-	(9,289)	(27,093)
Bad debts	(208)	(32)	-	(240)	(169)
Depreciation of housing properties	(687)	(111)	-	(798)	(847)
Impairment of housing properties	(153)	(25)	-	(178)	(3,346)
Operating costs on social housing lettings	(22,812)	(3,828)	(6)	(26,646)	(50,290)
Operating surplus/(deficit) on social housing lettings	8,359	1,383	53	9,795	(16,533)
Voids	(737)	(117)	(0)	(854)	(1,425)

Notes to the Financial Statements

3. Turnover, cost of sales, operating costs and operating surplus/(deficit) (continued)

Particulars of turnover from non-social housing lettings

Group and Company

	2010 £'000	2009 £'000
Shops	336	271
Garages	230	315
	<u>566</u>	<u>586</u>

4. Supported housing managed by agencies

Where the agency carries the financial risk, the income and expenditure account includes only the income and expenditure for which it retains responsibility. The company owned two supported housing units that were managed on its behalf, under management agreements, by other bodies who contract with Supporting People Administering Authorities and carry the financial risk relating to the supported housing units.

The number of units managed by each body is shown below:

	2010 No.	2009 No.
Endeavour Housing Association	-	2
	<u>-</u>	<u>2</u>

5. Operating surplus / (deficit)

This is arrived after charging:

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Depreciation of housing properties	798	847	798	847
Impairment of housing properties	178	3,346	178	3,346
Depreciation of other tangible fixed assets	562	626	562	626
Operating lease rentals				
- Office equipment and computers	12	30	12	30
- Van Leases	420	460	420	460
- Building Leases	-	-	-	-
Auditors remuneration (including VAT)				
- for audit services	4	3	-	-
- for non-audit services :				
- Tax Advisory	-	-	-	-
	<u></u>	<u></u>	<u></u>	<u></u>

Fees for audit services are all included in Fabrick Housing Group.

6. Surplus on sale of fixed assets - housing properties

Group and Company

	2010 £'000	2009 £'000
Disposal proceeds	191	1,234
Discount repaid	131	89
Carrying value of fixed assets	(53)	(399)
Administrative costs of sale	(46)	(112)
Amount repayable to Middlesbrough Borough Council	(11)	(82)
	<u>212</u>	<u>730</u>

Notes to the Financial Statements

7. Interest receivable and other income

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Bank interest receivable and similar income	10	61	10	58
Loan interest receivable	162	-	162	88
Gift aid receipt	-	-	62	29
Other interest receivable	278	-	278	-
	<u>450</u>	<u>61</u>	<u>512</u>	<u>175</u>

8. Interest payable and similar charges

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Loans and bank overdrafts	3,014	2,905	2,871	2,905
Interest payable capitalised on housing properties under construction	(143)	-	-	-
Other interest payable	324	291	324	291
	<u>3,195</u>	<u>3,196</u>	<u>3,195</u>	<u>3,196</u>

9. Other finance income/(expenditure)

Group and Company

	2010 £'000	2009 £'000
Net return - FRS17	(126)	286

10. Employees

Average monthly number of employees expressed in full time equivalents:

Group and Company

	2010 No.	2009 No.
Administration	-	10
Regeneration	29	30
Housing, support and care	313	348
	<u>342</u>	<u>388</u>

Employee costs:

	2010 £'000	2009 £'000
Wages and salaries	8,960	9,515
Social security costs	634	705
Other pension costs	1,084	1,215
	<u>10,678</u>	<u>11,435</u>

Optimus has no employees.

Notes to the Financial Statements

10. Employees (continued)

The company's employees are members of the Teesside Pension Fund or the Social Housing Pension Scheme (SHPS).

Social Housing Pension Scheme

SHPS is a multi-employer defined benefit scheme. The Scheme is funded and is contracted out of the State Pension Scheme. Employer participation in the Scheme is subject to adherence with the employer responsibilities and obligations as set out in the "SHPS House Policies and Rules Employer Guide".

The Scheme operated a single benefit structure, final salary with a 1/60th accrual rate until March 2007. From April 2007 there are three benefit structures available, namely

1. Final salary with a 1/60th accrual rate.
2. Final salary with a 1/70th accrual rate.
3. Career average revalued earnings (CARE) with a 1/60th accrual rate.

From April 2010 there are a further two benefit structures available, namely:

4. Final salary with a 1/80th accrual rate.
5. Career average revalued earnings (CARE) with a 1/80th accrual rate.

A defined contribution benefit structure will be made available from 1 October 2010.

An employer can elect to operate different benefit structures for their active members (as at the first day of April in any given year) and their new entrants. An employer can only operate one open benefit structure at any one time. An open benefit structure is one which new entrants are able to join.

The company has elected to operate the final salary with a 1/60th accrual rate benefit structure for active members and new entrants from April 2007.

The Trustee commissions an actuarial valuation of the Scheme every 3 years. The main purpose of the valuation is to determine the financial position of the Scheme in order to determine the level of future contributions required, in respect of each benefit structure, so that the Scheme can meet its pension obligations as they fall due. From April 2007 the split of the total contribution rate between member and employer is set at individual employer level, subject to the employer paying no less than 50% of the total contribution rate. From 1 April 2010 the requirement for employers to pay at least 50% of the total contribution rate no longer applies.

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

During the accounting period the company paid contributions at the rate of 12%. Member contributions varied between 4.1% and 6.1% depending on their age.

As at the balance sheet date there were 25 active members of the Scheme employed by the group. The annual pensionable payroll in respect of these members was £518,392. The company continues to offer membership of the Scheme to its employees.

It is not possible in the normal course of events to identify on a consistent and reasonable basis the share of underlying assets and liabilities belonging to individual participating employers. This is because the scheme is a multi employer scheme where the scheme assets are co-mingled for investment purposes, and benefits are paid from total Scheme assets. Accordingly, due to the nature of the Scheme, the accounting charge for the period under FRS17 represents the employer contribution payable.

The last formal valuation of the scheme was performed as at 30 September 2008 by a professionally qualified Actuary using the Projected Unit Method. The market value of the Scheme's assets at the valuation date was £1,527m.

The valuation revealed a shortfall of assets compared with the value of liabilities of £663 million, equivalent to a past service funding level of 69.7%.

Notes to the Financial Statements

10. Employees (continued)

Financial assumptions

The financial assumptions underlying the valuation as at 30 September 2008 were as follows:

	% pa
Valuation Discount Rates	
- Pre retirement	7.8
- Non Pensioner Post Retirement	6.2
- Pensioner Post Retirement	5.6
Pensionable earnings growth	4.7
Price inflation	3.2
Pension Increases	
- Pre 88 GMP	0.0
- Post 88 GMP	2.8
- Excess over GMP	3.0

Expenses for death-in-service insurance, administration and Pension Protection Fund (PPF) levy are included in the contribution rate.

The valuation was carried out using the following demographic assumptions:

Mortality pre-retirement - PA92 Year of Birth, long cohort projection, minimum improvement 1% p.a.

Mortality post-retirement - 90% S1PA Year of Birth, long cohort projection, minimum improvement 1% p.a.

The long-term joint contribution rates that will apply from April 2010 required from employers and members to meet the cost of future benefit accrual were assessed at:

Benefit structure	Long-term joint contributions rate (% of pensionable salaries)
Final salary with 1/60th accrual rate	17.8
Final salary with 1/70th accrual rate	15.4
Career average revalued earnings with 1/60th accrual rate	14.9
Final salary with 1/80th accrual rate	13.5
Career average revalued earnings with 1/80th accrual rate	11.9

If an actuarial valuation reveals a shortfall of assets compared to liabilities the Trustee must prepare a Recovery Plan setting out the steps to be taken to make up the shortfall.

Following consideration of the results of the actuarial valuation it was agreed that the shortfall of £663m would be dealt with by the payment of deficit contributions of 7.5% of pensionable salaries, increasing each year in line with salary growth assumptions, from 1 April 2010 to 30 September 2020, dropping to 3.1% from October 2020 to 30 September 2023. Pensionable earnings at 30 September 2008 are used as a reference point for calculating these deficit contributions. These deficit contributions are in addition to the long-term joint contribution rates set out in the table above.

Employers that participate in the Scheme on a non-contributory basis pay a joint contribution rate (i.e. a combined employer and employee rate).

Employers that have closed the Scheme to new members are required to pay an additional employer contribution loading of 3.0% to reflect the higher costs of a closed arrangement.

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

Employers joining the scheme after 1 October 2002, that do not transfer any past service liabilities to the Scheme pay contributions at the ongoing future service contribution rate. This rate is reviewed at each valuation and applies until the second valuation after the date of joining the Scheme, at which point the standard employer contribution rate is payable.

Contribution rates are changed on the 1 April that falls eighteen months after the valuation date.

Notes to the Financial Statements

10. Employees (continued)

A copy of the Recovery Plan, setting out the level of deficit contributions payable and the period for which they will be payable, must be sent to the Pensions Regulator. The Regulator has the power under Part 3 of the Pensions Act 2004 to issue scheme funding directions where it believes that the actuarial valuation assumptions and/or Recovery Plan are inappropriate. For example the Regulator could require that the Trustee strengthens the actuarial assumptions (which would increase the Scheme liabilities and hence impact on the Recovery Plan) or impose a schedule of contributions on the Scheme (which would effectively amend the terms of the Recovery Plan). The Regulator is currently in the process of reviewing the Recovery Plan for SHPS in respect of the September 2008 actuarial valuation. A response from the Regulator is expected in due course.

The Scheme Actuary has prepared an Actuarial Report that provides an approximate update on the funding position of the Scheme as at 30 September 2009. Such a report is required by legislation for years in which a full actuarial valuation is not carried out. The funding update revealed an increase in the assets of the Scheme to £1,723 million and indicated an increase in the shortfall of assets compared to liabilities of approximately £738 million, equivalent to a past service funding level of 70.0%.

As a result of pension scheme legislation there is a potential debt on the employer that could be levied by the Trustee of the Scheme. The debt is due in the event of the employer ceasing to participate in the Scheme or the Scheme winding up.

The debt for the Scheme as a whole is calculated by comparing the liabilities for the Scheme (calculated on a buyout basis i.e. the cost of securing benefits by purchasing annuity policies from an insurer, plus an allowance for expenses) with the assets of the Scheme. If the liabilities exceed assets there is a buy-out debt.

The leaving employer's share of the buy-out debt is the proportion of the Scheme's liability attributable to employment with the leaving employer compared to the total amount of the Scheme's liabilities (relating to employment with all the currently participating employers). The leaving employer's debt therefore includes a share of any 'orphan' liabilities in respect of previously participating employers. The amount of the debt therefore depends on many factors including total Scheme liabilities, Scheme investment performance, the liabilities in respect of current and former employees of the employer, financial conditions at the time of the cessation event and the insurance buy-out market. The amounts of debt can therefore be volatile over time.

The company has been notified by The Pensions Trust of the estimated employer debt on withdrawal from the Social Housing Pension Scheme based on the financial position of the Scheme as at 30 September 2009. As of this date the estimated employer debt for Erimus Housing was £775,000.

Notes to the Financial Statements

10. Employees (continued)

Company only

Teesside Pension Fund

The Teesside Pension Fund is a multi-employer scheme with more than one participating employer, which is administered by Middlesbrough Council under the regulations governing the Local Government Pension Scheme (LGPS), a defined benefit scheme. Triennial actuarial valuations of the pension scheme are performed by an independent, professionally qualified actuary using the projected unit method. The most recent formal actuarial valuation was completed as at 31 March 2007.

The employer's contributions to the Teesside Pension Fund by Erimus Housing for the year ended 31 March 2010 were £1,328,000 (2009 : £1,273,000). The employer's contribution rate was fixed as 18.5% of pensionable pay until 31 March 2011.

Assumptions

Life expectancy from age 65 (years)

Retiring today	Males	19.51
	Females	22.55
Retiring in 20 years	Males	20.41
	Females	23.43

The main financial assumptions used by the actuary:

	31 March 2010 % per annum	31 March 2009 % per annum	31 March 2008 % per annum
Rate of increase in salaries	5.40	4.50	5.70
Rate of increase of pensions in payment	3.90	3.00	3.70
Discount rate	5.50	6.70	6.60
Inflation assumption	3.90	3.00	3.70

Fair value and expected return on assets

The fair value of assets in the Teesside Pension Fund and the expected rates of return were:

	Expected return 31 March 2010 %	Expected return 31 March 2009 %	Expected return 31 March 2008 %
Equities	7.3	6.8	7.1
Other gilts	4.5	4.0	4.3
Bonds	5.5	6.5	6.6
Property	5.5	6.4	6.6
Cash	3.0	3.0	5.0

Notes to the Financial Statements

10. Employees (continued)

There is no provision for unitising the assets of a fund under the LGPS. The assets as a whole are allocated to participating bodies on a consistent and reasonable basis.

	2010	2009	2008
	£'000	£'000	£'000
Fair value of the above assets related to the company	33,372	24,456	33,393
Value placed on liabilities related to the company	(41,736)	(25,046)	(34,998)
Net pension liability	<u>(8,364)</u>	<u>(590)</u>	<u>(1,605)</u>

Analysis of the amount charged to operating surplus

	2010	2009
	£'000	£'000
Current service cost	819	1,418
Past service cost	-	172
	<u>819</u>	<u>1,590</u>

Analysis of the amount charged to other finance costs

	2010	2009
	£'000	£'000
Expected return on pension scheme assets	1,523	2,062
Interest on pension scheme liabilities	(1,649)	(1,776)
Net return	<u>(126)</u>	<u>286</u>

Analysis of amount recognised in statement of total recognised surpluses and deficits (STRSD)

	2010	2009
	£'000	£'000
Actual return less expected return on pension scheme assets	7,752	(7,387)
Changes in assumptions underlying the present value of scheme liabilities	(15,909)	7,607
Actuarial surplus/(deficit) recognised in STRSD	<u>(8,157)</u>	<u>220</u>

Movement in deficit during the year

	2010	2009
	£'000	£'000
Company share of scheme liabilities at beginning of the year	(590)	(1,605)
Transfer out	-	826
Current service cost	(819)	(1,418)
Contributions	1,328	1,273
Past service cost	-	(172)
Other finance income	(126)	286
Actuarial gain/(loss)	(8,157)	220
Company share of scheme liabilities at end of year	<u>(8,364)</u>	<u>(590)</u>

Notes to the Financial Statements

10. Employees (continued)

Reconciliation of opening & closing balances of the present value of the defined benefit obligation

	2010 £'000	2009 £'000
Opening Defined Benefit Obligation	25,046	34,998
Service cost	816	1,418
Interest cost	1,649	1,776
Actuarial losses / (gains)	15,909	(7,607)
Losses / (gains) on curtailments	3	-
Liabilities extinguished on settlements	-	(5,392)
Estimated benefits paid net of transfers in	(2,040)	(735)
Past service cost	-	172
Contributions by Scheme participants	353	416
Closed Defined Benefit Obligation	<u>41,736</u>	<u>25,046</u>

Reconciliation of opening & closing balances of the fair value of Scheme assets.

	2010 £'000	2009 £'000
Opening fair value of Scheme assets	24,456	33,059
Expected return on Scheme assets	1,523	2,062
Actuarial gains / (losses)	7,752	(7,053)
Contributions by employer including unfunded benefits.	1,328	1,273
Contributions by Scheme participants	353	416
Estimated benefits paid including unfunded benefits	(2,040)	(735)
Receipt of bulk transfer value	-	(4,566)
Fair value of Scheme assets at end of period	<u>33,372</u>	<u>24,456</u>

Notes to the Financial Statements

11. Tax on surplus / (deficit) on ordinary activities

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Current tax				
UK corporation tax on surplus for the year	4	-	-	-
Adjustment in respect of prior years	-	-	-	-
Current tax charge for period	<u>4</u>	<u>-</u>	<u>-</u>	<u>-</u>

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Current tax reconciliation				
Surplus / (deficit) on ordinary activities before taxation	20	-	-	-
Surplus / (deficit) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 21% (2009: 21%)	<u>4</u>	<u>-</u>	<u>-</u>	<u>-</u>
Effects of:				
Expenses not deductible for tax purposes	-	-	-	-
Group relief not paid	-	-	-	-
Adjustments to tax charge in respect of prior periods	-	-	-	-
Current tax charge for period	<u>4</u>	<u>-</u>	<u>-</u>	<u>-</u>
Factors that may affect future tax charges				

Erimus activities are non taxable. The charge relates to Optimus.

12. Board members and executive director

Group and Company

Aggregate emoluments payable to the director

	2010 £'000	2009 £'000
Basic salary	87	82
Benefits in kind	9	8
Pension contributions	16	15
Total emoluments	<u>112</u>	<u>105</u>

None of the board members received emoluments. (2009: £Nil). Board members were reimbursed for out-of-pocket expenses through Fabrick, reimbursements from Erimus were £1k for year ended 31st March 2010 (2009 : £Nil).The emoluments of the highest paid director, excluding pension contributions were £95,269 (2009: £90,072).

The Chief Executive and the executive director are employed by Fabrick Group Ltd, a charge for their costs has been included within the management charge for the year.

Notes to the Financial Statements

13. Tangible fixed assets - properties

Housing properties - Group	Housing properties held for letting £'000	Housing properties under construction £'000	Completed shared ownership housing properties £'000	Shared ownership properties under construction £'000	Total £'000
Cost or valuation					
At 1 April 2009	86,564	5,218	745	293	92,820
Prior year adjustment	3,554	-	-	-	3,554
Additions	74	7,426	386	6,361	14,247
Schemes completed	5,278	(5,278)	6,014	(6,014)	-
Interest capitalised	-	131	-	12	143
Improvements	10,321	-	-	-	10,321
Disposals	(1,275)	-	(1,657)	-	(2,932)
Valuation adjustment	115,048	-	9	-	115,057
At 31 March 2010	219,564	7,497	5,497	652	233,210
Depreciation and impairment					
At 1 April 2009	-	-	-	-	-
Prior year adjustment	3,554	-	-	-	3,554
Depreciation charged in year	798	-	-	-	798
Impairment charged in year	48	-	-	-	48
Disposal of previously impaired properties	(1,219)	-	-	-	(1,219)
Depreciation released on disposal	(3)	-	-	-	(3)
Valuation adjustment	(796)	-	-	-	(796)
At 31 March 2010	2,382	-	-	-	2,382
Social Housing Grant					
At 1 April 2009	-	750	-	386	1,136
Additions	92	2,354	(28)	747	3,165
Schemes completed	1,500	(1,500)	1,080	(1,080)	-
Disposals	-	-	(28)	-	(28)
Valuation adjustment	(1,592)	-	(310)	-	(1,902)
At 31 March 2010	-	1,604	714	53	2,371
Net book value					
At 31 March 2010	217,182	5,893	4,783	599	228,457
At 31 March 2009	86,564	4,468	745	(93)	91,684

The prior year adjustment reinstates the impairments which had previously been taken to the revaluation reserve as part of the valuation adjustment.

Notes to the Financial Statements

13. Tangible fixed assets - properties (continued)

Housing properties - Company only

	Housing properties held for letting £'000	Housing properties under construction £'000	Completed shared ownership housing properties £'000	Shared ownership properties under construction £'000	Total £'000
Cost or valuation					
At 1 April 2009	86,564	5,272	745	286	92,867
Prior year adjustment	3,554	-	-	-	3,554
Additions	74	7,482	386	6,361	14,303
Schemes completed	5,332	(5,332)	6,014	(6,014)	-
Interest Capitalised	-	131	-	12	143
Improvements	10,321	-	-	-	10,321
Disposals	(1,275)	-	(1,657)	-	(2,932)
Valuation adjustment	114,994	-	9	-	115,003
At 31 March 2010	219,564	7,553	5,497	645	233,259
Depreciation and impairment					
At 1 April 2009	-	-	-	-	-
Prior year adjustment	3,554	-	-	-	3,554
Depreciation charged in year	798	-	-	-	798
Impairment charged in year	48	-	-	-	48
Disposal of previously impaired properties	(1,219)	-	-	-	(1,219)
Depreciation released on disposal	(3)	-	-	-	(3)
Valuation adjustment	(796)	-	-	-	(796)
At 31 March 2010	2,382	-	-	-	2,382
Social Housing Grant					
At 1 April 2009	-	750	-	386	1,136
Additions	92	2,354	(28)	747	3,165
Schemes completed	1,500	(1,500)	1,080	(1,080)	-
Disposals	-	-	(28)	-	(28)
Valuation adjustment	(1,592)	-	(310)	-	(1,902)
At 31 March 2010	-	1,604	714	53	2,371
Net book value					
At 31 March 2010	217,182	5,949	4,783	592	228,506
At 31 March 2009	86,564	4,522	745	(100)	91,731

The prior year adjustment reinstates the impairments which had previously been taken to the revaluation reserve as part of the valuation adjustment.

Notes to the Financial Statements

13. Tangible fixed assets - properties (continued) - Historical Cost

Housing properties - Company only

	Housing properties held for letting £'000	Housing properties under construction £'000	Completed shared ownership housing properties £'000	Shared ownership properties under construction £'000	Total £'000
Cost or valuation					
At 1 April 2009	20,211	5,273	1,494	286	27,264
Additions	74	7,482	386	6,360	14,302
Schemes completed	5,332	(5,332)	6,014	(6,014)	-
Interest Capitalised		131		12	143
Improvements	10,321				10,321
Disposals	(237)		(1,786)		(2,023)
Valuation adjustment					-
At 31 March 2010	35,701	7,554	6,108	644	50,007
Depreciation and impairment					
At 1 April 2009	976	-	9	-	985
Depreciation charged in year	164		3		167
impairment charged in year	21		-		21
Disposal of previously impaired properties	(225)		-		(225)
Depreciation released on disposal	(14)		-		(14)
Valuation adjustment			-		-
At 31 March 2010	922	-	12	-	934
Social Housing Grant					
At 1 April 2009	600	750	635	386	2,371
Additions	92	2,354	(28)	747	3,165
Schemes completed	1,500	(1,500)	1,080	(1,080)	-
Disposals			(28)		(28)
Valuation adjustment					-
At 31 March 2010	2,192	1,604	1,659	53	5,508
Net book value					
At 31 March 2010	32,587	5,950	4,437	591	43,565
At 31 March 2009	18,635	4,523	850	(100)	23,908

The board appointed FPD Savills as external professional valuers to carry out an annual valuation of the group's housing properties for accounts purposes as at 31 March 2010. The value of the properties on an existing use for social housing basis, including properties under construction, was £229m (2009: £91.7m), and this valuation has been reflected in the valuation of the properties in the financial statements.

On valuation, the surplus of £117.7m over the carrying value has been taken to the revaluation reserve.

It should be noted that Savills also reported on the value of the properties for loan security purposes, which is reported as £212m (2009: £95.4m).

Notes to the Financial Statements

13. Tangible fixed assets - properties (continued)

Housing properties comprise:	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Freehold land and buildings	228,457	91,684	228,506	91,731

Completed housing properties were revalued on the 31 March 2010 and are stated at their Existing Use Value for Social Housing (EUV-SH), including notional directly attributable acquisition costs. The group's housing properties have been valued by professional external valuers, Savills Chartered Surveyors. The full valuation of the properties was undertaken in accordance with the Appraisal and Valuation Manual of the Royal Institute of Chartered Surveyors as follows:

	Group 2010 £'000	Company 2010 £'000
Completed properties at valuation		
Properties held for letting	217,182	217,182
Shared ownership and intermediate market rent	5,893	5,949
Properties under construction at cost less SHG		
Properties held for letting	4,783	4,783
Shared ownership and intermediate market rent	599	592
	<u>228,457</u>	<u>228,506</u>

In valuing the housing properties, discounted cash flow methodology was adopted and key assumptions included:

Discount rate	6% - 6.25%	6.25%
Annual inflation rate	2.50%	2.50%

Rent increases assume convergence with government rent restructuring regulations by 2012. Following convergence rental growth is assumed at RPI + 0.5%. Intermediate market rented properties are valued at market value.

Both the loan security and the accounts valuation have seen a marked increase this year. The principal reason for this is a significant reduction in the expected 30 year repair and maintenance spend following a new stock condition survey. The new survey is a reflection of the investment which has taken place over the past five years. In addition void loss allowances have been reduced in line with current experience across the remaining housing stock and our discount rates have been reviewed downwards to reflect the performance of the stock.

Social housing grant	2010 £'000	2009 £'000
Total accumulated SHG receivable at 31 March was :		
Capital grants	5,508	2,371
	<u>5,508</u>	<u>2,371</u>

Notes to the Financial Statements

13. Tangible fixed assets - properties (continued)

Housing properties book value, net of depreciation and grants, and offices net book value (note 12) comprises :

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Freehold land and buildings	228,878	92,254	228,927	92,301
Long leasehold land and buildings	224	85	224	85
	<u>229,102</u>	<u>92,339</u>	<u>229,151</u>	<u>92,386</u>

Expenditure on works to existing properties

	2010 £'000	2009 £'000
Amounts capitalised	10,321	3,911
Amounts charged to income and expenditure account	9,289	27,093
	<u>19,610</u>	<u>31,004</u>

Impairment

An impairment of £177,397 was made in the year ended 31 March 2010 (2009: £3,346,251), to reduce the carrying value of empty properties that were unlikely to be re-let, to their estimated recoverable amount. In addition to this, 22 properties to the value of £129,806 were brought back into lettable stock which had previously been impaired as at 31st March 2009.

14. Tangible fixed assets - other

Group and Company

	Freehold Land & Buildings	Furniture fixtures and fittings	Computers and office equipment	Other plant and equipment	Motor vehicles	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 1 April 2009	682	1,163	3,421	360	37	5,663
Additions	-	31	681	426	-	1,138
At 31 March 2010	<u>682</u>	<u>1,194</u>	<u>4,102</u>	<u>786</u>	<u>37</u>	<u>6,801</u>
Depreciation						
At 1 April 2009	27	337	1,799	47	37	2,247
Charged in year	10	100	429	23	-	562
At 31 March 2010	<u>37</u>	<u>437</u>	<u>2,228</u>	<u>70</u>	<u>37</u>	<u>2,809</u>
Net book value						
At 31 March 2010	<u>645</u>	<u>757</u>	<u>1,874</u>	<u>716</u>	<u>-</u>	<u>3,992</u>
At 31 March 2009	<u>655</u>	<u>826</u>	<u>1,622</u>	<u>313</u>	<u>-</u>	<u>3,416</u>

Notes to the Financial Statements

15. Investment in subsidiaries

As required by statute, the financial statements consolidate the results of Optimus Homes Limited, which is a company incorporated in England and Wales. The company holds 100% of the issued share capital. The principal activity of Optimus Homes Limited is the development and construction of housing properties.

16. Properties for sale

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Shared ownership properties - first tranche	1,523	275	1,579	277
Properties under construction	-	3,328	-	286
	<u>1,523</u>	<u>3,603</u>	<u>1,579</u>	<u>563</u>

17. Debtors

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Due within one year				
Rent and service charges receivable	2,037	2,074	2,037	2,074
Less: provision for bad and doubtful debts	(638)	(689)	(638)	(689)
	<u>1,399</u>	<u>1,385</u>	<u>1,399</u>	<u>1,385</u>
Amounts owed by Middlesbrough Borough Council	107	138	107	138
VAT reclaimable	-	330	-	317
Other debtors	446	264	446	264
Shared Equity	66	-	66	-
Prepayments and accrued income	393	594	393	594
Amounts owed by Group Undertakings	1,148	176	5,336	3,346
	<u>3,559</u>	<u>2,887</u>	<u>7,747</u>	<u>6,044</u>

Amounts due from group undertakings includes a loan to Optimus Homes Limited of which £4,850,000 was outstanding at the year end. This loan is expected to be repaid in the next 12 months. The loan is secured by a fixed and floating charge over the assets of Optimus Homes Limited. Interest is charged at the average cost of borrowing to the company plus 0.5%. The current rate of interest is 4.756%.

Notes to the Financial Statements

18. Creditors: amounts falling due within one year

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Debt	-	3,700	-	3,700
Trade creditors	-	913	-	913
Rent and service charges received in advance	222	207	222	207
Other amounts owed to Middlesbrough Council	1	651	1	651
Grant from Middlesbrough Council received in advance	-	57	-	57
Middlesbrough Council VAT shelter	150	815	150	815
SHG received in advance	200	-	200	-
Other taxation and social security	199	241	199	241
Corporation Tax	4	-	-	-
Disposals proceeds fund	84	148	84	148
Other creditors	163	413	148	413
Accruals and deferred income	2,927	5,508	2,719	3,788
Amounts owed to group undertakings	3,618	1,284	7,942	2,985
	<u>7,568</u>	<u>13,937</u>	<u>11,665</u>	<u>13,918</u>

19. Creditors: amounts falling due after more than one year

Group and Company

	2010 £'000	2009 £'000
Debt	82,000	64,000
Recycled capital grant fund	28	-
	<u>82,028</u>	<u>64,000</u>

All debt is due after five years.

Bank loans are secured by a fixed charge over the company's properties.

The interest on the bank loan is paid in monthly and quarterly installments at fixed and variable rates of interest. The fixed rates of interest range from 3.7% to 5.27%. The variable rates of interest are at 0.22% above LIBOR. The principal will be repaid on a phased basis from 2017 to 2033.

As at 31 March 2010 the company had undrawn loan facilities of £23m, (2009: £37.3m).

The board appointed FPD Savills as external professional valuers to carry out an annual valuation of the group's housing properties for accounts purposes as at 31 March 2010. The value of the properties on an existing use for social housing basis, including properties under construction, was £229m (2009: £91.7m), and this valuation has been reflected in the valuation of the properties in the financial statements.

On valuation, the surplus of £117.7m over the carrying value has been taken to the revaluation reserve. It should be noted that Savills also reported on the value of the properties for loan security purposes, which is reported as £212m (2009: £95.4m).

Notes to the Financial Statements

20. Disposal proceeds fund

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
At 1 April	148	141	148	141
Net sales proceeds recycled	(64)	-	(64)	-
Interest accrued	-	7	-	7
Balance at 31 March	<u>84</u>	<u>148</u>	<u>84</u>	<u>148</u>

21. Stock transfer obligations

Immediately prior to entering into the Stock Transfer Agreement between the group and Middlesbrough Council (the council), the council and the group entered into a contract for the group to perform the refurbishment works required to bring the housing properties up to an agreed condition. The contract was for a fixed sum equal to the expected cost of the works ie £185m. At transfer, the group contracted with the council to acquire the benefit of the agreed refurbishment works (£185m) plus the housing properties at a price equal to the agreed value of the property in its unenhanced condition (£10m). The nature of the works under the initial agreement has not been specified and a right of set off exists between the contracts. These contracts have enabled the group to recover VAT on the improvement costs that would otherwise have been expensed.

At the time of the transfer the group paid over a net cash amount of £10m to the council representing the acquisition of the properties in their unenhanced condition (£10m) and the value of the council's obligation to carry out the refurbishment works (£185m), less the amount due to be incurred by the group under the development agreement in relation to the anticipated cost of the improvements (£185m).

The impact of these two transactions is that whilst the council has a legal obligation to the group to complete the refurbishment works, this work has been contracted back to the group who are also legally obligated. The underlying substance of the transaction is therefore that the group has acquired the properties in their existing condition at their agreed value, and will complete certain repairs and improvements in line with the promises to their tenants of not less than £185m. In the opinion of the directors, the commercial effect of these transactions when viewed as whole does not in practice create separate assets and liabilities for reporting purposes. Therefore in accordance with FRS 5 the resulting debit and credit balances relating to the legal obligation of the council to complete the refurbishment works for the group and the equal and opposite legal obligation of the group to perform the refurbishment works for the council have been offset, and are not recorded in the balance sheet.

As at 31 March 2010, £143m (2009: £123.2m) of the improvement works had been completed.

Notes to the Financial Statements

22. Reserves

Group	Revaluation Reserve Housing Properties £'000	VAT Reserve (Designated) £'000	Revenue Reserve £'000	Total Reserves £'000
At 1 April 2009	67,844	5,319	(49,200)	23,963
Prior year adjustment	53	-	-	53
Surplus for the year	-	-	7,480	7,480
Surplus on revaluation of properties	117,755	-	-	117,755
Actuarial gain/(loss) relating to pension scheme	-	-	(8,157)	(8,157)
Transfer in respect of depreciation on revalued properties	(631)	-	631	-
Transfer in respect of realised loss on disposal of revalued properties	46	-	(46)	-
Transfer in respect of revaluation on impaired properties	(156)	-	156	-
Reversal of prior period impairments	130	-	-	130
Transfers from revenue reserve	-	1,227	(1,227)	-
Transfers to revenue reserve	-	(48)	48	-
At 31 March 2010	<u>185,041</u>	<u>6,498</u>	<u>(50,315)</u>	<u>141,224</u>

At 31 March 2010, the revenue reserve included £8,364,000 defined pensions liability (2009: £590,000).

Company	Revaluation Reserve - Housing Properties £'000	VAT Reserve (Designated) £'000	Revenue Reserve £'000	Total Reserves £'000
At 1 April 2009	67,798	5,319	(49,070)	24,047
Prior year adjustment	53	-	-	53
Surplus for the year	-	-	7,539	7,539
Surplus on revaluation of properties	117,701	-	-	117,701
Actuarial gain/(loss) relating to pension scheme	-	-	(8,157)	(8,157)
Transfer in respect of depreciation on revalued properties	(631)	-	631	-
Transfer in respect of realised gain on disposal of revalued properties	46	-	(46)	-
Transfer in respect of revaluation on impaired properties	(156)	-	156	-
Reversal of prior period impairments	130	-	-	130
Transfers from revenue reserve	-	1,227	(1,227)	-
Transfers to revenue reserve	-	(48)	48	-
At 31 March 2010	<u>184,941</u>	<u>6,498</u>	<u>(50,126)</u>	<u>141,313</u>

At 31 March 2010, the revenue reserve included £8,364,000 defined pensions liability (2009: £590,000).

VAT Reserve (Designated)

The group entered into a VAT arrangement with Middlesbrough Council as part of the stock transfer on 15 November 2004, enabling the group to recover VAT on the improvement works it carries out as part of its property investment programme. It is intended that the savings arising under this arrangement are available for investment in additional regeneration projects. Of the savings arising under the VAT arrangement, 70% is controlled by the group, and 30% is held for expenditure on projects determined by a community forum. The board has designated an amount equal to the group's share to a VAT reserve which is available for future regeneration activity.

Notes to the Financial Statements

23. Accommodation in management

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

Group and Company

	2010 No.	2009 No.
Social Housing		
General housing	8,900	8,469
Supported housing	1,442	2,120
Shared Ownership and Intermediate Market Rented	92	32
Total owned	<u>10,434</u>	<u>10,621</u>

See note 4 for other managed properties.

Non social housing

Shop units	52	59
Leased garages	429	465
Total owned and managed	<u>481</u>	<u>524</u>

24. Financial commitments

Capital expenditure commitments were as follows:	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Capital expenditure				
Expenditure contracted for, but not provided for in the accounts	3,621	11,229	3,621	9,502
Expenditure authorised by the board, but not contracted	-	3,682	-	3,682
	<u>3,621</u>	<u>14,911</u>	<u>3,621</u>	<u>13,184</u>

The above commitments will be financed primarily through borrowings which are available for draw-down under the existing loan arrangements, with the balance funded through SHG (£5.1m).

The company also has forward fixing loan agreements in place on the draw-down of loans agreed at the time of the stock transfer; the dates, amounts and interest rates on the loan draw-downs are all fixed. The remaining loan draw-downs total £14.4m with the dates being fixed at November 2011 (£10m) and November 2012 (£4.4m).

25. Operating leases

The payments which the group and company are committed to make in the next year under operating leases are as follows:

	2010 £'000	2009 £'000
(i) Office equipment and computers, leases expiring		
Within one year	6	22
One to five years	7	8
	<u>13</u>	<u>30</u>
(ii) Motor vehicles, leases expiring		
One to five years	-	205
Beyond five years	-	-
	<u>-</u>	<u>205</u>

Notes to the Financial Statements

26. Contingent liabilities

Pension Scheme

Following a change in legislation in September 2005 there is a potential debt on the employer that could be levied by the Trustee of the Scheme. The debt is due in the event of the employer ceasing to participate in the Scheme or the scheme winding up.

Erimus Housing Limited has been notified by the Pensions Trust of the estimated employer debt on withdrawal from the Social Housing Pension Scheme based on the financial position of the Scheme as at 30 September 2009. As of this date the estimated employer debt for Erimus Housing Limited was £775,000. No provision has been made in the accounts for this amount as the possibility of the liability arising is considered to be remote.

27. Reconciliation of operating surplus/(deficit) to net cash inflow from operating activities

Group	2010 £'000	2009 £'000
Operating surplus/(deficit)	10,143	(16,744)
Depreciation of tangible fixed assets	1,360	1,473
Impairment of tangible fixed assets	178	3,346
Pensions operating charge	819	1,590
Pension contributions paid	(1,328)	(1,273)
Surplus/(deficit) on sale of housing properties	(156)	-
	<u>11,016</u>	<u>(11,608)</u>
Working capital movements		
Properties for outright sale	2,165	(2,202)
Stock	299	2
Debtors	(943)	254
Creditors	(6,843)	(3,622)
Net cash inflow/(outflow) from operating activities	<u>5,694</u>	<u>(17,176)</u>

28. Reconciliation of net cash flow to movement in net debt

Group	2010 £'000	2009 £'000
Increase/(decrease) in cash	1,052	(1,187)
Cash inflow from increase in debt finance	(14,300)	(25,700)
Total changes in net debt for the period	<u>(13,248)</u>	<u>(26,887)</u>
Net debt at 1 April	(67,099)	(40,212)
Net debt at 31 March	<u>(80,347)</u>	<u>(67,099)</u>

29. Analysis of net debt

Group	1 April 2009 £'000	Cash Flow £'000	31 March 2010 £'000
Cash at bank and in hand	601	1,052	1,653
Cash	<u>601</u>	<u>1,052</u>	<u>1,653</u>
Debt	<u>(67,700)</u>	<u>(14,300)</u>	<u>(82,000)</u>
Net debt	<u>(67,099)</u>	<u>(13,248)</u>	<u>(80,347)</u>

Notes to the Financial Statements

30. Related parties

There were three tenant board members during the year, Edna Donnelly, Ann Lymer, and Alexander McQueen.

Their tenancies are on normal commercial terms and they are not able to use their position to their advantage.

There were five members of Middlesbrough Council on the board during the year, Mike Carr, Nichola Walker, Peter Porley, Peter Purvis and Bob Brady. Transactions with Middlesbrough Council during the year were on an arms-length basis and outstanding balances as at 31 March 2010 are shown in Notes 16 and 17.

The company has taken advantage of the exemptions under FRS 8 "Related Party Transactions", not to disclose transactions with other group companies.

31. Ultimate Parent

The ultimate parent is Fabrick Housing Group Limited, a not-for-profit registered social landlord governed by the board.

Copies of the accounts of Fabrick Housing Group Limited are available from the Group's registered office at 4th Floor, Centre North East, 73-75 Albert Road, Middlesbrough, TS1 2RU.

32. Post balance sheet events

The emergency budget announcement on 22 June 2010 stated the Government's intention to move to using the Consumer Price Index (CPI) as the measure of price inflation for public sector pension schemes, rather than Retail Price Index (RPI) which is used currently. CPI is generally expected to be lower per annum than RPI, however an estimate of the value is currently unknown therefore no adjustments have been made to the amounts recognised within the accounts.