

Drum Housing Association Limited

Financial Statements

For the year ended

31 March 2009

Contents

2 - 5	Board of Management Report
6- 7	Operating and Financial Review
8	Statement of Board Members' Responsibilities in Respect of the Financial Statements
9 - 10	Independent Auditors' Report to the Shareholders of Drum Housing Association Limited
11	Income and Expenditure Account
12	Balance Sheet
13 - 40	Notes to the Financial Statements

Board of Management Report

The Board of Management is pleased to present its report and the audited financial statements for the Association for the year ended 31 March 2009.

Principal Activities

Drum Housing Association Limited is a not for profit organisation administered by a voluntary Board of Management. It is an Industrial & Provident Society and is a Registered Provider. It has one subsidiary called Drum Services Limited and is itself a subsidiary of Radian Group Limited, an organisation limited by Guarantee and a Registered Provider. This organisation and its parent are subject to regulation by The Tenant Services Authority under the provisions of the Housing Acts.

The principal activities of Drum Housing Association Limited are the provision, management and maintenance of housing accommodation for people in housing need and let at rents affordable to tenants who are appropriate beneficiaries of a charitable organisation. Drum also carries out domiciliary care, management of stock on behalf of other Associations and sewage treatment in rural locations and estate management.

Over 92% (2008: 93%) of the homes are concentrated in East Hampshire, with a further 6% (2008: 6%) in the neighbouring boroughs of Portsmouth and Gosport.

All operations for the Association are run from Drum's Head Office in Petersfield.

The Association started in 1996 with 4,088 homes transferred from East Hampshire District Council (EHDC). Since then it has developed or acquired 1,498 new homes and disposed of or demolished 618 homes. Drum has a full repairing liability on all but the shared ownership homes and has undertaken extensive works to modernise and refurbish the majority of the transferred stock. All but 48 properties (2008: 69) at 31 March 2009 now meet the Decent Homes Standard.

The Association measures its performance, primarily, by the Key Performance Indicators set by The Tenant Services Authority and its lenders.

The Association has also been accredited for its resident participation by The Tenant Participation Advisory Service (TPAS). Its accreditation confirmed that resident involvement is truly embedded within the culture of the organisation.

Business Review

Details of the Association's performance for the year and future plans are set out in the Operating and Financial Review that follows this board report.

The Board of Management

The Board of Management consists of eleven non-executive members, and is responsible for managing the affairs of the Association. Members are drawn from a wide background bringing together professional, commercial and local experience, with two resident members.

The Board of Management at 31 March 2009 was as follows:

- Margaret Scott, Chair
- Stephen Thompson, Vice Chair
- Robert Ayer / Allan Chick*
- Julie Freemantle
- Sean Gibbs
- Alice Hickman
- Joanne Reid
- Raymond Morton
- Nicholas Orringe
- Steve Wallbridge
- Sophie Wisdom

*Robert Ayer & Allan Chick represent East Hampshire District Council as is their right under the terms of the 1996 stock transfer. Only one member attends Board meetings at any time. Joanne Reid joined the Board on 2nd September 2008

Board members are recruited via advertisements locally and regionally, and through mail-shot sent to a wide variety of agencies and firms where staff with the skills and experience required are likely to be employed. Crucially, Drum adheres to the requirement that no prospective Board member has any connection with Drum or any Drum Board member at the point of application. The exception is in the recruitment of resident Board members which is done by inviting applications to the wide pool of residents who work actively with Drum in a variety of ways including membership of Continuous Improvement Groups.

The Board of Management met seven times in the year, and was supported by the Group Audit Committee, Group Remuneration & Nominations Committee, Group New Business Committee, Radian Residence Committee and a Drum Customer Services Forum.

The Association paid premiums for insurance indemnifying Board members against liabilities arising from the exercising of their duties.

The Association's operations are carried out in accordance with the Housing Acts and the Association is regulated by The Tenant Services Authority.

Internal Control

The Board acknowledges its ultimate responsibility for establishing and maintaining the whole system of internal controls that is appropriate to the various business environments in which it operates and for reviewing effectiveness of those controls. This applies to all companies and subsidiaries within Radian Group. These controls are designed to give reasonable assurance in respect of:

- The reliability of financial and operational information used within the Group or for publication;
- The maintenance of proper accounting records, and
- The safeguarding of assets against unauthorised use or disposal.

The Board recognises that no system of internal control can provide absolute assurance or eliminate all risk. The system of internal control is designed to manage risk and to provide reasonable assurance that key business objectives and expected outcomes are achieved. It also exists to give reasonable assurance about the preparation and reliability of financial and operational information and the safeguarding of the group's assets and interests.

In meeting its responsibilities, the Board has adopted a risk-based approach to internal controls that are embedded within the normal management and governance process. This approach includes the regular evaluation of the nature and extent of risks to which the Group is exposed as incorporated in The Tenant Services Authority's "Circular 07/07 – Internal Controls Assurance".

The process adopted by the Board in reviewing the effectiveness of the system of internal control, together with some of the key elements of the control framework includes:

- Identification and evaluation of key risks

Management responsibility has been clearly defined for the identification, evaluation and control of significant risks. There is a formal and on-going process of management review in each area of the Group's activities. The process is co-ordinated through a regular reporting framework by the Group Audit Committee. The Executive Team regularly considers reports on significant risks facing the Group and the Director of Corporate Services reports to the Board any significant changes affecting key risks.

- Monitoring and corrective action

A process of control self-assessment along with regular management reporting on control issues provides assurance to successive levels of management and to the Board. This includes a formal procedure for ensuring that corrective action is taken in relation to any significant control issues, particularly those with a material impact on the financial statements.

- Control environment and control procedures

The Board retains responsibility for a defined range of issues covering strategic, operational, financial and compliance issues. The Board has adopted the “Code of Governance Competence and Accountability 2004” and complies in all areas but one where we have allowed some Members to remain on Boards beyond three terms of three years to enhance continuity during the merger process. The Standing Orders set out the Group’s policies with regard to the quality, integrity and ethics of its employees and Board Members. A framework of policies and procedures with which employees must comply support these. These cover issues such as delegated authority, segregation of duties, accounting, treasury management, health and safety, data and asset protection and fraud prevention and detection. Annual employee appraisal procedures maintain standards of performance.

- Information and financial reporting systems

Forecasts and budgets are prepared which allow the Board and Management to monitor the key financial objectives and progress towards achieving financial plans set for the year and the medium term. Regular management accounts and key performance indicators are prepared, providing reliable and up-to-date financial and other information with significant variances investigated and reported as appropriate.

- New Business

All significant new initiatives, major commitments and investment projects are subject to formal authorisation procedures, either through the Executive Appraisal Panel, the New Business Committee or the Board.

- Group Audit Committee

The Group Audit Committee reviews reports from Management, internal auditors and external auditors to provide reasonable assurance that the control procedures are in place and are being followed. This includes a regular review of the major risks facing the Group. The Group Audit Committee makes regular reports to the Board.

- Fraud

A Group Anti-Fraud and Policy has been adopted covering prevention, detection and reporting of fraud and the recovery of assets. The Board, via the Group Audit Committee, has reviewed the fraud register. A Group whistle-blowing policy has been approved and adopted.

The internal control framework and the risk management process are subject to regular review by Internal Auditors who are responsible for providing independent assurance to the Board via the Group Audit Committee. The Internal Auditors have confirmed that for the 12 months ended 31st March 2009 Radian has adequate and effective control and governance processes to manage the achievement of the Group’s objectives. The Group Audit Committee considers control and risk at each of its meetings during the year.

The Board (as well as the Group Audit Committee and subsidiary Boards) has conducted its annual review of the effectiveness of the system of internal controls and has taken account of any changes needed to maintain the effectiveness of the risk management and controls process.

The Board confirms that a process of integrating the risk policies of the Group parent and its subsidiaries is at a sufficiently advanced stage for the Group’s Internal Auditors to have given assurance to the Group Audit Committee and the Board.



Going Concern

In its consideration of going concern, the Board has reviewed the Association's expected income and expenditure performance in terms of profitability and cash flow, together with an appraisal of the effects of its development programme. On the basis that these projections are based on prudent data and realistic assumptions, the Board believes that it is appropriate to prepare the Association's financial statements on a going concern basis.

The Association's budget and business plan, taking account of the current economic climate and expected trading conditions, show that Drum Housing Association should be able to operate within its current facilities and comply with its banking covenants.

In determining that Drum Housing Association is a going concern, the Board has considered the risks and uncertainties posed by current economic conditions and determined that they do not currently represent a significant risk to the Association.

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

Statement of Disclosure to Auditors

At the date of making this report, each Board member confirms the following:

- a) So far as the Board members are aware, there is no relevant audit information of which the Company's auditors are unaware, and
- b) They have taken all the steps that they ought to have taken as Board members in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

On 1 December 2008, Deloitte & Touche LLP changed its name to Deloitte LLP.

A resolution to re-appoint Deloitte LLP will be proposed at the forthcoming Annual General Meeting.

By order of the Board of Management

M Scott
Chair
13 July 2009

Operating and Financial Review 2008/09

The following provides additional information about the activities of Drum Housing Association during the period 1 April 2008 to 31 March 2009. The principal activities and the role of the Board are contained in the Board of Management report that precedes this review.

Risks and Uncertainties

The main risk and uncertainties are considered and reviewed annually by the Senior Management Team and the Board as part of the corporate planning process. Risks are assessed in terms of impact, likelihood and mitigating actions and presented to the Board annually. Mitigating actions depend on the nature of the risk. Where the risk is uncontrollable, insurance is arranged to mitigate the financial impact. However, many risks can be mitigated by appointing staff with appropriate skills and experience and documenting their roles in the context of managing risk.

The key risks to the Association that remain difficult to mitigate are those surrounding the uncertainties in the finance markets with regard to securing funds for development and the availability of opportunities in the housing market to develop new homes.

Accounting Policies

The accounting policies are set out on pages (13-17). The Association has modified the way it operates to take account of changes in Government policy and regulatory requirements. Specifically, comparative information in respect of the accounts for 2008 has been restated to reflect the changes required by the Statement of Recommended Practice - "Accounting by Registered Social Landlords 2008" and the 2009 accounts reflect the accounting treatment defined therein.

Housing Properties

The Association owns and manages 5,354 (2008: 5,147) properties in nine local authority areas in Hampshire, Surrey and West Sussex. Of the 4,968 owned properties (2008: 4,814), 77% (2008: 77%) of the homes are general needs rented accommodation, predominantly for families and a further 4% (2008: 4%) are shared ownership properties. 14% (2008: 15%) of the homes are supported and sheltered housing, with the balance being intermediate market rented accommodation. It employs 113 full time equivalent people (2008: 167) and has tangible fixed assets with a net book value of £157 million (2008: £149million as restated).

The Association's concentration on ensuring that its homes are kept in good repair has ensured that good progress towards complying with the Decent Homes targets by the 2010 deadline has been maintained. All its homes are of a high quality and it continues to enjoy high levels of demand for them.

The majority of the day-to-day repairs during the year were carried out by external contractors. Drum/Radian staff carried out the bulk of grounds maintenance for the Association, and a small workforce team carry out repairs and some works for third parties.

The Association's housing management service was awarded a one star, promising prospects judgement by the Audit Commission following an inspection in the last quarter of 2008/09.

The balance sheet reflects the continued growth of the Association, with the investment in fixed assets and long term investments rising to over £206 million (2008 restated: £192 million), funded by £132 million loans (2008: £124 million), £49 million grant and other public subsidy (2008: £43 million) and £25 million reserves (2008 restated: £24 million).

Domiciliary Care

The Association's in-house domiciliary care service was awarded 2* from the Commission of Social Care Inspectorate (CSCI).



Capital Structure and Treasury Policy

At the year end the Association had borrowings of £131million (2008: £124million) of which £97 million (2008: £73 million) were fixed rate borrowings, and the remainder variable rate borrowings. The Association does not use stand-alone hedging instruments.

Review of Future Developments

The Association has available to it £4 million of future grant funding and it anticipates borrowing a further £6 million to complete developments which it has committed to the Homes and Communities

Agency to procure over the next three years. It has undrawn funds of £19 million available to finance the capital programme.

The Association increased the number of homes it owned and managed by 207 (2008: 104). The Association still has a healthy development programme. Of the surplus after tax £2,839,000, £1,169,000 (net) has been transferred from designated and restricted reserves as the funds have been applied in accordance with their stated intended use.

The Association is still a founder member of the Wayfarer Development Consortium with ten other Registered Providers. Through Wayfarer, it has been able to maintain its developer status and has been successful in the Homes and Communities Agency bid rounds.

The Association has an ongoing development programme, which is possible through grant allocations from The Homes and Communities Agency and the high level of demand for quality, affordable housing within its area of operation.

Whilst continuing to concentrate on providing quality, affordable homes and services delivered consistently and perceived by customers to be good value for money, the Association aims to continue to expand the number of homes and the range of services it provides.

The Association continues to achieve high levels of financial and non-financial performance.

Statement of Compliance

In preparing this Operating and Financial Review, the Board has followed the principles set out in Part 2 of the Statement of Recommended Practice – “Accounting by Registered Social Landlords 2008”.

Statement of Board Members' Responsibilities in Respect of the Financial Statements

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

The Industrial & Provident Societies Acts and Registered Provider legislation requires the Board members to prepare financial statements for each financial year. Under that law the Board members have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Association and of the surplus or deficit of the Association for that period. In preparing these financial statements, the Board Members are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice – 'Accounting by Registered Social Landlords' (update 2008) have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Association will continue in business.

The Board members are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Association and enable them to ensure that the financial statements comply with the Industrial & Provident Societies Acts 1965 to 2002, Paragraph 16 of Schedule 1 to the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2006. They are also responsible for safeguarding the assets of the Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board is responsible for ensuring that the report of the Board is prepared in accordance with the Statement of Recommended Practice – 'Accounting by Registered Social Landlords' (update 2008).

The Board members are responsible for the maintenance and integrity of the corporate and financial information included on the Association'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 Shareholders of Drum Housing Association Limited

We have audited the financial statements of Drum Housing Association for the year ended 31 March 2009 which comprise the Income and Expenditure Account, the Statement of Total Recognised Surpluses and Deficits, the Balance Sheet and the related notes 1 to 26. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Association's members, as a body, in accordance with section 9 of the Friendly and Industrial and Provident Societies Act 1968. Our audit work has been undertaken so that we might state to the Association's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and the Association's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Board of Management and Auditors

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002, Schedule 1 to the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2006.

We also report to you if, in our opinion, the information given in the Board of Management report is consistent with the financial statements. The information given in the Board of Management's Report includes the specific information presented in the Operating and Financial Review that is cross-referred from the Business Review section of the Board Report. In addition we report to you if, in our opinion, the Association has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Board Members remuneration and other transactions is not disclosed.

We read the other information accompanying the financial statements and consider whether it is consistent with the audited financial statements. The other information comprises only the Board of Management's Report and the Operating and Financial Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.



Drum Housing



Independent Auditors' Report to the Shareholders of Drum Housing Association Limited - continued

Opinion

In our opinion:

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

Deloitte LLP
Chartered Accountants and Registered Auditors
Southampton, United Kingdom

Date: 15 July 2009

Income and Expenditure Account

Year ended 31 March 2009

		2008/09	Restated (see Note 11) 2007/08
	Notes	£'000	£'000
Turnover	2	26,856	24,447
Cost of sales	2	(1,975)	(1,003)
Operating costs	2	(16,031)	(15,032)
Operating surplus		8,850	8,412
Surplus on sale of housing properties	2	32	916
Interest receivable and similar income	3	9	30
Interest payable and similar charges	4	(6,052)	(6,069)
Surplus on ordinary activities before taxation	5	2,839	3,289
Tax on surplus on ordinary activities	6	-	-
Surplus for the financial year		2,839	3,289

The income and expenditure account has been prepared on the basis that all operations are continuing operations. None of the Association's activities were discontinued during the above two financial years.

The Notes on pages 13 to 40 form part of these financial statements.

The movement on accumulated reserves is set out in Note 18 to the financial statements,

Statement of total recognised surpluses and deficits (STRSD) Year ended 31 March 2009

		2008/09	Restated (see Note 11) 2007/08
	Notes	£'000	£'000
Surplus for the year	18	2,839	3,289
Actuarial (loss)/gain relating to the pension scheme	19	(2,320)	1,600
Total recognised surpluses relating to the year		519	4,889
Prior year adjustment (see Note 11)		800	
Total gains and losses recognised since last annual report and financial statements		1,319	

Balance Sheet

Year ended 31 March 2009

		2008/09	Restated (see Note 11) 2007/08
	Notes	£'000	£'000
Fixed Assets			
Housing properties at depreciated cost	9	203,767	190,094
Social Housing Grant	9	(47,725)	(42,356)
Other public grants	9	(807)	(698)
Net book value of housing properties		155,235	147,040
Other fixed assets	9	1,739	1,842
Total fixed assets		156,974	148,882
Current assets			
Properties for sale	10	3,991	4,057
Debtors	12	3,021	3,168
Cash at bank and in hand	13	100	-
		7,112	7,225
Creditors: Amounts falling due within one year	13, 14	(4,700)	(7,161)
Net current assets		2,412	64
Total assets less current liabilities		159,386	148,946
Pension liability	19	3,100	750
Creditors: Amounts falling due after more than one year	15	131,612	124,041
Capital and reserves			
Called up share capital	17	-	-
Designated reserve	18	54	627
Restricted reserve	18	366	962
Revenue reserve	18	24,254	22,566
Association's funds		24,674	24,155
		159,386	148,946

The Notes on pages 13 to 40 form part of these financial statements,

The financial statements on pages 11 to 40 were approved by the Board on 13 July 2009 and signed on its behalf by:

M. Scott _____ S. Thompson _____ T.
Walker _____


Drum Housing
Chairman

Vice Chairman

part of  **RADIAN**
Secretary

Notes to the Financial Statements

Note 1 - Accounting Policies

Legal Status

The Association is registered under the Industrial & Provident Societies Act 1965 and is registered with The Tenant Services Authority as a registered provider.

Introduction and Accounting Basis

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards under the historical cost convention. These financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP) Accounting by Registered Social Landlords Update 2008, in accordance with the Accounting Requirement for Registered Social Landlords General Determination 2006, Schedule I to the Housing Act 1996, and the Industrial & Provident Societies Acts 1965 to 2002. As a consequence a change has been made to the accounting for shared ownership properties. Under the revised policy, the sale proceeds of the first tranche of a shared ownership property are treated as turnover and the cost, based on the proportion of the equity sold, included within cost of sales. These are accounted for within the Income and Expenditure account of the period of sale. Under the former policy sales proceeds were netted against the cost of the property held as a fixed asset. The impacts of these changes are disclosed with note 11.

The principal accounting policies are set out below and have been applied consistently during the financial year.

The accounts have been prepared on a going concern basis, details of which can be found on page 5 of the Board of Management report.

Basis of Preparation

Under Financial Reporting Standard 1 Drum Housing Association Limited is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Association in its own consolidated financial statements.

As Drum Housing Association Limited is a wholly owned subsidiary of Radian Group Limited, it has taken advantage of the exemption contained in paragraph 3(c) of FRS8 and therefore, has not disclosed transactions or balances with entities which form part of the Group. The consolidated financial statements of Radian Group Limited, within which this Association is included, can be obtained from Radian Group Limited, Collins House, Bishopstoke Road, Eastleigh, Hampshire, SO50 6AD.

Turnover

Turnover, all from continuing operations, represents rental income, service charge income, fees and revenue grants receivable, and income from the operation of the Care Attendant Scheme. Rent income and charges are recognised when they are added to the tenant's account. Income from other services is recognised at the point of sale and grants are recognised as they become receivable.

Value Added Tax and Corporation Tax

The Association is VAT registered, but a large proportion of its income, namely rent, is exempt for VAT purposes and thus gives rise to a partial exemption calculation. Expenditure is therefore shown inclusive of VAT and the input VAT recovered is shown in the income and expenditure account.

The Association has charitable tax exemption and is therefore not subject to Corporation Tax.

Interest Payable

Interest payable, with the exception of interest on capital development financing, is charged to the income and expenditure account in the year.

Notes to the Financial Statements - continued

Note 1 - Accounting Policies, continued

Pensions

The Association participates in the industry-wide, multi-employer 'Social Housing Pension Scheme' ('SHPS'). It is a defined benefit pension scheme and retirement benefits to employees of the Association are funded by contributions from the employers and employees participating in the scheme. The assets of the scheme are held separately from those of the Association.

The Association is unable to identify its share of the underlying assets and liabilities of the SHPS scheme on a consistent and reasonable basis and therefore, as required by FRS17 'Retirement Benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

The Association also participates in the Local Government Pension Scheme administered by Hampshire County Council. This is also a defined benefit scheme but only relates to staff who transferred from East Hampshire District Council on transfer of the housing stock. The scheme is not open to new members of staff. Unlike the Social Housing Pension Scheme, the Association's share of the liabilities of the fund is known and provision is made in the accounts based on actuarial valuations. Full details are shown in Note 19.

Fixed Assets - Housing Properties

Properties included in housing assets are stated at cost. This includes transferred housing stock, consisting of land and buildings in 1996. The cost of new developments includes:

- the costs of acquiring land and buildings;
- any applicable development administration expenditure; that is, direct costs attributable to development activity capitalised in accordance with the Statement of Recommended Practice; and
- any attributable financing costs (capitalised interest) incurred during the development period.

All invoices and architects' certificates relating to capital expenditure incurred in the year are included in the accounts for the year at historic cost. Retentions in respect of contracts for new development are shown in current liabilities.

The cost attributed to a property has been reduced where it is considered that a permanent impairment in its value has been suffered.

The general principles of FRS15 are followed and, where economic benefit is enhanced, costs are capitalised. Otherwise, all costs are written off in the year incurred.

Shared ownership properties are split proportionately between fixed and current assets based on the proportion of the share of equity sold in the first tranche. The element of a property anticipated to be sold as a first tranche sale is recognised as a current asset, whereas the element relating to second and subsequent tranche sales is treated as fixed asset. If the profit on sale of the first tranche is expected to exceed the total overall profit on sale of all tranches of that property the proportionate value of the first tranche current asset is increased to limit the profit earned to the overall profit. Social Housing Grant receivable for second or subsequent tranches is recorded against the cost of the fixed asset.

Notes to the Financial Statements - continued

Note 1 - Accounting Policies, continued

Social Housing Grant

Social Housing Grant (SHG) is receivable from The Homes and Communities Agency and is utilised to reduce the capital costs of housing properties, including land costs. SHG due from The Homes and Communities Agency, or received in advance, is included as a current asset or liability.

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

Depreciation

(i) Housing Properties Freehold land is not depreciated. Housing stock is depreciated using the straight-line method according to category. The depreciation period for each category is as follows:

- Garages 10 years
- Sheltered housing 50 years
- General housing 100 years

Capitalised improvements are depreciated using the straight-line method over their expected useful economic life commencing in the year following completion of the work as follows:

- External works 10 years
- Heating systems 10 years
- Loft insulation 10 years
- Kitchen fittings 10 years
- Sanitary fittings 15 years
- Sewage treatment plant 15 years
- Windows and doors 15 years
- Cladding to precast reinforced concrete stock 30 years
- Roof structures 30 years

(ii) Impairment

Housing properties which 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 their recoverable amount. Any such write-down is charged to operating surplus.

(iii) Other fixed assets

Other fixed assets are depreciated using the straight-line method over their expected useful economic life as follows:

- Computer equipment 3 years
- Other equipment 5 years
- Furniture and fittings 10 years
- Communicall equipment 10 years
- Office buildings 50 years



Notes to the Financial Statements - continued

Note 1 - Accounting Policies, continued

Leased Assets

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

Apportionment of Management Expenses

Direct employee, administration and operation costs have been apportioned to the income and expenditure account as operating costs, on the basis of costs of the staff directly engaged on the operations dealt with in these financial statements.

Designated Reserve

Development

The proceeds from property sales outside the scope of tenants' right to buy, plus discounts repaid from former right to buy sales, are credited to a reserve, which the Board has decided will be used for reinvestment in additional housing stock. As funds are applied for this purpose an equivalent sum is released to the Income and Expenditure Account.

Restricted Reserves

Care Attendant Scheme

The scheme received a bequest from a former client, which was to be used for the benefit of care staff. Drum Housing Association Limited uses the bequest to fund the training requirements of care staff.

Comic Relief Fund

The Association obtained funding towards the cost of providing a Homeless Offered Mentoring Empowerment (HOME) Project. The aim of the project is to provide a holistic support system to homeless young people, those at risk of becoming homeless as well as to those living in specified supported accommodation. Movement in the funds are required to be disclosed by the Comic Relief Fund as a restricted reserve in the financial statements.

Sale of housing properties under Right to Buy

The cost of sales for properties sold is determined by reference to the rental base points at the time of transfer adjusted by subsequent capitalised improvement expenditure net of depreciation.

Right to Buy Replacement Fund (RTB)

The Association has a history of negotiating with East Hampshire District Council (EHDC) the share of Right to Buy receipts retained for replacing units sold. Any sums retained and unused are treated as a restricted reserve. As the sums in the restricted reserve are spent, they are to be released and treated as a subsidy against the gross cost of acquisition for the replacement properties. Any sums unspent for the period of more than one year after the year-end in which they are received are liable to be returned to EHDC.

Development Fund

Proceeds from the Right to Buy have been retained to finance a programme of converting 3 & 4 bedroom houses and converting Market Rented dwellings to General Needs affordable dwellings from 2009. Any sums unspent for the period of more than one year after the year-end in which they are received are liable to be returned to EHDC. There were no additional proceeds during 2008/09.

Cyclical Repairs and Maintenance

The Association does not make provision for future works in accordance with Financial Reporting Standard 12, but charges actual costs incurred to the income and expenditure account.



Notes to the Financial Statements - continued

Note 1 - Accounting Policies, continued

Capitalisation of Interest

Interest on the financing of developments is capitalised in accordance with the Statement of Recommended Practice 2008. The interest rate used is the average variable rate of interest on borrowings in the accounting period.

Financing Costs

Finance costs comprising loan interest and discounts and premiums on loan issues are allocated to accounting periods and charged to the income and expenditure account over the life of the related debt. The fees and other costs incurred in raising the finance are charged to the income and expenditure account as they are incurred.

Bad and Doubtful Debts

Provision is made against arrears of current and former tenants of the Association as well as other miscellaneous debts to the extent that their recovery is considered doubtful. A debt collection agency has been employed to seek to recover former tenant rent debts and the amount of the debt that represents their commission is written off as soon as the debt is referred to them.

Recycled Capital Grant/Deferred Income/Other Receipts

This includes grant from local authorities towards the cost of housing assets. This is not regarded as Social Housing Grant (SHG) by The Homes and Communities Agency but the accounting treatment is similar. The value is shown separately under the note for tangible fixed assets.

Notes to the Financial Statements - continued

Note 2 - Particulars of turnover, operating costs and operating surplus

	2008/09				Restated (see Note 11) 2007/08			
	Turnover	Operating Costs	Cost of Sales	Operating Surplus / (Deficit)	Turnover	Operating Costs	Cost of Sales	Operating Surplus / (Deficit)
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Social Housing Lettings	23,296	(13,530)	-	9,766	21,860	(12,879)	-	8,981
Social Housing Activities								
Development administration	59	(1,084)	-	(1,025)	-	(697)	-	(697)
Management services	36	(49)	-	(13)	20	(37)	-	(17)
Cesspool emptying	38	(70)	-	(32)	41	(59)	-	(18)
Block gross supporting people grant	122	(139)	-	(17)	119	(143)	-	(24)
Care schemes	672	(687)	-	(15)	624	(633)	-	(9)
Communications systems	126	(133)	-	(7)	138	(118)	-	20
Big lottery fund	-	-	-	-	15	(15)	-	-
Comic Relief fund	22	(22)	-	-	4	(4)	-	-
Service costs and employer contributions (net)	30	-	-	30	-	-	-	-
1st tranche shared ownership sales	2,203	-	(1,975)	228	1,321	-	(1,003)	318
Other	252	(317)	-	(65)	305	(447)	-	(142)
Total	26,856	(16,031)	(1,975)	8,850	24,447	(15,032)	(1,003)	8,412

Notes to the Financial Statements - continued

Note 2 - Particulars of income and expenditure from social housing lettings - continued

	2008/09					Restated (see Note 11) 2007/08	
	General Needs Housing	Supported Housing	Temporary Social Housing	Intermediate Renting	Shared Ownership	Total	Total
Income Lettings	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Rent receivable net of identifiable service charges	17,587	2,519	143	1,432	245	21,926	20,775
Service income	139	808	-	46	83	1,076	804
Charges for support services	-	273	-	-	-	273	261
Net Rental Income	17,726	3,600	143	1,478	328	23,275	21,840
Revenue grants from local authorities and others	17	-	4	-	-	21	20
Turnover from Social Housing Lettings	17,743	3,600	147	1,478	328	23,296	21,860
Expenditure on Social Housing Lettings							
Services	(134)	(942)	-	(27)	(41)	(1,144)	(1,047)
Care and support services	-	(221)	-	-	-	(221)	(274)
Management	(2,502)	(475)	(13)	(148)	(62)	(3,200)	(3,279)
Routine maintenance	(3,235)	(401)	(4)	(241)	-	(3,881)	(2,781)
Planned maintenance	(728)	(80)	(2)	(31)	(1)	(842)	(940)
Bad debts	(62)	(2)	-	(1)	-	(65)	(165)
Major repairs expenditure	(952)	(325)	-	(11)	(1)	(1,289)	(1,879)
Depreciation of housing properties	(1,753)	(128)	-	(183)	(46)	(2,110)	(1,902)
Impairment costs	(630)	-	-	-	(14)	(644)	(472)
Lease payments	(18)	-	(116)	-	-	(134)	(140)
Operating Cost on Social Housing Lettings	(10,014)	(2,574)	(135)	(642)	(165)	(13,530)	(12,879)
Operating surplus on social housing lettings	7,729	1,026	12	836	163	9,766	8,981
Void Losses	(193)	(127)	(3)	(75)	(79)	(477)	(362)

**Note 2 – Particulars of turnover, operating costs and operating surplus - continued****Surplus from sale of housing properties**

	2008/09	Restated (see Note 11) 2007/08
	£'000	£'000
Sale proceeds	1,078	1,160
Less: cost of sales	(1,026)	(211)
Less: operating costs	(20)	(33)
Surplus from sale of housing properties	32	916

Accommodation in management

	2008/09	2007/08
	Number of Units	Number of Units
General needs	3,824	3,694
Supported housing	711	720
Shared ownership	199	174
Intermediate rents	234	226
Managed for others	386	333
Total	5,354	5,147

**Note 3 – Interest receivable and similar income**

	2008/09 £'000	2007/08 £'000
Interest receivable from bank and building society deposits	9	30
Total	9	30

Note 4 – Interest payable and similar charges

	2008/09 £'000	2007/08 £'000
On housing loans	6,190	6,408
Other	30	64
	6,220	6,472
Amortisation of loan costs	4	4
Other fees	32	15
Net cost on pension scheme (see Note 19)	60	30
	6,316	6,521
Less interest capitalised	(264)	(452)
Interest charged to the income and expenditure account	6,052	6,069

**Note 5 – Surplus on ordinary activities before taxation**

	2008/09 £'000	2007/08 £'000
Surplus on ordinary activities before taxation is stated after charging:		
Depreciation of tangible fixed assets	2,312	2,166
Impairment of tangible fixed assets	644	465
Operating lease rental :		
land and buildings	-	54
temporary social housing	73	76
vehicles and equipment	63	98
Auditors' remuneration:		
in their capacity as auditors	18	19
in respect of other services	1	2

Note 6 - Taxation

	2008/09 £'000	2007/08 £'000
Current Tax Charge	-	-

Drum Housing Association Limited has charitable objectives and is an exempt charity within the definition of Section 506 of the Income and Corporation Taxes Act 1988 and is therefore not liable to taxation on income or capital gains applied to its charitable purposes.

Notes to the Financial Statements – continued

Note 7 – Directors' Emoluments

The remuneration paid to the Directors and Executives of the Association (the Board of Management and the Executive Team) was:

	2008/09 £'000	2007/08 £'000
Emoluments (including pension contributions and benefits in kind)	102	214
Company contributions to defined benefit pension schemes (included above)	15	25

Emoluments payable to members of the Board of Management in respect of services performed during the year totalled £38,621 (2008: £31,079).

Compensation for loss of office during the year totalled nil (2008: £nil).

The amounts in respect of the highest paid director were:-

	2008/09 £'000	2007/08 £'000
Gross pay and allowances	87	87
Company contributions to defined benefit pension scheme	15	14
Total	102	101

Note 8 – Staff costs

The average number of employees in full time equivalents during the year was:

	2008/09 Number	2007/08 Number
Housing management	36	36
Care and support	55	64
Development	1	7
Property maintenance	3	16
Executive / Human Resources / strategic / administration and public relations	4	14
Finance and information and communication technology	2	15
Wardens, caretakers and cleaners	12	15
Total	113	167

Staff costs (for the above employees)

	2008/09 £'000	2007/08 £'000
Wages and salaries	2,652	3,757
Social security costs	195	290
Other pension costs	238	356
Total employee costs	3,085	4,403

Notes to the Financial Statements – continued

Note 9 - Tangible Fixed Assets

	Housing Properties Held for Letting	Shared Ownership Properties	Other Properties	Total Completed Housing Properties	Housing Properties in the course of construction	Shared Ownership Properties in the course of construction	Other Properties in the course of construction	Total Housing Properties in the course of construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost									
As at 1 April 2008	151,371	10,451	29,181	191,003	10,003	1,452	425	11,880	202,883
Prior year adjustment (see Note 11)	-	(1,561)	-	(1,561)	-	(665)	-	(665)	(2,226)
As at 1 April 2008 restated (see Note 11)	151,371	8,890	29,181	189,442	10,003	787	425	11,215	200,657
Acquisitions	241	66	229	536	10,010	1,282	960	12,252	12,788
Improvements	3,389	-	-	3,389	-	-	-	-	3,389
Completed schemes	16,377	1,781	1,385	19,543	(16,377)	(1,781)	(1,385)	(19,543)	-
Inter-group transfers	(1,034)	(31)	893	(172)	170	2	-	172	-
Movements from current assets	-	(257)	507	250	-	-	-	-	250
As at 31 March 2009	170,344	10,449	32,195	212,988	3,806	290	-	4,096	217,084
Social Housing Grant									
As at 1 April 2008	35,869	2,969	415	39,253	2,720	268	115	3,103	42,356
Grant on new assets	-	-	-	-	4,855	387	115	5,357	5,357
Transfer from recycled reserve	12	-	-	12	-	-	-	-	12
Inter-group transfers	(592)	74	518	-	-	-	-	-	-
Completed schemes	6,334	601	230	7,165	(6,334)	(601)	(230)	(7,165)	-
As at 31 March 2009	41,623	3,644	1,163	46,430	1,241	54	-	1,295	47,725
Other Grants									
As at 1 April 2008	698	-	-	698	-	-	-	-	698
Movement this year	95	9	5	109	-	-	-	-	109
As at 31 March 2009	793	9	5	807	-	-	-	-	807
Accumulated Depreciation									
As at 1 April 2008	9,566	72	449	10,087	465	-	-	465	10,552
Prior year adjustment (see Note 11)	-	11	-	11	-	-	-	-	11
As at 1 April 2008 restated (see Note 11)	9,566	83	449	10,098	465	-	-	465	10,563
Charge for the year	1,881	46	183	2,110	-	-	-	-	2,110
Impairment	-	14	-	14	630	-	-	630	644
Inter-group transfers	(12)	2	10	-	-	-	-	-	-
As at 31 March 2009	11,435	145	642	12,222	1,095	-	-	1,095	13,317
Net Book Values as at 31 March 2009	116,493	6,651	30,385	153,529	1,470	236	-	1,706	155,235
Net Book Values as at 31 March 2008 restated (see Note 11)	105,238	5,838	28,317	139,393	6,818	519	310	7,647	147,040

Notes to the Financial Statements – continued

Note 9 - Tangible Fixed Assets - continued

	Total Brought Fwd	Office Premises	Plant, Machinery, Fixtures & Vehicles	Sub Total	Total Assets
	£'000	£'000	£'000	£'000	£'000
Cost					
As at 1 April 2008	202,883	1,899	1,515	3,414	206,297
Prior year adjustment (see Note 11)	(2,226)	-	-	-	(2,226)
As at 1 April 2008 restated (see Note 11)	200,657	1,899	1,515	3,414	204,071
Acquisitions	12,788	-	99	99	12,887
Improvements	3,389	-	-	-	3,389
Movements from current assets	250	-	-	-	250
As at 31 March 2009	217,084	1,899	1,614	3,513	220,597
Social Housing Grant					
As at 1 April 2008	42,356	-	-	-	42,356
Grant on new assets	5,357	-	-	-	5,357
Transfer from recycled reserve	12	-	-	-	12
As at 31 March 2009	47,725	-	-	-	47,725
Other Grants					
As at 1 April 2008	698	-	2	2	700
Movement this year	109	-	-	-	109
As at 31 March 2009	807	-	2	2	809
Accumulated Depreciation					
As at 1 April 2008	10,552	386	1,184	1,570	12,122
Prior year adjustment (see Note 11)	11	-	-	-	11
As at 1 April 2008 restated (see Note 11)	10,563	386	1,184	1,570	12,133
Impairment	644	-	-	-	644
Charge for the year	2,110	33	169	202	2,312
As at 31 March 2009	13,317	419	1,353	1,772	15,089
Net Book Values as at 31 March 2009	155,235	1,480	259	1,739	156,974
Net Book Values as at 31 March 2008 restated (see Note 11)	147,040	1,513	329	1,842	148,882

Notes to the Financial Statements – continued

Note 9 - Tangible Fixed Assets – continued

Housing assets include capitalised interest added this year of £264,000 (2008: £452,000). Total capitalised interest was £2,013,000 at 31 March 2009. All housing land and buildings are shown at historic cost and not at valuation. The value of housing stock as determined by the “existing use valuation – registered social landlords” method at 31 March 2009 for accounting purposes was £204,530,000 (2008: £204,221,000). The valuation was carried out by Drivers Jonas LLP, 85 King William Street, London, EC4N 7BL.

Development of shared ownership housing properties is dealt with under fixed assets in the same way as properties generally. The first sale of the units and subsequent tranches sold are reflected in the Income and Expenditure Account as a surplus or deficit after the operating results.

Note 10

Properties for sale	2008/09	Restated (see Note 11) 2007/08
	£'000	£'000
Shared ownership schemes:		
Properties under construction	205	665
Completed properties	1,313	2,372
Other properties for sale	2,473	1,020
Total	3,991	4,057

Properties for sale comprise properties acquired and built as part of larger developments which are held for sale.

Note 11 – Prior year adjustment

The policy for accounting for shared ownership properties was changed during the year to reflect the Statement of Recommended Practice, ‘Accounting for Registered Social Landlords 2008’. The sales proceeds for the first tranche sale of such properties is included within turnover and the cost or carrying value of the property is included within costs of sales.

The effects of the change in policy on the Group is summarised below:

Note 11 - Prior year adjustment

	2008/09	2007/08
	£'000	£'000
Income & Expenditure Account		
Turnover	2,203	1,321
Cost of sales	(1,975)	(1,003)
Total	228	318
Balance Sheet		
Fixed assets	(1,518)	(2,237)
Current assets - work in progress	1,518	3,037
Increase in Revenue Reserves	-	800

Notes to the Financial Statements – continued

Note 12 - Debtors

	2008/09	2007/08
	£'000	£'000
Arrears of rent and service charges	1,371	1,008
Less provision for bad and doubtful debts	(416)	(507)
Net tenant arrears	955	501
Prepayments	92	96
Amounts owed by Group undertakings	1,428	2,186
Other debtors	546	385
Total	3,021	3,168

Note 13 – Cash at bank and short term investments

	2008/09	2007/08
	£'000	£'000
Bank overdraft	(46)	(558)
Cash at bank and in hand	146	41
Net cash/(overdraft)	100	(517)

There is a right of set-off between the bank overdraft and any cash held at bank. The bank overdraft is included in net cash at bank.

Note 14 – Creditors: amounts falling due within one year

	2008/09	2007/08
	£'000	£'000
Housing loans	-	100
Amounts owed to Group undertakings	78	1,178
Rent received in advance	382	257
Other taxation and social security payable	94	156
Bank overdraft (see note 13)	-	517
Recycled capital grant fund (see note 16)	132	12
Other creditors	4,014	4,941
Total	4,700	7,161

Notes to the Financial Statements – continued

Note 15 - Creditors: amounts falling due after more than one year

	2008/09	2007/08
	£'000	£'000
Housing Loans falling due after more than one year	131,409	123,688
Recycled capital grant fund (see note 16)	25	154
Deferred income	178	199
Total	131,612	124,041
Housing loans falling due after more than one year before unamortised premiums	131,500	123,783
Unamortised net premiums received on issue	(91)	(95)
Loan principal outstanding	131,409	123,688

Housing loans are secured by fixed charges on the Association's housing properties valued at £205m, as described in Note 9.

Interest rates ranged from 1.61% to 6.29%.

Under the terms of agreements with lenders, Drum Housing Association Limited is required to charge its housing stock.

	2008/09	2007/08
	£'000	£'000
In one year or less	-	100
Between two and five years	-	500
In five years or more	-	2,783
	-	3,383
Loan repayable otherwise than by instalments		
In five years or more	131,500	120,405
Total	131,500	123,788

Analysis of all loans outstanding	Royal	Lloyds	2008/09	2007/08
	Bank of			
	Scotland	TSB	£'000	£'000
	£'000	£'000	£'000	£'000
Fixed rate loans	54,000	43,000	97,000	73,000
Variable rate loans	12,700	21,800	34,500	50,883
Loan issue costs	(91)	-	(91)	(95)
Total	66,609	64,800	131,409	123,788

Note 16 - Recycled capital grant fund and disposal proceeds fund

	2008/09 £'000	2007/08 £'000
Balance as at 1 April	166	376
Inputs:		
Grants recycled from sale of Drum assets	-	24
Interest accrued	3	4
Withdrawals:		
New build units (see Note 9)	(12)	(238)
Balance as at 31 March	157	166

Section 24 of the Housing Act 1996 requires Registered Provider to credit to a Disposal Proceeds Fund the net proceeds of Right to Acquire and Voluntary Purchase Grant Sales. The purpose of the Disposal Proceeds Fund is to provide replacement properties for rent, at no greater cost than properties provided through the Approved Development Programme. If the net proceeds remain unspent after the third year, the funds become repayable to the Homes & Communities Agency (HCA, formerly The Housing Corporation).

The Recycled Capital Grant Fund relates to Social Housing or Housing Association Grant previously received on social housing properties that have been sold, demolished or for which there has been a change of use which does not meet the original conditions of the Grant. The HCA permits grants to be reinvested within a three year period into schemes within the Approved Development Programme. The HCA requires funds which have not been reinvested within three years to be repaid.

Note 17 - Share capital

	2008/09 £'000	2007/08 £'000
Ordinary shares of £1 each allotted and fully paid		
Shares of £1 each		
Issued and fully paid at 1 April	11	13
Shares issued during the year	1	6
Shares surrendered during the year	-	(8)
Shares in issue at 31 March	12	11

The shares of the Association carry no rights to a dividend, or provision for redemption or a distribution on winding up.

The members are entitled to vote at annual and special meetings of the Association.

Notes to the Financial Statements – continued

Note 18 - Reserves	Revenue Reserve	Designated Reserves	Restricted Reserves	Total
	£'000	£'000	£'000	£'000
Balance at 1 April 2008 as originally stated	21,766	627	962	23,355
Prior year adjustment relating to SORP (see Note 11)	800	-	-	800
As at 1 April 2008 restated (see Note 11)	<u>22,566</u>	<u>627</u>	<u>962</u>	<u>24,155</u>
Surplus for the year	2,839	-	-	2,839
Actuarial loss on pension fund	(2,320)	-	-	(2,320)
Net transfers	1,169	(573)	(596)	-
As at 31 March 2009	<u>24,254</u>	<u>54</u>	<u>366</u>	<u>24,674</u>

Designated reserve	Development Designated Reserve
	£'000
Balance at 1 April 2008	627
Transfer in	57
Transfer out	(630)
Balance at 31 March 2009	<u>54</u>

Restricted reserves	EHDC Development Fund	Lifeline Fund	Care Attendant Scheme	RTB Replacement Fund
	£'000	£'000	£'000	£'000
Balance at 1 April 2008	808	12	40	102
Transfer in	-	-	1	-
Transfer out	(474)	(12)	(9)	(102)
Balance at 31 March 2009	<u>334</u>	<u>-</u>	<u>32</u>	<u>-</u>

Restricted reserves (continued)	Comic Relief Fund	Total Restricted Services
	£'000	£'000
Balance at 1 April 2008	-	962
Transfer in	22	23
Transfer out	(22)	(619)
Balance at 31 March 2009	<u>-</u>	<u>366</u>

Notes to the Financial Statements – continued

Note 19 – Pension Commitments

The Association has adopted the accounting requirements of FRS17, Retirement Benefits. The Association participates in a scheme run by the Social Housing Pension Scheme (SHPS) and the local government scheme run by Hampshire County Council (HCC) as an admitted body. Both schemes are defined benefit schemes. The total pension cost for the Association for the year ended 31 March 2009 was £170,000 (2008: £320,000). There were no contributions to any money purchase schemes.

FRS17 Retirement benefits (Hampshire County Council)

Under FRS17, the Association is required to disclose the following information about the scheme and in the Association's balance sheet.

The full actuarial valuation at 31 March 2008 was updated to 31 March 2009 by qualified independent actuaries and showed that the market value scheme's assets was £5.26 million and that the actuarial value of these assets represented 63% of the benefits that had accrued to Members.

The assets in the scheme and the expected rates of return at 31 March 2009 were:

	31-Mar-09	31-Mar-09	31-Mar-08	31-Mar-08	31-Mar-07	31-Mar-07
	Long Term		Long Term		Long Term	
	Rate of	Value	Rate of	Value	Rate of	Value
	Return		Return		Return	
	%	£m	%	£m	%	£m
Equities	7.0	2.90	7.6	3.70	7.7	4.03
Government Bonds	4.0	1.44	4.6	1.59	4.7	1.26
Corporate Bonds	5.8	0.21	6.8	-	5.3	0.18
Property	6.0	0.38	6.6	0.34	6.7	0.24
Other	1.6	0.33	6.0	0.34	5.6	0.30
Total market value of assets		5.26		5.97		6.01
Present value of scheme liabilities		(8.36)		(6.72)		(8.23)
Net pension liability		<u>(3.10)</u>		<u>(0.75)</u>		<u>(2.22)</u>

The amounts shown were calculated on the basis of the following assumptions:

	31-Mar-09	31-Mar-08	31-Mar-07
	%	%	%
Discount rate	6.5	6.8	5.3
Rate of increase in salaries	5.1	5.2	4.7
Rate of increase in deferred pensions	3.6	3.7	3.2
Rate of increase in pensions in payment	3.6	3.7	3.2
Inflation assumption	3.6	3.7	3.2

The agreed employer's contribution rate is 18.1% of gross pay for 2008/09 (2007/08: 17%).

Notes to the Financial Statements – continued

Note 19 – Pension Commitments Hampshire County Council - continued

	31-Mar-09	31-Mar-08
	£m	£m
Analysis of the amount charged to operating surplus		
Current service cost	(0.11)	(0.17)
Past service cost	-	(0.12)
Total costs included within operating surplus	(0.11)	(0.29)

	31-Mar-09	31-Mar-08
	£m	£m
Analysis of the net finance charge		
Expected return on scheme assets	0.40	0.41
Interest discount on scheme liabilities	(0.46)	(0.44)
Net finance charge included within interest payable and similar charges	(0.06)	(0.03)

In the Statement of Total Recognised Surpluses and Deficits (STRSD):

These are expressed in monetary amounts and as a percentage of:

- (i) scheme assets at the balance sheet date, and
- (ii) present value of the scheme liabilities at the balance sheet date.

	31-Mar-09	31-Mar-09	31-Mar-08	31-Mar-08	31-Mar-07	31-Mar-07
	£m	%	£m	%	£m	%
Difference between actual and expected return on scheme assets (i)	(1.17)	(22.2)	(0.51)	(8.6)	(0.01)	(0.20)
Experience gains and losses arising on the scheme liabilities (ii)	(0.66)	(7.9)	0.58	8.7	-	-
Effects of changes in assumptions underlying the present value of scheme liabilities (ii)	(0.49)	(27.8)	1.53	22.8	0.09	1.10
Total actuarial (deficits)/gains recognised in the STRSD (ii)	(2.32)	(27.6)	1.60	23.8	0.08	1.00

Notes to the Financial Statements – continued

Note 19 – Pension Commitments – Hampshire County Council - continued

Analysis of the movement in the scheme deficit during the year	31-Mar-09 £m	31-Mar-08 £m
Opening deficit in the scheme	(0.75)	(2.22)
Current service cost	(0.11)	(0.17)
Contributions by scheme participants	0.14	0.19
Past service costs	-	(0.12)
Other finance costs	(0.06)	(0.03)
Actuarial (losses)/gains	(2.32)	1.60
Closing deficit in the scheme	(3.10)	(0.75)

	31-March 2009 £m	31-March 2008 £m	31-March 2007 £m	31-March 2006 £m	31-March 2005 £m
Difference between the expected and actual return on assets	(1.17)	(0.51)	(0.01)	0.74	0.21
Value of assets	5.26	5.97	6.01	5.57	4.44
Percentage of assets	-22.2%	-8.6%	-0.2%	13.3%	4.7%
Experience gains on liabilities	(0.66)	0.58	-	-	0.99
Total present value of liabilities	8.36	6.72	8.23	7.79	6.72
Percentage of the present value of liabilities	-7.9%	8.7%	0.0%	0.0%	14.7%
Actuarial (losses)/gains recognised in STRSD	(2.32)	1.60	0.08	0.16	0.98
Total present value of liabilities	8.36	6.72	8.23	7.79	6.72
Percentage of the total present value of liabilities	-27.8%	23.8%	1.0%	2.1%	14.6%

Pension Commitments –SHPS

Drum Housing Association Limited participates in the Social Housing Pension Scheme (SHPS). The Scheme is funded and is contracted out of the state scheme.

SHPS is a multi-employer defined benefit 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".

Note 19 – Pension Commitments – SHPS continued

The Scheme operated a single benefit structure, final salary with a 1/60th accrual rate until 31 March 2007. From April 2007 there are three benefit structures available, namely:

- Final salary with a 1/60th accrual rate.
- Final salary with a 1/70th accrual rate.
- Career average re-valued earnings with a 1/60th accrual rate.

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.

Drum Housing Association Limited has elected to operate final salary with a 1/60th accrual rate and career average re-valued earnings with a 1/60th accrual rate benefit structure for active members and new entrants as at 1 April 2007.

The Trustee commissions an actuarial valuation of the Scheme every three 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 employee is set at individual employer level, subject to the employer paying no less than 50% of the total contribution rate.

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.

The contributions to the fund were as follows:-

	Care Scheme	Final Salary Scheme
Association contribution	12.3%	14.1%
Employee contribution rate (age dependent)	4.7% - 6.7%	6.4% - 8.4%

As at the balance sheet date, there were 63 active members of the Scheme employed by the Association. The Association 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.

Note 19 – Pension Commitments – SHPS continued

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 £1,527 million. The valuation revealed a shortfall of assets compared with the value of liabilities of £663 million, equivalent to a past service funding level of 70%.

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

	% per annum
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 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% per annum.
- Mortality post-retirement – 90% S1PA Year of Birth, long cohort projection, minimum improvement 1% per annum.

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 contribution rate (% of pensionable salaries)
Final salary with a 1/60th accrual rate	17.8
Final salary with a 1/70th accrual rate	15.4
Career average re-valued earnings with a 1/60th accrual rate	14.9

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 £663 million 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 1 October 2020 to 30 September 2023. Pensionable earnings at 30 September 2008 are used as the 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).

Notes to the Financial Statements - continued

Note 19 – Pension Commitments – SHPS continued

Employers that have closed the Scheme to new entrants 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 on-going 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 18 months after the valuation date.

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 has reviewed the recovery plan for the SHPS Scheme and confirmed that, in respect of the September 2005 actuarial valuation, it does not propose to issue any scheme funding directions under Part 3 of the Pensions Act 2004. A copy of the recovery plan in respect of the September 2008 valuation will be forwarded to the Regulator in due course.

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 buy-out 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 Association 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 2008. As of this date the estimated employer debt for the Association was £6,233,000.

Notes to the Financial Statements - continued

Note 19 - Pension Commitments – Growth Plan

The Association participates in the Pensions Trust's Growth Plan. The Plan is funded and is not contracted out of the state scheme. The Growth Plan is a multi-employer pension Plan.

Contributions paid into the Growth Plan up to and including September 2001 were converted to defined amounts of pension payable from Normal Retirement Date. From October 2001 contributions were invested in personal funds which have a capital guarantee and which are converted to pension on retirement, either within the Growth Plan or by the purchase of an annuity.

The rules of the Growth Plan allow for the declaration of bonuses and / or investment credits if this is within the financial capacity of the Plan assessed on a prudent basis. Bonuses / investment credits are not guaranteed and are declared at the discretion of the Plan's Trustee.

The Trustee commissions an actuarial valuation of the Growth Plan every three years. The purpose of the valuation is to determine the funding position of the Plan by comparing the assets with the past service liabilities as at the valuation date. Asset values are calculated by reference to market levels. Accrued past service liabilities are valued by discounting expected future benefit payments using a discount rate calculated by reference to the expected future investment returns.

The rules of the Growth Plan give the Trustee the power to require employers to pay additional contributions in order to ensure that the statutory funding objective under the Pensions Act 2004 is met. The statutory funding objective is that a pension scheme has sufficient assets to meet its past service liabilities, known as Technical Provisions.

If the actuarial valuation reveals a deficit, the Trustee will agree a recovery plan to eliminate the deficit over a specified period of time either by way of additional contributions from employers, investment returns or a combination of these.

The rules of the Growth Plan state that the proportion of obligatory contributions to be borne by the Member and the Member's Employer shall be determined by agreement between them. Such agreement shall require the Employer to pay part of such contributions and may provide that the Employer shall pay the whole of them.

The Association did not make any contributions during the accounting period. Members paid contributions at an average rate of 0% during the accounting period.

As at the balance sheet date there were no active members of the Plan employed by the Association. The Association continues to offer membership of the Plan to its employees.

It is not possible in the normal course of events to identify on a reasonable and consistent basis the share of underlying assets and liabilities belonging to individual participating employers. Accordingly, due to the nature of the Plan, the accounting charge for the period under FRS17 represents the employer contribution payable

The last formal valuation of the Scheme was performed 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 £742 million and the Plan's Technical Provisions (i.e. past service liabilities) were £770.6 million. The valuation therefore revealed a shortfall of assets compared with the value of liabilities of £28.6 million, equivalent to a funding level of 96%.

Note 19 – Pension Commitments – Growth Plan continued

The financial assumptions underlying this valuation were as follows:

	30/09/08		30/09/05
	% per annum		% per annum
Investment return pre-retirement	7.6		6.6
Investment return post-retirement			
Actives/Deferreds	5.1	}	4.5
Pensioners	5.6		
Bonuses on accrued benefits	0.0		0.0
Rate of price inflation	3.2		2.5

In determining the investment return assumptions the Trustee considered advice from the Scheme Actuary relating to the probability of achieving particular levels of investment return. The Trustee has incorporated an element of prudence into the pre and post retirement investment return assumptions; such that there is a 60% expectation that the return will be in excess of that assumed and a 40% chance that the return will be lower than that assumed over the next ten years.

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.

In view of the small funding deficit and the level of prudence implicit in the assumptions used to calculate the Plan liabilities the Trustee has prepared a recovery plan on the basis that no additional contributions from participating employers are required at this point in time. In reaching this decision, the Trustee has taken actuarial advice and has been advised that the shortfall of £29 million (as at 30 September 2008) will be cleared within ten years, if the investment returns from assets are in line with the "best estimate" assumptions. "Best estimate" means that there is a 50% expectation that the return will be in excess of that assumed and a 50% expectation that the return will be lower than that assumed over the next ten years. These "best estimate" assumptions are 8.4% per annum pre-retirement and 5.1% per annum post-retirement (actives and deferreds) and a 5.6% per annum post-retirement (pensioners).

A copy of the recovery plan 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 has reviewed the recovery plan for the Growth Plan and confirmed that, in respect of the September 2008 actuarial valuation, it does not propose to issue any scheme funding directions under Part 3 of the Pensions Act 2004.

The next full actuarial valuation will be carried out as at 30 September 2011.

Following a change in legislation in September 2008 there is a potential debt on the employer that could be levied by the Trustee of the Plan. The Trustee's current policy is that it only applies to employers with pre October 2001 liabilities in the Plan. The debt is due in the event of the employer ceasing to participate in the Plan or the Plan winding up.

Note 19 – Pension Commitments – Growth Plan continued

The debt for the Plan as a whole is calculated by comparing the liabilities for the Plan (calculated on a buy-out 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 Plan. 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 Plan's pre October 2001 liability attributable to employment with the leaving employer compared to the total amount of the Plan's pre October 2001 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 Plan liabilities, Plan 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 Association has been notified by the Pensions Trust of the estimated employer debt on withdrawal from the Plan based on the financial position of the Plan as at 30 September 2008. As of this date the estimated employer debt for the Association was nil.

Note 20 – Group Accounts

Drum Housing Association Limited has a subsidiary, Drum Services Limited (DSL). DSL has two ordinary £1 shares, one of which is held in trust by a Board Member of Radian Housing Group Limited. The other is held by the Company Secretary. DSL is incorporated in England and Wales, but is not a Registered Provider. The principal activity of DSL is leasing transactions together with providing a repairs service for members of the general public in East Hampshire. The turnover and operating costs of DSL are not material and are not consolidated with Drum Housing Association Limited's accounts. DSL's financial statements show a break-even position for the year, as it donated its profits to Drum Housing Association Limited under Gift Aid. The Gift Aid sum for the year was £7,115 (2008: £11,979). Its net assets at 31 March 2009 were £1,974 (2008: £1,974). The Association has not produced consolidated financial statements because it is a subsidiary of Radian Housing Group Limited (RHGL).

Note 21 – Related Party Transactions

Tenant Board members of the Association are charged normal policy rents for their dwellings and receive no favourable treatment in any respect for being Board members.

Note 22 – Ultimate Parent Undertaking

At 31 March 2009 the Association's ultimate parent undertaking and ultimate controlling party was Radian Group Limited.

Radian Group Limited is the parent of both the largest and smallest group into which Drum Housing Association Limited is consolidated. Group accounts can be obtained from Radian Housing Group Limited (RHGL), Collins House, Bishopstoke Road, Eastleigh, Hampshire, SO50 6AD.

Notes to the Financial Statements – continued

Note 23 – Capital and Lease Commitments

	2008/09 £'000	2007/08 £'000
Capital commitments		
Property under construction contracted for	3,166	7,642
This commitment is to be financed using Drum Housing Association Limited's loan facility.		
Leasing commitments		
The Association is committed to the following annual payments in respect of operating leases that expire in:		
	2008/09 £'000	2007/08 £'000
Buildings		
within one year	4	10
two to five years	48	57
over five years	18	22
Other		
within one year	12	49
two to five years	16	20
over five years	39	39
Total leasing commitments	137	197
Total capital and leasing commitments	3,303	7,839

Note 24 – Legislative Provision

The Association is incorporated under the Industrial & Provident Societies Act 1965.

Note 25 – Potential Employer Debt as a Contingent Liability

The Association 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 2008. As of this date the estimated employer debt for the Association was £6,233,000 for the Social Housing Pension Scheme and nil for the Growth Plan Scheme. We do not anticipate this debt crystallising in the foreseeable future.

Note 26 - Reconciliation of Movement in Reserves

	Revenue Reserve £'000
At 1 April 2008, as previously reported	21,766
Prior year adjustment (note 11)	800
At 1 April 2008, as restated	22,566
Surplus for the year	2,839
Actuarial loss on pension fund	(2,320)
Net transfers	1,169
At 31 March 2009	24,254

Registered office

Drum Housing Association Limited

Drum Court
The Spain
Petersfield
Hampshire GU32 3NG

T. 01730 403200

F. 01730 403140

Registered under the Industrial and Provident Societies Act 1965 No.28156R

Registered by The Tenant Services Authority No. LH4090

Member of the National Housing Federation