

**FIRST WESSEX HOUSING GROUP LIMITED**  
**BOARD REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2008**

# FIRST WESSEX HOUSING GROUP LIMITED

## INFORMATION

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<b>Board of Management</b>	Anthony Boyle Ciarán Devane Brynmor Edwards Richard Green Barbara Higgins John Kenny Donald Macgregor Phil Raybould Ben Stoneham Jeff Channing Ann Beeching Judith Smyth	Atlantic Housing nominee Independent Pavilion Housing nominee Independent Portsmouth Housing nominee Portsmouth Housing nominee Pavilion Housing nominee (Vice Chair) First Atlantic Housing nominee Independent (Chair) Independent Atlantic Housing nominee Independent
<b>Executive officers</b>	Thomas Antrobus Graham Brombley Paul Ryrie Peter Walters Hazel Warwick	Group Technical Director Group Finance Director (from 6/9/2007) Group Housing Director (from 1/6/2008) Group Chief Executive Group Regeneration and Development Director
<b>Secretary and Registered Office</b>	Graham Brombley PO Box 129 Charlotte Yonge House Tollgate, Chandlers Ford Eastleigh Hampshire SO53 3YP	
<b>Bankers</b>	National Westminster Bank plc 34 Southampton Road Eastleigh Hampshire SO50 9XN	Lloyds TSB Bank plc 115 Victoria Road Aldershot GU11 1JQ
<b>Auditors</b>	Nexia Smith & Williamson Registered Auditors 18 – 21 Kings Park Road Southampton SO15 2AT	
<b>Accountants and tax advisers</b>	Smith & Williamson Limited Chartered Accountants 18 – 21 Kings Park Road Southampton SO15 2AT	Deloitte & Touche LLP Abbots House Abbey Street Reading RG1 3BD
<b>Solicitors</b>	Coffin Mew LLP Kings Park House 22 Kings Park Road Southampton Hampshire SO15 2UF	Lawrence Graham LLP 4 More London Riverside London SE1 2AU  Whiteheads Solicitors Unit 6 East Terrace Business Park Euxton Lane Chorley Lancashire PR7 6TB

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# FIRST WESSEX HOUSING GROUP LIMITED

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**FIRST WESSEX HOUSING GROUP LIMITED**  
**REPORT OF THE BOARD OF MANAGEMENT**  
**FOR THE YEAR ENDED 31 MARCH 2008**

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The Board of Management presents its report together with the audited financial statements for the year ended 31 March 2008.

**The Board of Management and Executive Officers**

The Board of Management and Executive Management Team of the Group as at 31 March 2008 are listed on the 'Information' page at the beginning of these accounts.

The Board of Management comprises twelve non-executive members and is responsible for managing the affairs of the Group. The members are recruited on a skills basis and drawn from a wide background bringing together professional, commercial and local experience. The Board meets formally on a regular basis. The Board has four committees to deal with the detailed administration of matters relating to governance, development, audit and finance.

**The following new members joined the Board during the year:**

Ben Stoneham (appointed 2 April 2007)  
Barbara Higgins (appointed 2 April 2007)  
John Kenny (appointed 2 April 2007)  
Jeff Channing (appointed 11 July 2007)  
Ann Beeching (appointed 26 February 2008)  
Judith Smyth (appointed 26 February 2008)

**The following members resigned during the year:**

Greg Hall (resigned 25 September 2007)  
William Dibben (resigned 25 September 2007)

Each member of the Management Board holds a single £1 share in the Association.

The Executive Officers of the Group hold no interest in the Group's share capital. Although they do not have the legal status of directors, they act as executives within the authority delegated by the Board of Management.

**Principal activities and review of the business**

First Wessex Housing Group Limited aims to provide, build, manage and maintain homes for rent in the social sector and its mission statement is "working with our customers to develop communities to be proud of". In order to achieve these aims the Group may:

- i. Manage rental homes;
- ii. Provide amenities and services for occupiers;
- iii. Purchase existing homes;
- iv. Build new homes;
- v. Improve and repair homes; and
- vi. Acquire or build homes for sale or on a shared ownership lease.
- vii. Regeneration activity within our own estates and the wider community

The year to 31 March 2008 has been a year of major change with the enlargement of the Group through a merger with Portsmouth Housing Association and its subsidiaries. Work in the year has concentrated on the consolidation and harmonisation of policies and procedures and the delivery of the merger plan agreed with the Housing Corporation.

Attention continues to be focussed on enhancing the repairs service provided to all tenants and as part of this objective Wessex Property Limited now operates three works depots at the Griffiths Centre in Eastleigh, in High Street, Aldershot, and in Fitzherbert Spur in Portsmouth. This is paying dividends in terms of quality and efficiency of service to our customers throughout Hampshire.

# FIRST WESSEX HOUSING GROUP LIMITED

## REPORT OF THE BOARD OF MANAGEMENT FOR THE YEAR ENDED 31 MARCH 2008

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The Group continues to act as an active development partner within both the Sappling and the Wayfarer Consortia (Portsmouth's contract with Wayfarer will cease after the completion of the 2008-2011 bid round programme). During the year 217 new properties were completed. At the same time the Group is taking steps to make best use of its existing stock through its comprehensive asset management strategy.

Our commitment to community regeneration is demonstrated by the inclusion amongst our stated objectives within our mission and vision statement and by the appointment of additional staff resources to commence rolling out regeneration activity across the Group. This means that we are well placed to meet our Local Authority partner's Place Shaping agendas.

With the expanded Group being effective from April 2007 the Boards and Executives of all Group entities are working together to provide an excellent service to our customers.

The financial results for the year are set out on pages 11 to 53.

### **Operating and Financial Review**

#### **Overview of the Group**

The First Wessex Housing Group (FWHG) was originally formed in July 2005 as a result of the coming together of the former Atlantic and Pavilion Housing Groups. In April 2007 the group was enlarged through a merger with Portsmouth Housing Association and its subsidiaries. The Group now comprises:

- Atlantic Housing Ltd operates in Eastleigh, Winchester, Fareham, Southampton and the New Forest.
- Pavilion Housing Association, based in Aldershot, operates in the Rushmoor, Waverley and Guildford areas.
- Portsmouth Housing Association operates within the local authority areas of Portsmouth, Gosport, Fareham and Havant.
- The EC Roberts Centre is a family day centre providing support and advisory services for families living in temporary or unsustainable housing.
- Portsmouth Foyer Limited provides 120 units of accommodation with a package of training and employment advice for young people aged 16 to 25.
- First Atlantic Housing Ltd mainly owns and manages hostel accommodation and delivers supported housing services.
- Hewitt Homes for the Gentle Poor - a registered charitable trust which has approximately 50 homes of mostly sheltered housing.
- Wessex Property Ltd which carries out routine and planned building maintenance.
- Fernhill Care Ltd providing extra care services in Eastleigh, West Sussex and Wokingham.
- EHA Property Services Ltd provides property holding and management services

The Group is run by non-executive Board members who bring a range of skills and experience to the management of the Group's affairs. The Board of FWHG is the parent Board and has overriding responsibility for all the companies in the Group. The Chair of FWHG and the Chairs of subsidiaries are paid positions in order to attract Board members of sufficient calibre for the roles. All other Board positions are voluntary. Day to day operations are delegated to an executive team of five directors.

The Group owns over 17,000 homes, mainly in Hampshire, across a variety of tenure types. It provides care & support services to young people, vulnerable families, the elderly and other clients with specific support needs. Through its subsidiary, Wessex Property Limited, it provides property maintenance and construction services both for its own homes and third parties.

# FIRST WESSEX HOUSING GROUP LIMITED

## REPORT OF THE BOARD OF MANAGEMENT FOR THE YEAR ENDED 31 MARCH 2008

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As at 31 March 2008 the Group had the following mix of housing stock in management

	2008 Units	2007 Units
General Needs	11,811	11,477
Supported Housing and Housing for Older People	2,399	2,490
Low Cost Home Ownership	2,275	2,171
Keyworkers	421	567
Student Accommodation	30	558
Market Rental	160	164
Other	166	166
Total	17,262	17,593

The Group is committed to meeting the government's Decent Homes Standard across its housing stock. Atlantic and Portsmouth Housing Associations meet decent homes, with Pavilion achieving 88%. A stock condition survey underpins all reinvestment decisions and the Group's business plan has sufficient funding in place to maintain all the housing stock in good condition.

### The Operating Environment

The Group operates in an area of strong demand for housing of all tenure types. Land and house prices have increased rapidly in past years but have recently plateaued and are now starting to fall. A substantial proportion of the regional population require assistance with their housing costs. Many of them look to housing providers such as us for either rented or shared ownership homes.

The current credit crisis has impacted both the Group and its customers. The lack of liquidity in the financial markets has resulted in a reduced supply of funding for new developments and an increase in the margin paid. We continue to manage our development programme within the funds that are available to us. Potential purchasers of our shared ownership properties are finding it more difficult to access the mortgages they need to acquire their shares. Our existing tenants and leaseholders are finding their personal finances squeezed by the higher cost of credit and its limited availability. We continue to provide free advice and assistance to those in most financial need. We are taking scheme specific approach to marketing, offering an appropriate package to stimulate demand. We are also working with local mortgage lenders firstly to ensure they are aware of the lower risks they face in lending to shared owners and secondly, to try to put together a special deal on some schemes.

### Objectives and Strategy

Our priorities for the first year of the enlarged group were:

- Deliver a quality service
- Complete the grouping
- Establish a new identity and organisational culture
- Integrate and review policies, procedures and strategies
- Achieve the business plan
- Review our governance arrangements
- Minimise the risks associated with merging two organisations

We are particularly pleased that the quality of our repairs service to our residents has been maintained at a very high standard and in some cases improved further. However, our arrears and voids performance dipped during the year, particularly in our Atlantic and Pavilion subsidiaries. This has now turned around and we are showing a positive trend of improvement.

A new Board and Executive team have been put in place and all directorate restructurings have been completed. We have centralised IT, HR, finance, marketing and PR. There are Group functions for

**FIRST WESSEX HOUSING GROUP LIMITED  
REPORT OF THE BOARD OF MANAGEMENT  
FOR THE YEAR ENDED 31 MARCH 2008**

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housing services, development and regeneration, supported by local teams working with our residents. Wessex Property Services has taken on responsibility for all repairs across the Group, using either its own labour force or third party contractors as appropriate.

We have reviewed our mission and strategy. This has resulted in a new Group mission, which is "Working with our customers to develop communities to be proud of". We aim to achieve this through:

- Community regeneration
- Sustainable, affordable, high quality homes and services
- Supporting independent living
- Growing to meet changing needs and expectations while maintaining a regional focus
- Developing our organisational strength

New Group strategies have been developed across a large part of our business and these will help us to deliver our mission. We are particularly pleased that our residents have agreed the resident involvement strategy and we have put in place the governance structure they have requested for their involvement with us.

The majority of first year savings set out in our business plan have been met. Those that haven't were the result of a conscious decision to delay some integration work so that we did not lose focus on delivering services to our residents. We expect to be back on track by the end of the coming year.

The Board has completed a review of our governance arrangements and concluded that we need to simplify the Group structure. We will be communicating with our stakeholders about our proposals over the coming months.

Whilst every effort was made to manage the day to day business effectively, during what has been a period of enormous change, we had a problem with two of our development schemes. Although no public money was ever at risk, we failed to monitor these two schemes as well as we should have and as a consequence were given amber lights for development and governance by our regulator, the Housing Corporation. An independent firm of consultants carried out a thorough review of our governance, development and risk management and we were pleased when they were able to confirm that these were isolated incidents rather than a systemic failure. Since then the Corporation has confirmed their intention to return our green lights.

**Performance in the period**

The Group (restated for 2007 to include Portsmouth entities) achieved a surplus of £7,078,000 (2007: £5,265,000). Turnover and operating surplus for the year by activity is set out below.

	2008 Turnover £'000	2008 Operating Surplus/(Deficit) £'000
General Needs	50,351	18,102
Supported Housing and Housing for Older People	9,874	1,642
Low Cost Home Ownership	3,084	1,962
Keyworkers	2,566	1,042
Other Social Housing Lettings	2,470	(78)
Other Social Housing (including Supporting People grants)	3,022	(453)
Market Rental/Commercial/Other non Social Housing	3,425	711
Other Activities (including regeneration and Wessex Property Limited sales)	2,857	(185)
<b>Total</b>	<b>77,649</b>	<b>22,743</b>

# FIRST WESSEX HOUSING GROUP LIMITED

## REPORT OF THE BOARD OF MANAGEMENT FOR THE YEAR ENDED 31 MARCH 2008

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The Group developed 217 additional homes during the year and disposed of 619 units of student accommodation and 16 other dwellings including properties that were either unsuitable or uneconomic to repair. In addition, 18 shared owners staircased to full home ownership.

The Group disposed of the majority of its student accommodation during the year to two RSLs who have significant expertise in this type of business.

The Group drew down £21m of loan finance and repaid £11m during the year and received £13m of Social Housing Grant from its Local Authority partners and the Housing Corporation.

### **Risk**

The following are seen as the main risks facing the Group:

#### **Strategic and Operational risks**

The Board has identified the main risks faced by the Group and has an established framework for the identification, monitoring and controlling exposure to strategic risk. There is an effective process for the identification and reporting of operational risk through the quarterly Business Performance Reviews at which managers are able to escalate concerns of their teams to the Executive and ultimately the Board.

#### **Capital structure and treasury policy**

Total external borrowings at 31 March 2008 amounted to £391.7m with a further £86.3m of unused facilities available. Borrowing was from banks and building societies in the United Kingdom. Total housing loans are analysed further in Note 19 to the audited accounts.

Treasury strategy is set annually and approved by the Group Finance Committee. The current policy is to allow up to 100% of borrowings at fixed rates of interest, 75% of borrowings were at fixed rates of interest at the year end.

The Group does not make use of hedging instruments other than to fix variable rate debt at the time of drawdown or on a forward basis.

The Group borrows only in sterling and so does not have any currency risk.

Surpluses are invested in approved UK institutions and investment returns are reported to the Group Finance Committee.

### **Cash flows**

Cash inflows and outflows for the period under review are set out in the cash flow statement.

The group experienced a net decrease in cash and bank balances during the year of £6m. This was due to net receipts in respect of operating activities of £26m, interest paid of £22m, capital investment net of asset sales of £20m and net additions to loan funding of £10m.

### **Current liquidity**

Cash and bank balances at the year end were £24.5m and net current assets were £12.8m. In addition the Group had undrawn loan facilities in place of £86.3m.

The main factor influencing the amount and timing of borrowings is the pace of the development programme which has a significant impact according to the timing of land acquisitions and interim payments to contractors.

# FIRST WESSEX HOUSING GROUP LIMITED

## REPORT OF THE BOARD OF MANAGEMENT FOR THE YEAR ENDED 31 MARCH 2008

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### **Summary of the Operating and Financial Review**

In summary the Operating and Financial Review demonstrates that the Group has had a successful year. Furthermore, the grouping with the Portsmouth Housing Association and its subsidiaries now enables the Group to consolidate its position as a strong Hampshire based organisation and to act as a springboard for future growth in and around the county.

### **Results**

The Management Board considers that the Group has performed well in the financial year.

### **Reserves Strategy**

As at 31 March 2008, the Group held reserves of £135,382,000 (2007: £125,920,000) including the acquisition reserve of £64,678,000 (2007: £65,183,000).

The Board's policy is to ensure that all of the Group's surpluses are applied for the long-term benefit of existing or future customers – none are able to be distributed to shareholders. The Group is committed to generating sufficient reserves to pursue its core objectives and to meeting the following requirements:

- Improving the standard of accommodation and services available to tenants
- Minimising rent increases
- Meeting the requirements of loan covenants agreed with lenders
- Contributing towards the development programme
- Funding developments prior to the arrangement of long-term loans.

### **Rent Strategy**

The Group has been moving towards a rationalisation of rents for a number of years, a strategy that has been enhanced by the Government's rent restructuring regime. The Board has agreed a Rent Plan, which enables the Group to move towards these new "target" rents while protecting tenants from excessive year on year changes to their rents.

Whilst wishing at all times to ensure that our rents remain affordable to people on low paid employment, the Board is conscious of the increasing demand on the Group's resources, especially in relation to the rising cost of maintenance. The Board recognises that it is important to maintain strong finances and increase reserves to meet these demands.

### **Insurances**

Insurance policies are maintained by the Group for members of the Board and Executive Directors against liabilities in relation to the Group.

### **Governance**

The Group is committed to the principles of corporate governance contained in the Competence and Accountability 2000 ("the Code") issued by the National Housing Federation and with the Housing Corporation Circular 07/07 Internal Controls Assurance. Throughout the year ended 31 March 2008, the group has been in compliance with the Code of Best Practice. The company has applied the Principles of Good Governance set out in the Code by complying with the Code of Best Practice as reported above. Further explanation of how the Principles have been applied is set out below.

# FIRST WESSEX HOUSING GROUP LIMITED

## REPORT OF THE BOARD OF MANAGEMENT FOR THE YEAR ENDED 31 MARCH 2008

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### Going concern

The Board has a reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing the financial statements.

### Charitable donations

The Group made £109k charitable donations in the year (2007: £91k).

### Board members responsibilities

The Board of Management is required by law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the group and of the surplus or deficit for that period. In preparing the financial statements, the Board of Management is required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departure 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 of Management is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and to ensure that the financial statements comply with the Industrial and Provident Societies Acts 1965 to 2002, the Housing Act 1996, the Statement of Recommended Practice (SORP) "Accounting by Registered Social landlords" Update 2005 issued by the National Housing Federation and the Accounting Requirements for Registered Social Landlords General Determination 2006 .

The Board of Management is responsible for safeguarding the assets of the group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Internal Controls Assurance

The Board of each organisation within the First Wessex Housing Group, including the subsidiaries not registered with the Housing Corporation, acknowledges that it is responsible for the Group's system of internal control and for reviewing its effectiveness. Each part of the Group endeavours to comply with the requirements of Housing Corporation Circular 07/07 Internal Controls Assurance.

During the year a review of internal controls assurance has been carried out by the Executive Team and their report has been received by each individual Board/Committee member and by the Group Audit Committee on behalf of the Group Boards.

Group objectives are set out and reviewed annually in the Group's business planning exercise, which includes consideration of the threats and risks that may prevent those objectives from being achieved. The system of internal controls is designed to manage rather than eliminate the risk of failure to meet these objectives and can only provide reasonable, rather than absolute, assurance against material mis-statement or loss.

In addition the Group has a full risk map which highlights those items which are seen as highest risk in order to ensure that they are being monitored and managed. In the past, the Group Finance Director has led the risk management review process,

# FIRST WESSEX HOUSING GROUP LIMITED

## REPORT OF THE BOARD OF MANAGEMENT FOR THE YEAR ENDED 31 MARCH 2008

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### Internal Controls Assurance (cont'd)

seeking information as required from service managers and other staff, but it was increasingly felt that measures should be introduced to harmonise the management of risk across the Group and involve a broader spectrum of staff in risk identification, evaluation and management. To this end a review of Risk Management was commissioned from our internal auditors whose report was considered by the Audit Committee. This contains suggestions for expansion and improvement which will be followed up during the coming financial year. Proper procedures and practices are in place to deal with the risk management of Health and Safety issues.

The Board has a current strategy and policy on fraud covering prevention, detection and reporting of fraud and the recovery of assets. During 2007/08 the Group Audit Committee received regular updates of the Group Fraud Register. In August 2007 an incidence of fraud against Portsmouth Housing Association marginally above £5,000, and therefore reportable to the Housing Corporation, was reported to the Group Audit Committee. The matter was dealt with in accordance with the group's Anti fraud Policy and response Plan and involved police prosecution conviction and recovery of the funds.

The Housing Corporation completed a review of the Group in March 2008. Included in the resultant report were two 'amber lights' in respect of the Group being 'Properly Governed' and 'Development' under the Housing Corporation Assessment dated April 2008. Following a thoroughgoing review of the events that surrounded the failings, commissioned jointly by the Group and the Corporation, an action plan was agreed which was completed for review by the Housing Corporation. The Board views these events as an important learning process following which, significant improvements have now been made. The Corporation has carried out their review in conjunction with a post merger review and has confirmed their intention to return our amber lights to green.

The internal control framework and the risk management process are subject to regular review by Internal Audit who are responsible for providing independent assurance to the Board via the Group Audit Committee. The Group Audit Committee considers internal control and risk at each of its meetings.

The Board has received the Executive's annual report, has conducted its annual review of the effectiveness of the system of internal control and has taken account of any changes needed to maintain the effectiveness of the risk management and control process.

The Board confirms that there is an ongoing process for identifying, evaluating and managing significant risks faced by the Association. This process has been in place throughout the year under review, up to the date of the annual report, and is regularly reviewed by the Board.

The Group Board and Committees regularly receive reports on operational and financial matters that incorporate control issues and progress against action plans is monitored at each Audit Committee meeting.

The external auditors present their management letter to the Group Audit Committee and have the opportunity to meet the Committee and the internal auditors without staff being present.

The Boards receive reports on key performance indicators that focus on operational and financial areas that are identified as significant in achieving our business objectives.

In addition to its Group Standing Orders and Financial Regulations the Group has established a range of policies which cover the manner in which its business activities are conducted. Those that are designed to provide effective internal control include:

- Handling of Residents' Funds
- Reporting of Fraud and Whistleblowing
- Responding to Allegations
- Risk Management
- Treasury Management

# FIRST WESSEX HOUSING GROUP LIMITED

## REPORT OF THE BOARD OF MANAGEMENT FOR THE YEAR ENDED 31 MARCH 2008

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### Auditors

The auditors, Nexia Smith & Williamson, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

### Employees

The Group recognises the importance of the contribution made by its employees and seeks to ensure that they remain committed, trained and motivated. The Group makes significant investment in training and development and makes full use of communication and assessment to involve and inform employees.

The Group is committed to equality and diversity and the creation of opportunities for all its employees. The Management Board wishes to put on record its gratitude to all employees for their continuing hard work and commitment.

Approved by the Board of Directors and signed on behalf of the Board by:

Ben Stoneham  
**Chair**  
24 July 2008

# FIRST WESSEX HOUSING GROUP LIMITED

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FIRST WESSEX HOUSING GROUP LIMITED

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### Independent auditors' report to the members of First Wessex Housing Group

We have audited the accounts of First Wessex Housing Group for the year ended 31<sup>st</sup> March 2008 which comprise the Group and Association Income and Expenditure Account, Balance Sheet, Statement of Total Recognised Surpluses and Deficits and Note of Historical Cost Surpluses and Deficits, the Group Cash Flow Statement and the related notes 1 to 35. These accounts 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 the requirements of statute. 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 the Board and auditors

As described on page 7 the board is responsible for the preparation of the accounts in accordance with applicable law and United Kingdom Accounting Standards and the relevant Statement of Recommended Practice.

Our responsibility is to audit the accounts 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 accounts give a true and fair view and are properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002, the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2006. We also report to you if, in our opinion, the Report of the Board of Management is not consistent with the accounts, if the association has not kept proper accounting records and if we have not received all the information and explanations we require for our audit.

We read the Report of the Board of Management and consider the implications for our report if we become aware of any apparent misstatements within it.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Board in the preparation of the accounts, 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 accounts 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 accounts.

### Opinion

In our opinion the accounts:

- give a true and fair view of the state of the Group and Association's affairs as at 31<sup>st</sup> March 2008 and of the Group and Association's income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002, the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2006.

**Nexia Smith & Williamson**  
Chartered Accountants  
Registered Auditors

Imperial House  
18-21 Kings Park Road  
Southampton  
SO15 2AT

Date

**FIRST WESSEX HOUSING GROUP LIMITED**

**INCOME AND EXPENDITURE ACCOUNT  
FOR THE YEAR ENDED 31 MARCH 2008**

	Notes	Group		Company	
		2008 £'000	2007 £'000	2008 £'000	2007 £'000
<b>Turnover</b>	<b>2</b>	77,649	74,452	8,720	5,125
<b>Operating costs</b>	<b>2</b>	(54,906)	(53,141)	(8,591)	(5,106)
<b>Operating surplus</b>	<b>2</b>	22,743	21,311	129	19
Surplus on sales of properties	<b>4</b>	4,595	3,119	-	-
		27,338	24,430	129	19
Interest receivable and similar income	<b>8</b>	1,308	885	3,231	3,039
Interest payable and similar charges	<b>9</b>	(21,498)	(19,787)	(3,231)	(3,035)
Other finance costs	<b>32</b>	(50)	(40)	-	-
<b>Surplus on ordinary activities before taxation</b>		7,098	5,488	129	23
Tax charge on surplus on ordinary activities	<b>10</b>	(20)	(223)	(58)	(39)
<b>Surplus/(deficit) on ordinary activities after taxation</b>	<b>26</b>	7,078	5,265	71	(16)

All of the Group's activities relate to continuing operations.

The notes on pages 16 to 53 form part of these financial statements.

**FIRST WESSEX HOUSING GROUP LIMITED****STATEMENT OF TOTAL RECOGNISED SURPLUSES AND DEFICITS  
FOR THE YEAR ENDED 31 MARCH 2008**

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	<b>Group</b>		<b>Company</b>	
	<b>2008 £'000</b>	<b>2007 £'000</b>	<b>2008 £'000</b>	<b>2007 £'000</b>
Surplus/(deficit) for the year as reported in the Income and Expenditure Account	7,078	5,265	71	(16)
Actuarial gain	3,030	-	-	-
Deferred tax on actuarial gain	(635)	-	-	-
Gain on reduction of Berkshire Pension Fund membership to nil	-	80	-	-
Unrealised deficit on investment	(11)	(107)		
<b>Total recognised surpluses and deficits for the year</b>	<b>9,462</b>	<b>5,238</b>	<b>71</b>	<b>(16)</b>

**FIRST WESSEX HOUSING GROUP LIMITED**  
**NOTE OF HISTORICAL COST SURPLUSES AND DEFICITS**  
**FOR THE YEAR ENDED 31 MARCH 2008**

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	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Surplus on ordinary activities before taxation	7,098	5,488	129	23
Difference between the historical depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	3	3	18	18
<b>Historical cost surplus on ordinary activities before taxation</b>	<b>7,101</b>	<b>5,491</b>	<b>147</b>	<b>41</b>
<b>Historical cost surplus retained after taxation</b>	<b>7,081</b>	<b>5,268</b>	<b>89</b>	<b>2</b>

**FIRST WESSEX HOUSING GROUP LIMITED**

**BALANCE SHEET  
AS AT 31 MARCH 2008**

	Notes	Group		Company	
		2008 £'000	2007 £'000	2008 £'000	2007 £'000
<b>Fixed Assets:</b>					
Housing properties, depreciated cost	11a	753,860	717,949	-	-
Grant	11a	(252,826)	(240,068)	-	-
Other	12	15,266	14,225	1,757	1,718
		<u>516,300</u>	<u>492,106</u>	<u>1,757</u>	<u>1,718</u>
Investments	13	1,707	1,718	54,200	56,200
		<u>518,007</u>	<u>493,824</u>	<u>55,957</u>	<u>57,918</u>
<b>Current assets:</b>					
Stock	14	324	123	-	-
Debtors	15	8,334	9,418	3,566	646
Cash at bank and in hand		25,117	30,225	46	443
		<u>33,775</u>	<u>39,766</u>	<u>3,612</u>	<u>1,089</u>
<b>Creditors: Amounts falling due within one year</b>	16	(20,606)	(20,694)	(4,076)	(1,590)
<b>Net current assets/(liabilities)</b>		<u>13,169</u>	<u>19,072</u>	<u>(464)</u>	<u>(501)</u>
<b>Total assets less current liabilities</b>		<u>531,176</u>	<u>512,896</u>	<u>55,493</u>	<u>57,417</u>
<b>Creditors: Amounts falling due after one year</b>	18	393,460	382,336	54,222	56,222
<b>Pension scheme liabilities</b>	22	1,120	3,305	-	-
<b>Provisions for liabilities and charges</b>	23	1,214	1,335	72	67
<b>Capital and reserves:</b>					
Share capital – non equity	24	-	-	-	-
Revenue reserve	25	68,904	59,195	170	81
Designated reserve	25	1,054	751	-	-
Revaluation reserve	25	219	233	1,029	1,047
Restricted charitable reserve of subsidiaries	25	502	533	-	-
Unrestricted charitable reserve	25	25	25	-	-
Acquisition reserve	27	64,678	65,183	-	-
		<u>531,176</u>	<u>512,896</u>	<u>55,493</u>	<u>57,417</u>

The financial statements were approved by the Board of Management on 24 July 2008 and signed on its behalf by:

Ben Stoneham  
Chair

Anthony Boyle  
Board Member

Graham Brombley  
Secretary

The notes on pages 16 to 53 form part of these financial statements.

**FIRST WESSEX HOUSING GROUP LIMITED**  
**CONSOLIDATED CASH FLOW**  
**FOR THE YEAR ENDED 31 MARCH 2008**

	Notes	Group	
		2008 £'000	2007 £'000
<b>Net cash inflow from operating activities</b>	<b>30</b>	27,531	28,384
<b>Returns on investments and servicing of finance</b>			
Interest received		1,292	882
Interest paid		(23,523)	(20,706)
<b>Net cash outflow from returns on investments and servicing of finance</b>		(22,231)	(19,824)
<b>Taxation</b>		160	(366)
<b>Capital expenditure and financial investment</b>			
Cash paid for construction and purchase of housing properties		(70,519)	(55,883)
Social Housing Grants received		14,398	34,421
Cash paid for purchase of other fixed assets		(2,245)	(1,170)
Net proceeds of sales of housing properties and other assets		37,920	14,364
		(20,446)	(8,268)
<b>Net cash outflow before use of liquid resources and financing</b>		(14,986)	(74)
<b>Finance</b>			
Loans received (net of issue costs)		9,878	17,245
<b>(Decrease)/Increase in cash</b>	<b>31</b>	(5,108)	17,171

# FIRST WESSEX HOUSING GROUP LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2008

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### 1. Accounting policies

#### 1.1 Accounting convention, compliance with accounting standards and constitution

The financial statements have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and in accordance with applicable United Kingdom accounting standards, the Accounting Requirements for Registered Social Landlords General Determination 2006 and the Statement of Recommended Practice (SORP) Update 2005 issued by the National Housing Federation.

During the year First Wessex Housing Group merged with Portsmouth Housing Association. This merger has been accounted for using merger accounting. Whilst the merger took place on 1 April 2007 the results including comparatives have been presented as if the new Group had always existed.

The Company is incorporated under the Industrial and Provident Societies Acts 1965 to 2002.

#### 1.2 Turnover

Turnover represents rental income receivable, fees and service charges, after deduction of voids losses, grants received from local authorities and the Housing Corporation, Supporting People income and other income relating to the year.

#### 1.3 Tangible fixed assets

##### a) Housing properties

Housing and other properties are shown at cost less accumulated depreciation and social housing grant.

The cost of freehold properties includes all costs of construction and interest on borrowings to finance the construction of assets. Costs of construction are capitalised at their full amount and any retention is included within creditors due within one year.

##### b) Commercial properties

Certain commercial properties are carried at valuation based on open market value at the year end date derived from internal management estimations.

##### c) Depreciation

Depreciation is provided on a straight line basis on freehold properties to write off the cost or valuation less residual value, including the deemed value of the land on which the properties stand, over the estimated useful lives of the assets, at the following rates:

Type of property	Depreciation rate
Freehold housing	1% to 1.25% per annum
Leasehold housing	Over the life of the lease
Commercial	1.25% to 2% per annum
Hostels	2% per annum

Depreciation is not provided on freehold land or on assets in the course of construction.

The rates of depreciation for Portsmouth Housing Association changed during the year. Freehold property was previously depreciated at rates of 0.67% to 1% and freehold property supported housing was depreciated at 1%. The impact of this is to increase the depreciation charge in the year by £129k.

# FIRST WESSEX HOUSING GROUP LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)

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### 1. Accounting policies (continued)

#### 1.3 Tangible fixed assets (continued)

##### **d) Social Housing Grant**

Where developments have been financed wholly or partly by Social Housing Grant (SHG), the cost of those developments has been reduced by the amount of the grant received.

Where SHG is received on items treated as revenue expenditure, e.g. elements of major repair expenditure, it is treated as a revenue grant and credited to the income and expenditure account in line with the underlying expenditure.

Social Housing Grant may be repayable in certain circumstances, even where it has been treated as a revenue grant for accounting purposes, such as where a property is sold or if the development of a property is not completed.

Social Housing Grants are recognised on receipt in accordance with the SORP.

##### **e) Improvements to property and major repairs**

The Group capitalises items of expenditure on housing properties if they result in an enhancement to the economic benefits from the property.

Works to existing properties which do not meet the above criteria are charged to the income and expenditure account.

##### **f) Capitalisation of interest**

Interest on loans financing a development scheme is capitalised to the extent that it accrues in respect of the period of development.

##### **g) Capitalisation of development on-costs**

In some cases staff salary costs which are directly attributable to an individual development may be capitalised. Other costs are capitalised only to the extent that they are incremental as a result of the individual development. Costs incurred on schemes, which are identified as abortive, are written off in the year in which they are incurred.

##### **h) Impairment**

The need for any fixed asset impairment is assessed by comparison of the net historical cost of the asset against the higher of realisable value and value in use.

**FIRST WESSEX HOUSING GROUP LIMITED**  
**NOTES TO THE ACCOUNTS**  
**FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)**

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**1. Accounting policies (continued)**

**1.3 Tangible fixed assets (continued)**

**i) Sales of housing accommodation**

Sales of housing accommodation comprise proceeds from property sales, which are recognised at the date of completion, less the net book value of the properties taking into account any associated sales costs.

The surplus or deficit on sales of housing accommodation takes into account any liabilities under right to buy sharing agreements with local authorities.

**j) Sales of shared ownership housing accommodation**

The proceeds from first tranche sales of equity are netted against the costs of housing stock in the balance sheet. In instances where the sales proceeds for the first tranche are greater than cost, the excess of proceeds over cost is recognised in the Income and Expenditure Account within surpluses on sales of property. At completion of the second or any subsequent tranches of equity in a shared ownership property, any surplus or deficit resulting from that sale will be recorded in the Income and Expenditure Account.

**k) Other tangible fixed assets**

Other tangible fixed assets are stated at cost less accumulated depreciation. On other assets depreciation is provided on cost in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation used are as follows:

Type of asset	Depreciation rate
Furniture, equipment, fixtures and fittings	10% to 20% per annum
Computer equipment	20% to 50% per annum
Market rental equipment	33.3% per annum
Leasehold improvements	Over the life of the lease

**1.4 Investments**

Fixed asset investments are stated at cost less provision for any impairment in value.

**1.5 Stocks and Work in Progress**

Stocks and work in progress are stated at the lower of cost and net realisable value. Work in progress represents the cost of assets under development.

**1.6 Value added tax**

The Association is VAT registered but a large proportion of its income, rent, is exempt for VAT purposes and therefore gives rise to a partial exemption calculation. Expenditure is therefore shown gross of VAT, with any net recovery of VAT included within operating costs.

**FIRST WESSEX HOUSING GROUP LIMITED**  
**NOTES TO THE ACCOUNTS**  
**FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)**

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**1. Accounting policies (continued)**

**1.7 Deferred taxation**

Deferred taxation is provided for on a full provision basis on all timing differences which have arisen but not reversed at the balance sheet date. No timing differences are recognised in respect of gains on sale of assets where those assets have been rolled over into replacement assets. A deferred tax asset is not recognised to the extent that the transfer of economic benefit in the future is uncertain. Any assets and liabilities recognised have not been discounted.

**1.8 Rentals under operating leases**

Rentals under operating leases are charged to the income and expenditure accounts as incurred.

**1.9 Liquid resources**

Included within the heading "Liquid resources" in the cash flow statement, are any current asset investments held as readily disposable stores of value.

**1.10 Pension costs**

**Group**

The Group has three distinct pension arrangements in operation for its employees:

**Hampshire County Council Pension Fund**

For employees who transferred from Eastleigh Borough Council and Rushmoor Borough Council or where eligible to join, the Group participates in a defined benefit pension scheme which provides benefits based on final pensionable salary. The assets of the scheme are held by the Hampshire County Council Superannuation Fund.

The pension costs relating to the scheme are accounted for in accordance with FRS17 "Retirement Benefits". Current service costs and net finance returns are included in the income and expenditure account in the period to which they relate. Actuarial gains and losses are recognised in the statement of total recognised surpluses and deficits.

**Social Housing Pension Scheme – Defined Benefit**

For more recent employees who joined the pension scheme by 30 September 2002 (former Atlantic employees) or 31 August 2005 (former Pavilion employees) or 31 March 2007 (Portsmouth employees) the Group participates in the Social Housing Pension Scheme (SHPS). SHPS is a multi-employer defined benefit scheme through The Pensions Trust.

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

**Social Housing Pension Scheme – Defined Contribution**

For employees joining the pension scheme after the above dates, the Group operates a defined contribution scheme through The Pensions Trust. The accounting charge for the period represents the employer contribution payable.

**FIRST WESSEX HOUSING GROUP LIMITED**  
**NOTES TO THE ACCOUNTS**  
**FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)**

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**1. Accounting policies (continued)**

**1.10 Pension costs (continued)**

**Company**

The Company participates in two defined benefit final salary pension schemes operated by Hampshire County Council and the Pensions Trust. Contributions are based on pension costs across the various participating organisations taken as a whole. The assets of the schemes are invested and managed independently of the finances of the company.

Pension costs are assessed triennially for both schemes in accordance with the advice of an independent qualified actuary.

The Company is not able to identify its share of assets and liabilities within the schemes in order to account for them in accordance with requirements of FRS17 'Retirement Benefits'. As permitted by FRS 17, the Company has accounted for its contributions as if made to a defined contribution scheme, namely by including them in the profit and loss account as they fall due.

The Company also participates in a money purchase pension arrangement operated by the Pensions Trust. Contributions to the arrangement are accounted for as they fall due.

**1.11 Designated reserves**

The designated reserve consists of amounts due to be spent on set items. Funds will be released for a purpose which complies with this and an equivalent sum will be released to the income and expenditure account.

**1.12 Supporting People income and expenditure**

Supporting People income and expenditure is accounted for on an accruals basis, matching income and expenditure, and disclosures are made in accordance with relevant standards and legislation as above.

**1.13 Loan issue costs**

Costs incurred in raising loan finance are recorded as a deduction from the gross proceeds of the loan and subsequently amortised in the income and expenditure account over the term of the loan.

**1.14 Corporation tax**

The charge for taxation is based on surpluses arising on certain activities which are liable to tax.

**FIRST WESSEX HOUSING GROUP LIMITED**

**NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)**

**2. Particulars of turnover, operating costs and operating surplus**

	<b>2008</b>	<b>2008</b>	<b>2008</b>	<b>2007</b>	<b>2007</b>	<b>2007</b>
	<b>Turnover</b>	<b>Operating</b>	<b>Surplus/ (Deficit)</b>	<b>Turnover</b>	<b>Operating</b>	<b>Surplus/ (Deficit)</b>
	<b>£'000</b>	<b>Costs</b>	<b>(Deficit)</b>	<b>£'000</b>	<b>Costs</b>	<b>(Deficit)</b>
<b>a) Group</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Social housing lettings (Note 3a)	68,345	(45,675)	22,670	63,268	(42,768)	20,500
Other social housing activities:						
Supporting People	1,206	(1,284)	(78)	1,347	(1,421)	(74)
Other	1,816	(2,191)	(375)	2,063	(2,222)	(159)
<b>Total for social housing activities</b>	<b>71,367</b>	<b>(49,150)</b>	<b>22,217</b>	<b>66,678</b>	<b>(46,411)</b>	<b>20,267</b>
Non-social housing lettings (Note 3b)	3,425	(2,714)	711	4,137	(2,756)	1,381
Other non-social housing activities (Note 3b)	2,857	(3,042)	(185)	3,637	(3,974)	(337)
<b>Total for non-social housing activities</b>	<b>6,282</b>	<b>(5,756)</b>	<b>526</b>	<b>7,774</b>	<b>(6,730)</b>	<b>1,044</b>
<b>Total for all activities</b>	<b>77,649</b>	<b>(54,906)</b>	<b>22,743</b>	<b>74,452</b>	<b>(53,141)</b>	<b>21,311</b>

**FIRST WESSEX HOUSING GROUP LIMITED**

**2. Particulars of turnover, operating costs and operating surplus (continued)**

	<b>2008</b>	<b>2008</b>	<b>2008</b>	<b>2007</b>	<b>2007</b>	<b>2007</b>
	<b>Turnover</b>	<b>Operating Costs</b>	<b>Surplus/ (Deficit)</b>	<b>Turnover</b>	<b>Operating Costs</b>	<b>Surplus/ (Deficit)</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>b) Company</b>						
Non-social housing activities (note 3b)	8,720	(8,591)	129	5,125	(5,106)	19
<b>Total</b>	<u>8,720</u>	<u>(8,591)</u>	<u>129</u>	<u>5,125</u>	<u>(5,106)</u>	<u>19</u>

**FIRST WESSEX HOUSING GROUP LIMITED**  
**NOTES TO THE ACCOUNTS**  
**FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)**

**3a. Particulars of income and expenditure from social housing lettings**

	General needs housing	Supported housing and housing for older people	Temporary social housing	Key workers	Low cost home ownership	Other	Total 2008	Total 2007
	£000	£000	£000	£000	£000	£000	£000	£000
Rent receivable net of identifiable service charges	48,269	6,865	246	2,390	2,590	2,024	62,384	58,029
Charges for support services	66	1,246	-	-	-	-	1,312	1,189
Service income	2,010	1,463	73	176	293	10	4,025	3,431
Net rental income	50,345	9,574	319	2,566	2,883	2,034	67,721	62,649
Other income	6	300	-	-	201	117	624	619
<b>Turnover from social housing lettings</b>	<b>50,351</b>	<b>9,874</b>	<b>319</b>	<b>2,566</b>	<b>3,084</b>	<b>2,151</b>	<b>68,345</b>	<b>63,268</b>
Management	8,676	1,877	80	413	573	668	12,287	11,457
Services	3,032	1,411	47	288	226	21	5,025	4,313
Support	53	1,358	-	-	-	-	1,411	1,284
Routine maintenance	7,801	1,436	109	231	119	207	9,903	8,899
Planned maintenance	3,041	528	16	32	30	21	3,668	3,840
Major repairs expenditure	6,763	1,035	3	10	14	9	7,834	7,662
Bad debts	378	90	14	1	(7)	37	513	431
Rent charges	11	193	-	478	1	-	683	623
Property lease charges	68	42	-	-	1	1,281	1,392	1,379
Depreciation of housing properties	2,426	237	5	66	165	29	2,928	2,843
Other costs	-	25	-	5	-	1	31	37
<b>Operating costs on social housing lettings</b>	<b>32,249</b>	<b>8,232</b>	<b>274</b>	<b>1,524</b>	<b>1,122</b>	<b>2,274</b>	<b>45,675</b>	<b>42,768</b>
<b>Operating surplus / (deficit)</b>	<b>18,102</b>	<b>1,642</b>	<b>45</b>	<b>1,042</b>	<b>1,962</b>	<b>(123)</b>	<b>22,670</b>	<b>20,500</b>
Void losses	413	250	49	124	26	110	972	987

**FIRST WESSEX HOUSING GROUP LIMITED**

**NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)**

**3b. Particulars of turnover from non-social housing activities**

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
<b>Lettings</b>				
Market renting	922	942	-	-
Student accommodation	1,213	1,890	-	-
Garage renting	657	660	-	-
SP Contract income	57	62	-	-
Commercial	235	191	-	-
Refugees service	115	105	-	-
Other	226	287	-	-
<b>Total lettings</b>	<b>3,425</b>	<b>4,137</b>	<b>-</b>	<b>-</b>
<b>Other</b>				
Third party alarms	63	58	-	-
Leaseholders	77	74	-	-
Management fees	46	40	8,618	5,062
Insurance claims	50	52	-	-
Recharge income	64	63	-	-
Social, economic & community regeneration activities	1,038	896	-	-
Families & children's services	480	424	-	-
Wessex Property Limited sales	429	1,439	-	-
Other income	610	591	102	63
<b>Total other</b>	<b>2,857</b>	<b>3,637</b>	<b>8,720</b>	<b>5,125</b>
<b>Total all activities</b>	<b>6,282</b>	<b>7,774</b>	<b>8,720</b>	<b>5,125</b>

# FIRST WESSEX HOUSING GROUP LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)

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### 3c. Units of accommodation in management and managed by others

	Number of units at 31 March 2008	Number of units at 1 April 2007
<b>Units of accommodation in management</b>		
<b>Social housing</b>		
General needs	11,811	11,477
Supported housing and housing for older people	1,865	2,113
Keyworker	338	363
Low cost home ownership	2,254	2,132
Other	6	6
<b>Total</b>	<b>16,274</b>	<b>16,091</b>
<b>Non-social housing</b>		
Student accommodation	30	558
Market rented	131	135
Other	160	160
<b>Total</b>	<b>321</b>	<b>853</b>
<b>Total units of accommodation in management</b>	<b>16,595</b>	<b>16,944</b>
<b>Units of accommodation managed by others</b>	<b>667</b>	<b>649</b>
<b>Total of all units</b>	<b>17,262</b>	<b>17,593</b>

**FIRST WESSEX HOUSING GROUP LIMITED**

**NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)**

**4. Surplus on sale of properties**

	<b>Group</b>		<b>Company</b>	
	<b>2008 £'000</b>	<b>2007 £'000</b>	<b>2008 £'000</b>	<b>2007 £'000</b>
Gross sales proceeds	28,015	15,927	-	-
Amounts payable to Local Authority	(1,003)	(1,416)	-	-
Cost of sales	(22,417)	(11,392)	-	-
Surplus for the year	<u>4,595</u>	<u>3,119</u>	<u>-</u>	<u>-</u>

See Note 17 'Local Authority clawback'.

**5. Surplus on ordinary activities before taxation**

	<b>Group</b>		<b>Company</b>	
	<b>2008 £'000</b>	<b>2007 £'000</b>	<b>2008 £'000</b>	<b>2007 £'000</b>
Surplus on ordinary activities before taxation is stated after charging:				
Depreciation and amortisation:				
Depreciation of housing properties	2,981	3,017	-	-
Depreciation of other tangible fixed assets	1,004	946	213	130
Amortisation of lease	341	567	-	-
External auditors' remuneration (incl. VAT):				
In their capacity as auditors	127	144	14	8
Other non-audit services paid to related companies of the auditors	34	48	7	8
Operating lease rentals				
Hire of plant and machinery	6	6	-	-
Land and buildings	1,595	1,511	-	-
Motor vehicles	309	317	-	-
	<u></u>	<u></u>	<u></u>	<u></u>

# FIRST WESSEX HOUSING GROUP LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)

### 6. Employees

	Group		Company	
	Numbers for 2008	Numbers for 2007	Numbers for 2008	Numbers for 2007
The average number of employees, including the executive officers, expressed as full time equivalents based on 35 hours per week	732	755	134	108
<b>Staff costs including remuneration of the members of the Board of Management:</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Wages and salaries	17,039	16,920	4,031	3,121
Social security costs	1,444	1,456	393	297
Other pension costs	1,150	1,488	393	636
	19,633	19,864	4,817	4,054

### 7. Directors emoluments

The Statement of Recommended Practice Accounting by Registered Social Landlords Update 2005 and the Accounting Requirements for Registered Social Landlords General Determination 2006, define the Directors of First Wessex Housing Group Limited as the Board of Management, the Chief Executive and the other members of the Executive Management Team.

	Group 2008 £'000	Group 2007 £'000
Emoluments executive staff members	688	341
Emoluments non executive staff members	98	63
Total Emoluments (including pension contributions and benefits in kind)	786	404
Emoluments (excluding pension contributions) payable to the highest paid director	130	124

No car allowances were paid to directors. The Chief Executive, who retired during the year was a normal member of the Hampshire County Council Superannuation Fund and received no enhanced or special terms. The chief executive appointed during the year, was a member of the Social Housing Pensions Flexible Retirement Plan and received no enhanced or special terms.

**FIRST WESSEX HOUSING GROUP LIMITED**

**NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)**

8. Interest receivable and similar income	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Interest receivable and similar income	1,236	781	2	1
Intercompany loan interest	-	-	3,229	3,038
Income from fixed asset investment	72	104	-	-
	<u>1,308</u>	<u>885</u>	<u>3,231</u>	<u>3,039</u>

9. Interest payable and similar charges	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Interest and similar charges on loans	23,197	21,938	3,229	3,033
Interest charged by subsidiary undertakings	-	-	2	2
On recycled capital grant fund	69	36	-	-
	<u>23,266</u>	<u>21,974</u>	<u>3,231</u>	<u>3,035</u>
Capitalised interest	(1,768)	(2,187)	-	-
	<u>21,498</u>	<u>19,787</u>	<u>3,231</u>	<u>3,035</u>

# FIRST WESSEX HOUSING GROUP LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)

10. Tax on surplus/(deficit) on ordinary activities	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
<b>Taxation charge for the year</b>				
Corporation tax charge for the year	(108)	(116)	(46)	(19)
Adjustment in respect of prior years	(33)	164	(7)	14
Current tax (charge)/credit	(141)	48	(53)	(5)
<b>Deferred tax</b>				
Timing differences, origination and reversal	45	(202)	(10)	(34)
Adjustment in respect of prior years	76	(69)	5	-
Total taxation charge for the year	(20)	(223)	(58)	(39)

The tax assessed for the period is lower than that resulting from applying the standard 30% rate of corporation tax in the UK (2007: 30%). The differences are explained below:

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Surplus for the year	7,098	5,488	129	23
Surplus multiplied by effective tax rate of 30% (2007: 30%)	2,129	1,646	39	7
Surplus relating to charitable activities	(2,585)	(1,843)	-	-
Non qualifying depreciation	155	-	13	30
Disallowable items	150	333	5	7
Property disposals	315	175	-	-
Capital allowances in excess of depreciation	5	(7)	(11)	(22)
Unrelieved tax losses	-	(13)	-	-
Adjustments arising from earlier years	33	(164)	7	(14)
Pension adjustments	48	-	-	-
Other timing differences	(149)	(168)	-	-
Tax losses	18	-	-	-
Rate adjustment	22	-	-	-
Small companies rate relief	-	(7)	-	(3)
Current tax charge/(credit)	141	(48)	53	5

# FIRST WESSEX HOUSING GROUP LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)

### 11a. Tangible fixed assets – Housing properties

Group	Properties held for letting £'000	Under Construction  £'000	Total  £'000
<b>Cost:</b>			
Balance at 1 April 2007	687,965	42,108	730,073
Completed properties acquired	2,220	2,344	4,564
Additions	-	69,060	69,060
Transfer between categories	28,877	(30,215)	(1,338)
Disposals	(33,233)	(2,741)	(35,974)
Balance at 31 March 2008	<u>685,829</u>	<u>80,556</u>	<u>766,385</u>
<b>Social Housing Grants:</b>			
Balance at 1 April 2007	223,793	16,275	240,068
Received during the year	3,952	10,943	14,895
Transfer between categories	9,051	(9,051)	-
Disposals	(2,137)	-	(2,137)
SHG at 31 March 2008	<u>234,659</u>	<u>18,167</u>	<u>252,826</u>
<b>Depreciation/Amortisation:</b>			
Balance at 1 April 2007	12,124	-	12,124
Depreciation charge for year	2,981	-	2,981
Disposals	(2,921)	-	(2,921)
Amortisation of lease	341	-	341
Balance at 31 March 2008	<u>12,525</u>	<u>-</u>	<u>12,525</u>
<b>Net book value at 31 March 2008</b>	<u>438,645</u>	<u>62,389</u>	<u>501,034</u>
<b>Net book value at 31 March 2007</b>	<u>452,048</u>	<u>25,833</u>	<u>477,881</u>

All housing properties for letting or shared ownership are held on a freehold or long leasehold tenure.

Works to existing properties was £10,107k of which £2,220k was capitalised and £7,887k was expensed through the Income & Expenditure Account.

**FIRST WESSEX HOUSING GROUP LIMITED**

**NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)**

**11b. Tangible fixed assets – Housing properties (continued)**

<b>Group</b>	<b>Shared ownership properties completed</b>	<b>Shared ownership properties under construction</b>	<b>Total shared ownership properties</b>
<b>Shared ownership properties included in Housing Properties</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Cost:</b>			
Balance at 1 April 2007	66,144	16,214	82,358
Completed properties acquired	-	1,496	1,496
Additions	-	23,206	23,206
Transfer between categories	12,197	(12,197)	-
Disposals	(6,602)	(1,136)	(7,738)
Balance at 31 March 2008	<u>71,739</u>	<u>27,583</u>	<u>99,322</u>
<b>Social Housing Grants:</b>			
Balance at 1 April 2007	28,203	4,615	32,818
Received during the year	1,389	4,143	5,532
Transfer between categories	3,001	(3,001)	-
Disposals	(356)	-	(356)
Balance at 31 March 2008	<u>32,237</u>	<u>5,757</u>	<u>37,994</u>
<b>Depreciation/Amortisation:</b>			
Balance at 1 April 2007	447	-	447
Disposals	(12)	-	(12)
Depreciation charge for year	218	-	218
Balance at 31 March 2008	<u>653</u>	<u>-</u>	<u>653</u>
<b>Net book value at 31 March 2008</b>	<u>38,849</u>	<u>21,826</u>	<u>60,675</u>
<b>Net book value at 31 March 2007</b>	<u>37,494</u>	<u>11,599</u>	<u>49,093</u>

**FIRST WESSEX HOUSING GROUP LIMITED**

**NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)**

**12. Tangible fixed assets - other**

Group	Commercial Buildings	Office Buildings	Other	Total
	£'000	£'000	£'000	£'000
<b>Cost:</b>				
Balance at 1 April 2007	3,025	9,381	6,739	19,145
Transfers from Housing Properties	-	1,338	-	1,338
Additions	-	-	913	913
Disposals	-	(206)	-	(206)
Balance at 31 March 2008	<u>3,025</u>	<u>10,513</u>	<u>7,652</u>	<u>21,190</u>
<b>Depreciation:</b>				
Balance at 1 April 2007	37	474	4,409	4,920
Charge for the year	23	154	827	1,004
Balance at 31 March 2008	<u>60</u>	<u>628</u>	<u>5,236</u>	<u>5,924</u>
<b>Net book value at 31 March 2008</b>	<u><u>2,965</u></u>	<u><u>9,885</u></u>	<u><u>2,416</u></u>	<u><u>15,266</u></u>
<b>Net book value at 31 March 2007</b>	<u><u>2,988</u></u>	<u><u>8,907</u></u>	<u><u>2,330</u></u>	<u><u>14,225</u></u>

The freehold office property was valued on 21 March 2000 at open market value on the basis of existing use by Countrywide Commercial Chartered Surveyors, who are independent of the company. The valuation was carried out by J M Peace, FRICS. Transitional rules under FRS15 have been applied.

**FIRST WESSEX HOUSING GROUP LIMITED**

**NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)**

**12. Tangible fixed assets – Other (continued)**

Company	Computer equipment	Office Buildings	Furniture & equipment	Total
	£'000	£'000	£'000	£'000
<b>Cost:</b>				
Balance at 1 April 2007	396	1,276	266	1,938
Additions	252	-	-	252
Balance at 31 March 2008	648	1,276	266	2,190
<b>Depreciation:</b>				
Balance at 1 April 2007	129	58	33	220
Charge for the year	129	43	41	213
Balance at 31 March 2008	258	101	74	433
<b>Net book value at 31 March 2008</b>	390	1,175	192	1,757
<b>Net book value at 31 March 2007</b>	267	1,218	233	1,718

**13. Fixed asset investments**

Group	Listed investments £'000	Unlisted investments £'000	Total £'000
<b>Cost or valuation</b>			
At 1 April 2007	1,693	25	1,718
Revaluation	(11)	-	(11)
At 31 March 2008	1,682	25	1,707
<b>Net book value</b>			
At 31 March 2008	1,682	25	1,707
At 31 March 2007	1,693	25	1,718

The listed investment is a requirement for the HAVEN loan facility.

The unlisted investments are 25,250 withdrawable shares in Portsmouth Area Regeneration Trust.

# FIRST WESSEX HOUSING GROUP LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)

### 13. Investments (continued)

Company	£'000
<b>Intra Group loan</b>	
Cost as at 1 April 2007	56,200
Loan repayment	(2,000)
Cost at 31 March 2008	54,200

Holdings	Activity	Country of Registration
<b>Direct holdings</b>		
Atlantic Housing Limited	Provision of homes to rent	Great Britain
Fernhill Care Limited	Personal care services	Great Britain
First Atlantic Housing Limited	Provision of homes to rent	Great Britain
First Step Housing Limited	Provision of homes to rent	Great Britain
Pavilion Housing Association Limited	Provision of homes to rent	Great Britain
Portsmouth Housing Association Limited	Provision of homes to rent	Great Britain
Pavilion Housing Limited	Property Letting	Great Britain
<b>Indirect holdings</b>		
EHA Property Services Limited	Property letting	Great Britain
Hewitt Homes	Property letting	Great Britain
Wessex Property Limited	Property maintenance and management	Great Britain
The EC Roberts Centre	Families & Children's Services	Great Britain
Portsmouth Foyer Limited	Young People	Great Britain

Each member of the Management board of Atlantic Housing Limited, Fernhill Care Limited, First Atlantic Housing Limited, Wessex Property Limited and Pavilion Housing Association Limited, Portsmouth Housing Association Limited holds a single £1 share in that company. All shares of Pavilion Housing Limited are owned by First Wessex Housing Group Limited. First Wessex Housing Group Limited controls the subsidiary companies through its power to appoint and remove all board members.

The shares held by other parties have voting rights, but do not provide any rights to dividends or distributions.

14. Stocks	2008 £'000	2007 £'000
<b>Group</b>		
Raw materials and consumables	95	52
Work in progress	229	71
	324	123

Work in progress includes capitalised interest of £nil (2007: nil).

**FIRST WESSEX HOUSING GROUP LIMITED****NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)**

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15. Debtors	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Rental debtors	4,964	5,008	-	-
Less: provision for bad debts	(2,322)	(2,213)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	2,642	2,795	-	-
Trade debtors	892	1,038	5	21
Amounts owed by subsidiary undertaking	-	-	3,267	369
Corporation tax recoverable	107	251	-	-
Other debtors	794	1,023	15	-
Prepayments and accrued income	2,040	1,800	279	256
Revenue grants	71	119	-	-
Capital grants	1,788	2,392	-	-
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	8,334	9,418	3,566	646
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

# FIRST WESSEX HOUSING GROUP LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)

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16. Creditors: Amounts falling due within one year	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Loans	195	839	-	-
Trade creditors	6,095	6,211	132	123
Rent received in advance	1,678	1,508	-	-
Other creditors	1,142	785	-	-
Taxation and social security	568	501	107	90
Recycled capital grant fund	419	96	-	-
Disposal proceeds fund	199	21	-	-
Rent Deposits	54	-	-	-
Local Authority claw back	1,355	999	-	-
Leaseholders' sinking fund	581	580	-	-
Revenue grants	4	-	-	-
Amounts owed to subsidiary undertakings	-	-	3,154	1,026
Corporation tax	111	75	49	13
Accruals and deferred income	8,205	9,079	634	338
	<u>20,606</u>	<u>20,694</u>	<u>4,076</u>	<u>1,590</u>

### 17. Local Authority clawback

Tenants in occupation at the date of transfer are eligible to buy their property at a discount from market value (the "right to buy") depending on the length of the tenancy. The proceeds from the right to buy are subject to a sharing agreement between the relevant Association and either Eastleigh Borough Council or Rushmoor Borough Council.

**FIRST WESSEX HOUSING GROUP LIMITED**

**NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)**

18. Creditors: Amounts falling due after more than one year	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Recycled capital grant fund	812	627	-	-
Disposal proceeds fund	1,106	689	-	-
Accruals and deferred income	69	69	-	-
<b>Housing loans: Repayable, otherwise than by Instalments as follows:</b>				
Between one and two years	218	684	-	-
In two to five years	1,572	4,407	-	-
In five years or more	389,683	375,860	54,222	56,222
	<u>393,460</u>	<u>382,336</u>	<u>54,222</u>	<u>56,222</u>

# FIRST WESSEX HOUSING GROUP LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)

### 19. Housing loans are analysed as follows:

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Royal Bank of Scotland	25,000	58,467	-	-
Abbey National Treasury Services Limited	108,333	63,666	-	-
Britannia Mortgage Agency Services No 1	36,667	36,667	-	-
Barclays Bank Plc	54,500	56,500	54,500	56,500
Harbour Funding	75,000	75,000	-	-
Allied Irish Bank plc	-	9,104	-	-
Nationwide	2,411	2,411	-	-
Lloyds TSB	27,503	20,517	-	-
Bank of Scotland	34,000	30,998	-	-
Other Capital Markets	30,816	31,026	-	-
Included in Current Liabilities	(195)	(839)	-	-
Issue costs	(2,562)	(2,566)	(278)	(278)
	<u>391,473</u>	<u>380,951</u>	<u>54,222</u>	<u>56,222</u>

Instalment loans are repayable within the term of the loans, which varies between 15 and 60 years. Interest is charged at rates between 4.47% and 7.18% per annum. Non-instalment loans are repayable at the end of their term which varies between 20 and 30 years. Interest is charged at rates between 5.5% and 7.1% per annum.

The Harbour Funding relates to Pavilion and is an issue of £75m of secured bonds repayable over 40 years at a fixed rate of 5.28%.

The Allied Irish Loan of £9.104m was repaid during the year.

The Nationwide loan of £2.411m is repayable over 30 years, of which £1.2m is at a fixed rate of 7.58% and the remainder is at a variable rate of interest. The first fourteen years are interest bearing only and the capital is to be repaid over the remaining sixteen years.

The borrowing from Lloyds TSB includes a facility of £517,000 to Hewitt Homes which is repayable over 19 years and presently bears interest at LIBOR plus 0.8%, which at the year end was 6.74%.

The loans include mortgages secured on the Association's housing properties and offices and the securitisation of the rental income on 196 general needs units.

The above loans include adjustments to the carrying value of debt in respect of issue costs, discounts and premiums.

# FIRST WESSEX HOUSING GROUP LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)

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<b>20. Movements on the disposals proceeds fund - Group</b>	<b>2008 £'000</b>	<b>2007 £'000</b>
Opening balance at 1 April	710	294
Inputs to fund:		
Grants recycled	475	291
Profit on Right to Acquire sales	72	194
Interest accrued	48	19
Outputs from fund:		
Transfer to new build	-	(88)
Closing balance at 31 March	<u>1,305</u>	<u>710</u>
<b>21. Movements on the recycled capital grant fund - Group</b>	<b>2008 £'000</b>	<b>2007 £'000</b>
Opening balance at 1 April	657	878
Inputs to fund:		
Grants recycled	941	496
Interest accrued	61	36
Outputs from fund:		
Transfer to new build	(428)	(687)
Closing balance at 31 March	<u>1,231</u>	<u>723</u>
Amount due for repayment to the Housing Corporation	<u>-</u>	<u>-</u>

**FIRST WESSEX HOUSING GROUP LIMITED**

**NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)**

**22. Pension scheme deficit**

	<b>Group</b>		<b>Company</b>	
	<b>2008 £'000</b>	<b>2007 £'000</b>	<b>2008 £'000</b>	<b>2007 £'000</b>
Pension liability before deferred tax (Note 32)	1,420	4,240	-	-
Deferred tax	(300)	(935)	-	-
	<u>1,120</u>	<u>3,305</u>	<u>-</u>	<u>-</u>

**23. Provisions for liabilities and charges**

	<b>Group</b>		<b>Company</b>	
	<b>2008 £'000</b>	<b>2007 £'000</b>	<b>2008 £'000</b>	<b>2007 £'000</b>
Deferred tax	<u>1,214</u>	<u>1,335</u>	<u>72</u>	<u>67</u>
Deferred tax consists of:				
Capital allowances in excess of depreciation	17	177	77	67
Gift aid and capitalised interest	1,302	1,219	-	-
Losses	(66)	-	-	-
Other timing differences	(39)	(61)	(5)	-
	<u>1,214</u>	<u>1,335</u>	<u>72</u>	<u>67</u>
Balance at 1 April	1,335	1,064	67	33
Acquired	-	-	-	-
Charge/(credit) for the year	(121)	271	5	34
Balance at 31 March	<u>1,214</u>	<u>1,335</u>	<u>72</u>	<u>67</u>

# FIRST WESSEX HOUSING GROUP LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)

24. Non equity share capital	2008 £	2007 £
Shares of £1 each	10	7

The share capital of the Group consists of shares with a nominal value of £1 each, which carry no rights to dividends or other income. Shares in issue are not capable of being repaid or transferred. Where a shareholder ceases to be a member, that person's share is cancelled and the amount paid up thereon becomes the property of the Group. Therefore all shareholdings relate to non-equity interests. There are no equity interests in the Group.

### 25. Reserves

Group	Unrestricted Charitable Reserve £'000	Restricted Charitable Reserve £'000	Revaluation Reserve £'000	Designated Reserve £'000	Revenue Reserve £'000
At 1 April 2007	25	533	233	751	59,195
Surplus retained for the financial year	-	-	-	-	7,078
Excess depreciation on revalued assets	-	-	(3)	-	3
Actuarial gain	-	-	-	-	3,030
Deferred tax on actuarial gain	-	-	-	-	(635)
Revaluation during the year Haven	-	-	(11)	-	-
Transfer from acquisition reserve	-	-	-	-	505
Transfer to/(from) revenue reserve	-	(31)	-	303	(272)
At 31 March 2008	25	502	219	1,054	68,904

The designated reserve represents the expected cost of replacing mobile warden equipment and sinking funds for other equipment replacements.

Company	Revaluation Reserve £'000
At 1 April 2007	1,047
Excess depreciation due to depreciation of revalued assets	(18)
At 31 March 2008	1,029

**FIRST WESSEX HOUSING GROUP LIMITED**

**NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)**

**26. Revenue reserve**

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Balance brought forward	59,195	53,706	81	79
Actuarial gain	2,395	-	-	-
Gain on reduction of Berkshire Pension Fund membership to nil	-	80	-	-
	<u>61,590</u>	<u>53,786</u>	<u>81</u>	<u>79</u>
Surplus/(deficit) for the year	7,078	5,265	71	(16)
Reserve transfers	(269)	(361)	18	18
Transfer from acquisition reserve	<u>505</u>	<u>505</u>	<u>-</u>	<u>-</u>
Balance carried forward	<u>68,904</u>	<u>59,195</u>	<u>170</u>	<u>81</u>
The revenue reserve comprises of:				
Revenue reserve excluding pension liability	70,024	62,500	170	81
Pension liability	<u>(1,120)</u>	<u>(3,305)</u>	<u>-</u>	<u>-</u>
Balance at 31 March	<u>68,904</u>	<u>59,195</u>	<u>170</u>	<u>81</u>

**27 Acquisition reserve**

Group	2007 £'000
Balance at 1 April 2007	65,183
Amortisation during the year	<u>(505)</u>
Balance at 31 March 2008	<u>64,678</u>

In accordance with the SORP negative goodwill has been categorised within reserves. This negative goodwill arose due to the difference arising between the fair value of net assets acquired and the consideration. The negative goodwill is amortised over the useful economic life of the housing assets acquired.

# FIRST WESSEX HOUSING GROUP LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)

### 28. Commitments under operating leases

	2008 £'000	2007 £'000
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At 31 March the **Group** had annual commitments under operating leases as follows:

#### Land and buildings

Leases which expire within one year	424	294
Leases which expire within two to five years	642	708
Leases which expire after five years	165	206
	1,231	1,208

#### Vehicle leases

Leases which expire within one year	25	70
Leases which expire within two to five years	284	173
	309	243

#### Company

##### Land and buildings

Leases which expire within two to five years	145	-
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### 29. Capital commitments

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000

Capital commitment at the end of the financial year for which no provision has been made in these financial statements, were as follows:

Contracted for	105,957	69,901	-	-
Authorised by the Board of Management but not contracted for	99,851	152,704	-	-

Social Housing Grant of £84m (2007: £42.5m) is available in respect of the above commitments.

**FIRST WESSEX HOUSING GROUP LIMITED**

**NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)**

**30. Reconciliation of operating surplus to net cash inflow from operating activities**

	<b>2008 £'000</b>	<b>2007 £'000</b>
Operating surplus	22,743	21,311
Depreciation on fixed assets	3,985	3,963
Amortisation of lease	341	567
Increase in stock	(201)	(48)
Decrease/(increase) in debtors	288	(357)
Increase in creditors	255	2,928
Net assets acquired	-	-
Pension scheme non-cash movement	120	20
Net cash inflow from operating activities	<u>27,531</u>	<u>28,384</u>

**31. Analysis of changes in net debt**

<b>Group</b>	<b>At 1 April 2007 £'000</b>	<b>Cash Flows £'000</b>	<b>At 31 March 2008 £'000</b>
Cash at bank and in hand	30,225	(5,108)	25,117
Overdrafts	-	-	-
	<u>30,225</u>	<u>(5,108)</u>	<u>25,117</u>
Debt due after one year	(380,951)	(10,522)	(391,473)
Debt due within one year	(839)	644	(195)
Net debt after issue costs	<u>(351,565)</u>	<u>(14,986)</u>	<u>(366,551)</u>

# FIRST WESSEX HOUSING GROUP LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)

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### 32. Pension obligations - Group

First Wessex Housing Group currently operates and contributes to two defined benefit pension schemes and a defined contribution scheme. The assets of the schemes are held in separate trustee administered funds.

In accordance with Financial Reporting Standard No.17 – Retirement Benefits (FRS17) disclosure of certain information concerning assets, liabilities, income and expenditure related to pension schemes is required. Some disclosures relating to the Group have been omitted on the grounds of materiality.

#### Hampshire County Council Pension Fund

For eligible transferring employees First Wessex Housing Group participates in the Local Government Pension Scheme administered by Hampshire County Council. The Local Government Pension Scheme is a defined benefit scheme based on final pensionable salary.

The disclosures below relate to the Hampshire County Council Pension Fund (the “Fund”) which is part of the Local Government Pension Scheme. First Wessex Housing Group Limited participates in the Fund which provides defined benefits based on members’ final pensionable salary.

In accordance with Financial Reporting Standard No. 17 - Retirement benefits (FRS 17) disclosure of certain information concerning assets, liabilities, income and expenditure relating to pension schemes is required.

The latest actuarial valuation of the Hampshire County Council Pension Fund took place as at 31 March 2007. The principle assumptions used by the independent qualified actuaries in updating the latest valuation of the Fund for FRS17 purposes were:

	2008 % pa	2007 % pa	2006 % pa	2005 % pa
Inflation	3.7	3.2	3.0	2.9
Rate of general long-term increase in salaries *	5.2	4.7	4.5	4.4
Rate of increase to pensions in payment	3.7	3.2	3.0	2.9
Rate of increase to deferred pensions	3.7	3.2	3.0	2.9
Discount rate	6.8	5.3	4.9	5.3

\* In addition, we have allowed for the same age related promotional salary scales as used at the actuarial valuation of the Fund as at 31 March 2007.

# FIRST WESSEX HOUSING GROUP LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)

### 32. Pension obligations - Group (continued)

We have been informed that the mid market value of the assets of the Hampshire County Council Pension Fund at Friday February 29, 2008 was £2,934.4m. (only a proportion of these assets are allocated to the Employer). The assets as at 31 March 2008 have been estimated using index returns appropriate to the mix of assets between 29 February 2008 and 31 March 2008. The asset values used as at the accounting date are set out below:

	Long-term rate of return expected at 31 March 2008 (%pa)	Value at 31 March 2008 £ m	Long-term rate of return expected at 31 March 2007 (%pa)	Value at 31 March 2007 £ m	Long-term rate of return expected at 31 March 2006 (%pa)	Value at 31 March 2006 £ m
Equities	7.6	1,808	7.7	1,940	7.3	1,874
Property	6.6	168	6.7	131	6.3	106
Government bonds	4.6	776	4.7	597	4.3	549
Corporate bonds	6.8	0	5.3	77	4.9	-
Other	6.0	167	5.6	140	4.6	138
Total	6.7	2,919	6.9	2,885	6.5	2,667

The funding position in relation to the Group's share of the assets and liabilities is as follows:

	31 March 2008 £'000	31 March 2007 £'000
Share of assets	11,290	11,050
Estimated funded liabilities	(12,710)	(15,290)
Estimated unfunded liabilities	-	-
Deficit	(1,420)	(4,240)

The movement in the net deficit for the year to 31 March 2008 is as follows:

	2008 £'000	2007 £'000
Net deficit at beginning of year	(4,240)	(4,129)
Current and past service costs	(530)	(290)
Contributions	370	219
Other finance costs	(50)	(40)
Actuarial gain	3,030	-
Deficit (before adjustment for deferred tax)	(1,420)	(4,240)

# FIRST WESSEX HOUSING GROUP LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)

### 32. Pension obligations - Group (continued)

The actuarial gain can be further analysed as follows:	2008 £'000	2007 £'000	2006 £'000
History of experience gains and losses:			
Difference between expected and actual return on scheme assets	(430)	(80)	1,436
Percentage of scheme assets	-3.85%	-1.00%	
Experience gains and (losses) arising on scheme liabilities	800	(30)	0
Percentage of the present value of the scheme liabilities	6.36%	-0.20%	
Changes in assumptions	2,660	110	(508)
Percentage of the present value of the scheme liabilities	20.93%	0.79%	
Total actuarial (loss)/gain	3,030	(30)	348
Percentage of the present value of the scheme liabilities	23.85%	0.00%	

#### Social Housing Pension Scheme

For employees who joined the Association after 18 March 1996 and joined the pension scheme by 30 September 2002 First Wessex Housing Group 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 Employers Guide".

The Scheme operated a single benefit structure, final salary with 1/60<sup>th</sup> 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 revalued 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.

First Wessex Housing Group Limited has elected to operate the final salary with a 1/70th accrual rate benefit structure for active members as at 1 April 2007 and has closed the scheme to new entrants with effect from 1 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.

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

# FIRST WESSEX HOUSING GROUP LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)

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### 32. Pension obligations - Group (continued)

future investment returns.

During the accounting period First Wessex Housing Group Limited paid contributions at the rate of 15.9%. Member contributions varied between 6.3% and 7.3% depending on their age.

As at the balance sheet date there were 20 active members of the Scheme employed by First Wessex Housing Group Limited. First Wessex Housing Group Limited has closed the scheme to new entrants.

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 as at 30 September 2005 by a professionally qualified actuary using the Projected Unit Method. The market value of the Scheme's assets at the valuation date was £1,278 million. The valuation revealed a shortfall of assets compared with the value of liabilities of £283 million, equivalent to a past service funding level of 82%.

The Scheme Actuary has prepared an Actuarial Report that provides an approximate update on the funding position of the Scheme as at 30 September 2007. 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 £1,760 million and indicated a decrease in the shortfall of assets compared to liabilities to approximately £209 million, equivalent to a past service funding level of 89%. Annual funding updates of the SHPS Scheme are carried out using approximate actuarial techniques rather than member by member calculations, and will therefore not produce the same results as a full actuarial valuation. However they will provide a good indication of the financial progress of the scheme since the last full valuation.

Since the contribution rates payable to the Scheme have been determined by reference to the last full actuarial valuation the following notes relate to the formal actuarial valuation as at 30 September 2005.

The financial assumptions underlying the valuation as at 30 September 2005 were as follows:

- Investment return pre retirement 7.2%pa;
- Investment return post retirement 4.8%pa;
- Rate of salary increases to 30 September 2010 5.0%pa;
- Rate of salary increases from 1 October 2010 4.0%pa;
- Rate of pension increases 2.5%pa;
- Rate of price inflation 2.5%pa.

The valuation was carried out using the PA92C2025 mortality table for non-pensioners and PA92C2013 mortality table for pensioners. The assumed life expectancy in years for pension

# FIRST WESSEX HOUSING GROUP LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)

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### 32. Pension obligations - Group (continued)

scheme members at age 65 using these mortality assumptions is as follows:

Non-pensioners - 20.4 (males) - 23.3 (females)

Pensioners - 19.4 (males) - 22.4 (females)

The long-term joint contribution rates, as a percentage of pensionable salaries, required from employers and members to meet the cost of future benefit accrual were assessed at:

Final salary with a 1/60th accrual rate 17.6%

Final salary with a 1/70th accrual rate 15.3%

Career average revalued earnings with a 1/60th accrual rate 14.1%

The long term joint contribution rates required from employers and members where contributions are set their on an age related basis (Under 30; 30-40; Over 40) are:

Final salary with a 1/60th accrual rate 16.1%; 17.1%; 18.1%

Final salary with a 1/70th accrual rate 13.8%; 14.8%; 15.8%

Career average revalued earnings with a 1/60th accrual rate 12.6%; 13.6%; 14.6%

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 £283 million would be dealt with by the payment of deficit contributions of 4.4% of pensionable salaries with effect from 1 April 2007. 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 entrants including First Wessex Housing Group Limited, 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 18 months after the valuation date.

If the valuation assumptions are borne out in practice this pattern of contributions should be sufficient to eliminate the past service deficit by 30 September 2020.

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

# FIRST WESSEX HOUSING GROUP LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)

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### 32. Pension obligations - Group (continued)

2005 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 2008.

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.

First Wessex Housing Group 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 31 March 2007. As of this date the estimated employer debt for first Wessex Housing Group Limited was £856,000. The scheme Actuary will calculate updated employer debt figures for employers in the SHPS Scheme as at 30 September 2008, i.e. the date of the next full actuarial valuation.

#### **The Pensions Trust Growth Plan**

First Wessex Housing Group Limited participates in the Pension 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 are 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 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 should have sufficient assets to meet its past service liabilities, known as Technical Provisions.

The Trustee commissions an actuarial valuation of the Growth Plan every 3 years. The purpose of the actuarial 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

# FIRST WESSEX HOUSING GROUP LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)

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### 32. Pension obligations - Group (continued)

payments using a discount rate calculated by reference to the expected future investment returns.

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.

First Wessex Housing Group Limited paid contributions at the rate of 6% during the accounting period and members paid contributions at the rate of 4%.

As at the balance sheet date there were 99 (2006: 123) employees of the Group participating in the scheme. The Group continues to offer membership of the Plan to its employees. At the same date First Wessex Housing Group Limited had 26 (2006: 32) employees participating in the scheme.

It is not possible in the normal course of events to identify 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 Plan was performed at 30 September 2005 by a professionally qualified actuary using the Projected Unit Method. The market value of the Scheme's assets at the valuation date was £675 million and the Plan's Technical Provisions (i.e. past service liabilities) were £704 million. The valuation therefore revealed a shortfall of assets compared with the value of liabilities of £29 million, equivalent to a funding level of 96%.

The Scheme Actuary has prepared an Actuarial Report that provides an approximate update on the funding position of the Plan as at 30 September 2006. 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 £747 million and indicated a surplus of assets compared to liabilities of approximately £2 million, equivalent to a funding level of 100.2%. Annual funding updates of the Growth Plan are carried out using approximate actuarial techniques rather than member by member calculations, and will therefore not produce the same results as a full actuarial valuation. However they will provide a good indication of the financial progress of the Plan since the last full valuation.

Since the contribution rates payable to the Plan have been determined by reference to the last full actuarial valuation the following notes relate to the formal actuarial valuation as at 30 September 2005.

The financial assumptions underlying the valuation were as follows:

	%pa
- Investment return pre retirement	6.6
- Investment return post retirement	4.5
- Bonuses on accrued benefits	0.0
- Rate of price inflation	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 10 years.

**NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)**

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**32. Pension obligations - Group (continued)**

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 will be cleared within 5 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 10 years. These "best estimate" assumptions are 7.6% per annum pre retirement and 4.8% per annum post retirement.

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 2005 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 2008. An Actuarial Report will be prepared as at 30 September 2007 in line with statutory regulations.

Following a change in legislation in September 2005 there is a potential debt on the employer that could be levied by the Trustees of the Plan. The Trustee's current policy is that it applies predominantly to employers with pre October 2001 liabilities in the Plan and First Wessex Housing Group Limited is therefore not affected.

# FIRST WESSEX HOUSING GROUP LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2008 (CONTINUED)

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### **33. Related party transactions**

The Company has taken advantage of the exemption contained in Financial Reporting Standard 8 from reporting related party transactions with subsidiary associations and companies as they are eliminated on consolidation.

None of the board members are tenants of the housing associations in the First Wessex Housing Group.

### **34. Legislative procedures**

The Association is registered under the Industrial and Provident Societies Act 1965 with the reference 29389R and with the Housing Corporation under reference L4082. The Company is a Registered Social Landlord with the Housing Corporation under the Housing Act 1996.

### **35. Prior year adjustment – Group and Company**

There is no prior year adjustment.