

Servite Houses

Financial Statements

For the year ended 31st March 2006



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Board Report and Operating and Financial Review

Activities, vision and mission of the Group

Activities

Servite Houses (Servite) provides affordable housing for families and older people, student accommodation, key worker accommodation, hostel accommodation and care for people in need within the community. Services are provided in five regions: London, West Midlands, East Midlands, Merseyside and West Sussex.

On 1 April 2005 we acquired Riverhaven Ltd, a South West London based Registered Social Landlord itself having recently been formed by the merger of Battersea Churches Housing Trust and Harding Housing Association. Following the acquisition of Riverhaven, we now manage over 16,000 homes and are now the second largest housing association provider of student housing accommodation in the UK.

Vision for the Group

“Great Homes, Great Services, Great Lives”

The vision of the Group is to provide excellent homes and innovative services to help people seize opportunity. We are ambitious and will use our resources to provide excellent services to customers, to try new and innovative ways of fulfilling our ambitions.

Mission for the Group

- ❖ We will be excellent in everything we do
- ❖ We will create opportunities for people to realise their ambitions
- ❖ We will innovate, leading the way for others in the sector to follow
- ❖ We will grow – but growth is no longer our primary objective

We have in place a business plan, the Servite Plan, with objectives supporting the four principal elements of the Group’s mission. These objectives are supported by an annual action plan to ensure that there are adequate resources, measurable outcomes and accountability for delivery. The business plan is supported by a thirty year financial plan. The financial plan is “stress tested” for a number of economic and risk scenarios set out in the Group’s risk map.

The priorities for the Group for 2006/07 are to:

- ❖ Further improve services to residents, in particular maintenance services
- ❖ Address issues raised in the Audit Commission inspection of services

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- ❖ Implement new housing management, maintenance and commercial lettings information systems
- ❖ Increase the number of affordable homes and add new contracts to existing services
- ❖ Refinance the existing bilateral loan facilities to provide additional financing for new development

The Board reviews progress against the business plan every six months. This is supplemented by regular reporting of performance indicators, financial information and changes to the risk map.

Operating review

Performance for the period

As noted above, on 1 April 2005 Servite acquired Riverhaven Ltd. All activities of the former Riverhaven Ltd are now undertaken within Servite Houses. The results for the year ended 31 March 2006 include the activities of both Servite Houses and Riverhaven Ltd. The comparative results for the year ended 31 March 2005 are for Servite Houses alone. Financial Reporting Standard 6, "Acquisition and Mergers" does not allow the results of earlier years to take account of the results of Riverhaven. Were a restatement of the results allowed, the results of Servite Houses (the Association) would be as follows:

	Year ended 31 March 2006 £m	Year ended 31 March 2005 £m
Turnover	71.1	63.0
Operating costs	(59.0)	(49.9)
Operating surplus	12.1	13.1
Surplus on sale of housing properties	0.7	3.2
Interest receivable	0.3	0.3
Interest payable and similar charges	(12.4)	(11.8)
Surplus for the year	0.7	4.8

The Group achieved a surplus of £0.7m on turnover of £71.1m, £3.5m lower than the comparative result for the preceding year shown in the table above. Operating costs totalled £59.0m of which £16.5m relates to major repairs, day to day and planned maintenance. Included in the income and expenditure account is interest and financing costs of £12.4m.

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The result for the year is in line with the Board's expectation given the cost of integrating Riverhaven into Servite and the increased investment in major repairs and maintenance programmes.

All maintenance of stock previously owned by Riverhaven Ltd has been undertaken by Riverhaven Facilities Management. Riverhaven Facilities Management is responsible for a wide range of asset management and customer services including the provision of a first point of contact for customers to report a repair, providing maintenance services directly through employed staff, sub contracting maintenance services, undertaking planned maintenance and planning and delivering major repair programmes.

Servite is charged for services provided by Riverhaven Facilities Management based on a commercial schedule of rates. Any resulting pre tax profits earned in Riverhaven Facilities Management are paid to Servite Houses by way of a gift aid payment. In the year ended 31 March 2006 this amounted to £2.1m. In November 2005, Riverhaven Facilities Management took responsibility for all the remaining Servite housing stock with the exception of key worker accommodation, student housing and hostel schemes. On 1 July 2006 Riverhaven Facilities Management will change its name to Servite Facilities Management.

On 31 March 2005, Servite became part investor in a Private Finance Initiative contract with London Borough of Ealing to redevelop four care homes for older people in the borough. We are the manager of the Company set up to manage the contract, and are also providing care, management and facilities management services under the contract. Work on redeveloping the first home started at the beginning of April 2005 and will be handed over on schedule at the beginning of July 2006. Residents will move into the new home, Elm Lodge, in August.

During the year Servite brought into management two new student housing schemes, a £9.1m project to provide 354 bedspaces at Eastbourne for the University of Brighton, and a project with the University of Middlesex to manage 1,916 bedspaces.

In November 2005 the Audit Commission published its inspection report on Servite Houses (excluding the services previously provided by Riverhaven). They concluded that the service that we provide is fair (one star) but with promising prospects for improvement. We have welcomed the Inspector's comments and have in place plans to address the issues raised in the report.

Environment in which the business operates

Servite operates in a keen competitive environment - competing for grant, new contracts, financing, staff with key skills, land and other development sites on which to build new homes. We have embraced the Government's agenda to improve efficiency in public services, and we see this as an essential element of our strategy to obtain competitive advantage. The acquisition of Riverhaven will enable Servite to obtain further economies of scale. The "partnering" type

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arrangement with our wholly owned facilities management company has enabled us to more clearly define expectations from the service as well as make cash savings to invest back into the business.

The rent influencing regime has had a broadly beneficial effect on our financial plan but because of our geographic spread, there are some areas where our rent income has been capped.

The need to address the Decent Homes Standard is one of the most pressing issues affecting the sector. Based on our own stock condition assessment we have concluded that 202 homes (1.3% of stock) do not meet the Decent Homes Standard. We believe that we must go beyond the Decent Homes Standard and our business and financial plan includes additional resources required to meet what we believe is an acceptable standard.

Servite has always gone beyond the traditional remit of “bricks and mortar” housing. Community development and investment in regenerating neighbourhoods is an intrinsic part of our activities.

Future investment plans

We are one of the Housing Corporation’s approved development partners, and has successfully delivered the programme of new homes under the first two year agreement. We have been successful in retaining our Preferred Partner Arrangement for the next two years and we anticipate that over that two year period we will develop 320 homes.

Servite continues to compete for contracts to provide student housing, older people’s services, key worker accommodation and floating support and similar services. In competing for these contracts we are mindful of the cumulative amount of risk from these activities and we are further developing our systems of risk management to respond to any increase in risk.

Investment in our existing housing stock remains a priority for the business and through the internal partnering arrangement with Servite Facilities Management we will be reinvesting efficiency savings into this reinvestment programme. The programme will also be financially supported by a limited programme of asset sales.

We are continuing to invest in information technology solutions to help deliver improved customer service as well as to make the business more efficient.

Financial review

Capital structure and treasury policy.

As at 31 March 2006 the Group balance sheet shows properties at cost of £712m and accumulated grant of £370m. The net cost of housing assets is £342m, an increase over the preceding year of £136m, of which £111m relates to the acquisition of Riverhaven.

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Under FRS6 "Acquisition and Mergers" we are required to include the net assets of Riverhaven in our balance sheet at the fair value to Servite. Net assets were valued at £78m and the cost to Servite is £nil. The difference has been shown in reserves.

The net cost of housing assets of £342m has been financed by the acquisition reserve of £79m, loans totalling £227m and other general reserves of £36m.

Following the acquisition of Riverhaven, we have reviewed all of our accounting policies. We have concluded that designation of reserves for the replacement of furniture and equipment is no longer meaningful and have therefore transferred these reserves to the general reserve.

We are in the process of finalising agreements with four lenders to refinance our portfolio of bank loans and at the same time to increase facilities to help finance future developments. New loan facilities total £340m of which £123m will be applied to refinance existing bank loans.

Servite has in place a treasury policy, the principal aim of which is to manage and mitigate risk rather than generate profit. Our rules permit the use of derivative transactions that shelter the risk of fluctuations in interest rates. The management of derivative transactions is set out in our treasury policy and procedures. The policy for managing interest rate fluctuations is based on assumptions and predictions contained in our business and financial plans. 66% of our loan portfolio at 31 March 2006 was fixed rate of which 34% relates to the bonds that are fixed to the end of the agreement and 28% relates to derivative transactions.

Cash flows

Our net cash inflow from operations (principally from social housing lettings) was £8.3m from which net interest of £13.7m was paid. Investment in fixed assets totalled £24.0m, financed by an increase in bank loans of £31.5m.

Current liquidity

As at 31 March 2006 we had working capital of £1.2m and as at that date we had an unutilised overdraft facility of £5m and undrawn loan facilities of £46.2m.

Going concern

The Board has a reasonable expectation that Servite has adequate resources to continue in operational existence for the foreseeable future. For this reason, we have adopted the going concern basis in the financial statements.

Post balance sheet events

A new subsidiary, Middlesex First Limited, incorporated before the year end, commenced trading in April 2006 providing student accommodation for

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Middlesex University.

On 1 April 2006 Servite ceased allowing new members to participate in the final salary pension scheme operated by the Pension Trust.

Governance arrangements

Servite complies with the principal recommendations of the Code of Governance published by the National Housing Federation except that, following the acquisition of Riverhaven Ltd and because of our wish to increase resident representation on the Board, membership of the board was increased from twelve to fourteen members.

The present board members and the executive directors of the Group and Association are set out on page 2. The board members are drawn from a wide background bringing together tenant, professional, commercial and local experience. The executive directors are the Chief Executive and the other members of the Group's and the Association's corporate management team. The Chief Executive is a member of the Board. Other than the Chief Executive, Board members are not currently paid (other than expenses) for their services. The shareholders have, however, approved the introduction of Board payment with effect from 1 April, 2006. The executive directors hold no interest in the association's shares and act as executives within the authority delegated by the board.

The Group and Association have in place insurance policies that indemnify its board members and executive directors against liability when acting for the Group and Association.

Statement of responsibilities of the Board

The Board is responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice for each financial year which give a true and fair view of the state of affairs of the Group and Association and of the surplus or deficit for that year. In preparing these financial statements the Board has:

- ❖ selected appropriate accounting policies and applied them consistently;
- ❖ made judgements and estimates that are reasonable and prudent;
- ❖ followed United Kingdom applicable accounting standards and the Statement of Recommended Practice "Accounting by Registered Social Landlords" (update 2005); and
- ❖ prepared the financial statements on a going concern basis.

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and Association and for ensuring that the financial statements comply with the

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requirements of the Industrial and Provident Societies Acts 1965 to 2002, paragraph 17 of Schedule 1 of the Housing Act 1996, and the Accounting Requirements for Registered Social Landlords General Determination 2000.

It is also responsible for maintaining a satisfactory system of control of its accounting records, its cash holdings and all its receipts and remittances safeguarding the assets of the Group and Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board is responsible for ensuring that the report of the board is prepared in accordance with the Statement of Recommended Practice “Accounting by Registered Social Landlords” and The Industrial and Provident Societies (Group Accounts) Regulations 1969.

Internal Controls Assurance

The Board acknowledges its overall responsibility for establishing and maintaining the whole system of internal control and for reviewing its effectiveness. This responsibility applies to all organisations within the Group. The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and to provide reasonable, and not absolute, assurance against material misstatement or loss.

The process for identifying, evaluating and managing the significant risks faced by the Group is ongoing, has been in place throughout the period commencing 1 April 2005 up to the date of approval of the annual report and financial statements. The Audit Committee receives and considers reports from management on these risk management and control arrangements at each meeting during the year.

Key elements of the control framework include:

- ❖ Board approved terms of reference and delegated authorities for Audit and Remuneration Committees;
- ❖ clearly defined management responsibilities for the identification, evaluation and control of significant risks;
- ❖ robust strategic and business planning processes;
- ❖ quarterly review of the Group’s risk map by the Audit Committee;
- ❖ detailed financial budgets and forecasts for subsequent years;
- ❖ formal recruitment, retention, training and development policies;
- ❖ established authorisation and appraisal procedures for all significant new initiatives and commitments;

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- ❖ a sophisticated approach to treasury management that is subject to external review on an annual basis;
- ❖ regular reporting to senior management and to the Board on key business objectives, targets and outcomes;
- ❖ Board approved whistle-blowing and anti-theft and corruption policies; and
- ❖ Detailed policies and procedures in each area of the Group's work.

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

The means by which the Audit Committee reviews the effectiveness of the system of internal control include considering risk reports, internal audit reports, management assurances, the external audit management letter and specialist reviews on areas such as treasury, health and safety, and efficiency.

The Audit Committee has received the Chief Executive's annual review of the effectiveness of the system of internal control for the association and its subsidiaries, together with the annual report of the Internal Auditor, and has reported its findings to the Board.

Employment and participation

Health and safety

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

Staff participation

Staff are encouraged to participate in the formulation of key strategies for the Group. During the year we have encouraged wider participation in the staff forum – an environment where staff are consulted on key issues affecting their employment. We have also introduced a Leadership Group, a group of senior managers who are mandated to deliver the Group's business plan. We also operate a suggestion scheme "If I were running Servite" where staff are encouraged to put forward ideas to improve services.

Employment and training of disabled persons

It is the Group's policy to consider all applicants for employment in light of their abilities and skills. Medical status is considered in the context of ensuring that any candidate for employment may perform their duties without risk to their

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health and that of others. Training is offered, where appropriate, to any employee becoming disabled.

Tenant involvement

We actively encourage tenants' involvement in decision-making by promoting more formal mechanisms of tenant involvement. We now have four tenant board members (an increase by three on the membership of the last financial year) and have established clear reporting arrangements between regional tenants' panels and the Board.

This report of the Board was approved on 20 July 2006 and signed on its behalf by:

Marta Phillips OBE
Chairman

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BOARD MEMBERS, SENIOR STAFF, ADVISORS AND BANKERS

President	Rev Peter Conniffe MBE OSM	
Board		
Chairman	Miss Marta Phillips BA MSc CA OBE	
Deputy Chairman	John Macqueen BSc PhD Alison Knocker	(Resigned 23 March 2006) (Appointed 15 September 2005)
Other Members	Mrs Diana Hodson Shaun Lansfield Rev Patrick Ryall OSM David Spencer James Macnamara Aisling Duffy Keith Jenkins Adonis Daniel Carl Hegarty Isabelle Riby-Williams Denis Dunphy Chris Cheshire John Gatward	(Resigned 16 February 2006) (Appointed 6 June 2005, Resigned 1 December 2005) (Appointed 16 February 2006) (Appointed 16 February 2006) (Appointed 16 February 2006) (Appointed 1 December 2005) (Appointed 4 May 2006)
Secretary	Martin Dalby FCCA MBA Bridgehouse Company Secretaries	(Resigned 24 March 2006) (Appointed 4 May 2006)
Senior Staff		
Chief Executive	Matthew Fox	
Director for Finance	Martin Dalby FCCA MBA	(Resigned 24 March 2006)
Director for Commercial Services	Bill Patey MCIH Dave Markham	(Resigned 2 February 2006) (Appointed 6 March 2006)
Director for People	Greg Brown FCIPD Malcolm O'Brien	(Resigned 31 March 2006) (Appointed 26 July 2006)
Director for Older People	Avril Evans	(Appointed 3 January 2006)
Director for Housing	Nigel Pacey	(Appointed 1 April 2005)
Director for Support	Matt Campion	(Appointed 1 April 2005)
Registered Office and Head Office	2 Bridge Avenue Hammersmith London W6 9JP	
Auditor	BDO Stoy Hayward LLP Emerald House East Street Epsom Surrey KT17 1HS	
Principal Solicitor	Devonshires Salisbury House London Wall London EC2M 5QY	
Principal Banker	Lloyds TSB Bank plc 21-25 King Street Hammersmith London W6 9HW	
Registrations	Industrial and Provident Society No 12752R Housing Corporation No LH0172 Servite Houses is a charity exempt from registration	

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Independent Auditor's Report to the members of Servite Houses

We have audited the financial statements of Servite Houses for the year ended 31 March 2006 which comprise the Income and Expenditure Accounts and the Balance Sheets for the Group and Association, the Consolidated Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of the Board and auditors

As described in the Statement of Board Responsibilities the Association's Board is responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002, the Industrial & Provident Societies (Group Accounts) Regulations 1969, the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2000. We also report to you if, in our opinion, the Report of the Board is not consistent with the financial statements, a satisfactory system of control over transactions has not been maintained, if the Association has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

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

Our report has been prepared pursuant to the requirements of Schedule 1 paragraph 16 to the Housing Act 1996 and Section 9 of the Friendly and Industrial and Provident Societies Act 1968 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the above statutes or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group and Association's affairs as at 31 March 2006 and of the results for the year then ended; and
- the financial statements have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002, the Industrial & Provident Societies (Group Accounts) Regulations 1969, the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2000.

BDO Stoy Hayward LLP

Chartered Accountants and Registered Auditors
Epsom, Surrey

Date:

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INCOME AND EXPENDITURE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2006

	Notes	Group		Association	
		2006 £000	2005 £000	2006 £000	2005 £000
Turnover	2	71,119	49,114	71,119	49,310
Operating Costs	2	(59,014)	(38,234)	(60,845)	(38,421)
Operating Surplus		12,105	10,880	10,274	10,889
Surplus on sale of properties	6	678	503	678	503
Gift aid receivable		-		2,198	-
Interest receivable and similar income	7	290	216	518	442
Interest payable and similar charges	8	(12,360)	(9,452)	(12,360)	(9,452)
Surplus on ordinary activities before taxation		713	2,147	1,308	2,382
Tax credit on surplus on ordinary activities	12	-	1	-	-
Surplus for the year after taxation		713	2,148	1,308	2,382

All amounts relate to continuing activities. There were no recognised gains or losses other than those included in the income and expenditure account. Historical cost surpluses and deficits were identical to those shown in the income and expenditure account.

The notes on pages 16 to 38 for part of these financial statements

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BALANCE SHEETS AS AT 31 MARCH 2006

	Notes	Group		Association	
		2006 £000	2005 £000	2006 £000	2005 £000
Fixed Assets					
Housing Properties at cost less depreciation	13	710,750	474,650	711,495	474,776
Grants	13	(369,674)	(268,173)	(369,674)	(268,173)
		341,076	206,477	341,821	206,603
Other Tangible Assets	14	6,441	5,421	3,596	2,520
Investments	15	1,678	-	5,698	4,026
		349,195	211,898	351,115	213,149
Current Assets					
Properties developed for outright sale	16	813	-	-	-
Debtors	17	9,812	5,372	12,496	5,559
Investments	18	6,158	4,477	6,158	4,477
Cash at bank and in hand		2,489	1,676	2,425	1,279
		19,272	11,525	21,079	11,315
Creditors: amounts falling due in one year					
	19	(18,034)	(15,414)	(20,018)	(15,307)
		1,238	(3,889)	1,061	(3,992)
Total Assets less Current Liabilities					
		350,433	208,009	352,176	209,157
Creditors: amounts falling after more than one year					
	20	227,198	164,399	227,198	164,399
Provisions for liabilities and charges					
	22/23	672	69	603	-
Capital and Reserves					
Called up share capital	24	-	-	-	-
Designated Reserves	25	-	13,843	-	13,843
General Reserves	25	43,661	29,122	45,473	30,339
Restricted Reserve	25	593	576	593	576
Revaluation Reserve	25	122	-	122	-
Acquisition Reserve	25/26	78,187	-	78,187	-
		122,563	43,541	124,375	44,758
		350,433	208,009	352,176	209,157

The financial statements on pages 13 to 38 were approved by the Board on 21 July 2006 and were signed on its behalf by:

Marta Phillips OBE
Chairman

James Macnamara
Board Member

BH Secretaries Ltd
Company Secretary

The notes on pages 16 to 39 form part of these financial statements

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CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2006

	Notes	2006		2005	
		£000	£000	£000	£000
Net cash inflow from operating activities	33		8,305		13,298
Returns on investment and servicing of finance					
Interest received		290		211	
Interest paid		<u>(13,979)</u>		<u>(8,880)</u>	
Net cash outflow from returns on investment and servicing of finance:			(13,689)		(8,669)
Capital expenditure and financial investment					
Acquisition and construction of housing properties		(36,687)		(32,648)	
Social housing grants received		11,711		4,549	
Purchase of other tangible fixed assets		(208)		(568)	
Purchase of investments		(3)		-	
Sale of shared ownership properties		1,185		2,033	
Sale of other housing properties				750	
Sale of other assets		<u>-</u>		<u>1</u>	
Net cash outflow on capital expenditure			(24,002)		(25,883)
Net cash outflow before financing			<u>(29,386)</u>		<u>(21,254)</u>
Management of liquid resources					
Cash (invested in) / withdrawn from money market deposit accounts			(1,681)		7,540
Financing					
Housing loans received		32,433		22,120	
Housing loan set up costs paid		(318)		(128)	
Housing loans repaid		<u>(616)</u>		<u>(7,330)</u>	
Net cash flow from financing			31,499		14,662
Increase in cash	34		<u><u>432</u></u>		<u><u>948</u></u>

The notes on pages 16 to 38 for part of these financial statements

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH 2006

1 ACCOUNTING POLICIES

1.1 Basis of Accounting

The Financial Statements of the Group and Association are prepared in accordance with applicable accounting standards and the Statement of Recommended Practice: Accounting by Registered Social Landlords, update issued in April 2005, and comply with the accounting requirements for Registered Social Landlords General Determination 2000. The Board is satisfied that the current accounting policies are the most appropriate for the Group and Association.

1.2 Basis of Consolidation

The Group accounts consolidate the accounts of Servite Houses and all its subsidiaries at 31 March using acquisition accounting.

1.3 Turnover

Turnover represents rental income receivable, care charges receivable, fees and grants receivable from local authorities and the Housing Corporation, development consultancy, development for sale and other income excluding VAT where applicable.

1.4 Housing Properties

Housing properties in the course of construction are stated at cost and are transferred into housing properties when completed.

Shared ownership properties are included in housing properties at cost, less the first tranche sale proceeds and any provisions needed for depreciation or impairment.

1.5 Depreciation of housing properties

Freehold land is not depreciated. Depreciation is charged so as to write down the net book value of housing properties to their estimated residual value, on a straight-line basis, over their estimated useful economic lives to the business. The depreciable amount is arrived at on the basis of original cost, less Social Housing Grant and other grants, less residual value (being the actual or estimated open market value of the land at the date of purchase). The Group's housing properties are depreciated from the date of completion at the following rates:

Newly built family housing	100 years
Rehabilitated family housing	60 years
Student accommodation	60 years
Key worker accommodation	60 years
Sheltered accommodation	35 years
Care homes	25 years

Properties held on leases are amortised over the life of the lease or their estimated useful economic lives in the business if shorter. Improvements are capitalised and depreciated over their estimated useful lives as follows:

Kitchens, central heating and plumbing	20 years
Roofs, bathrooms, electrical works and windows	30 years

1.6 Impairment

Housing properties which are depreciated over a period in excess of 50 years are subject to impairment reviews annually. Other assets are reviewed for impairment if there is an indication that impairment may have occurred.

Where there is evidence of impairment, fixed assets are written down to recoverable amount. Any such write down is charged to operating surplus.

1.7 Social Housing Grant (SHG)

Social Housing Grant (SHG) is receivable from the Housing Corporation and is used to reduce the capital costs of housing properties. The amount of SHG receivable is calculated on a fixed basis depending on the size, location and type of housing property.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31st March 2006

ACCOUNTING POLICIES (continued)

SHG received from the Housing Corporation towards capital costs is credited when due. SHG received in respect of revenue expenditure is credited to the income and expenditure account in the same period to which the revenue expenditure relates.

SHG is transferred to the Recycled Capital Grant Fund following the sale of the housing property to which it relates. SHG is subordinated to secured loans by agreement with the Housing Corporation.

1.8 Other Grants

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

1.9 Capitalisation of Interest

Interest on loans to finance specific developments is capitalised to the date of completion of the scheme.

1.10 Capitalisation of Development Administration Costs

Administration costs directly attributable to development are capitalised.

1.11 Fixed Assets and Depreciation

Tangible fixed assets, except housing properties (see note 1.4), are stated at cost less accumulated depreciation. Depreciation is charged on a straight-line basis over the expected useful lives of the assets at the following annual rates: -

Freehold offices	2%
Lifts	2%
Motor vehicles	25%
Fixtures and fittings	10%
Computers	25%
Short leasehold properties	over the period of lease

1.12 Properties Developed for Resale

The stock of housing property and land is valued at the lower of cost or net realisable value. Cost includes the cost of land, construction and other overheads incurred in the purchase of the site. Net realisable value is based on estimated sales price after allowing for all further costs of disposal.

1.13 Loan Issue Costs

Loan issue costs have been capitalised by deducting them from the proceeds of the loan. The costs are charged to the income and expenditure account over the life of the loan.

1.14 Pensions

The Association operates a defined contribution pension scheme and a defined benefit scheme, the costs of which are charged to the Income and Expenditure Account on an accruals basis. The assets of the schemes are held separately from those of the Association in independently administered funds.

1.15 Deferred Tax

The payment of taxation is deferred or accelerated because of timing differences between the treatment of certain items for accounting and taxation purpose. Full provision for deferred taxation is made under the liability method, without discounting, on all timing differences that have arisen but not reversed by the balance sheet date, unless such provision is not permitted by FRS19 "Deferred Tax".

1.16 Value Added Tax

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

1.17 Pre-contract Costs

Costs incurred in bidding for and securing contracts for the supply of products and services under the Private Finance Initiative are recognised as expenses, as incurred, up to the date of announcement of preferred bidder.

Servite Houses

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31st March 2006

ACCOUNTING POLICIES (continued)

Where the Group is successful in attaining preferred bidder status, those costs that are directly attributable to the contract are recognised as an asset.

The Group uses interest rate caps and swaps to reduce its exposure to future increases in interest rates on floating rate loans. Some of these are linked to the retail prices index (RPI). Under the terms of these RPI-linked swap contracts, the

1.18 Leased Assets

Rentals payable under operating leases are charged to income and expenditure on a straight-line basis over the lease term. There are no assets subject to finance leases.

1.19 Derivatives

Association is required to repay a balance at the end of the contract. This balance is computed by multiplying the notional principal of the swap contract by the increase in the RPI over the life of the contract. The annual increase is accrued in the financial statements and the cumulative increase to date shown as creditors in the balance sheet.

1.20 Designated Reserves

As a result of the acquisition of Riverhaven Ltd on 1 April 2005, the Board have reviewed the accounting policies and concluded that the designation of surpluses as charitable and for the replacement of equipment is no longer appropriate. As a result the balances on the designated reserves as at 31 March 2005 have been transferred to the general reserve.

1.21 Restricted Reserve

The restricted reserves are subject to specific conditions imposed by the donor and binding on the Board.

1.22 Acquisition Reserve

The acquisition reserve arises as a result of the acquisition of Riverhaven Ltd. The reserve represents negative purchased goodwill and is the difference between the fair value of the consideration and the fair value of the net assets at the date of acquisition. The acquisition reserve is released to the income and expenditure account in the periods in which the fair value of the non-monetary assets are recovered., whether through depreciation or sale. The acquisition reserve is expected to be released over a period of approximately 73 years.

1.23 Apportionment of Management Expenses

Direct employee, administration and operating costs have been charged to the income and expenditure account on the basis of costs of the staff directly engaged on the operations concerned.

1.24 Social Housing Lettings

i) General Needs Housing

General needs housing is property that is let or is available for letting on assured, assured shorthold or secure tenancies.

ii) Supported Housing

Supported housing is property that is let with support, including intensive or supporting housing management.

iii) Key Worker Accommodation

Key Worker accommodation is the provision of accommodation to the staff of medical establishments.

iv) Residential Care Homes

Residential Care Homes are homes registered under Section 3 of the Care Standards Act 2000 and provide accommodation and care to older people and people with learning disabilities.

v) Shared Ownership

Shared ownership is the provision of accommodation where the Association has sold part of the equity in the home to its occupier.

Service Houses

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31st March 2006

ACCOUNTING POLICIES (continued)

1.25 Non-social Housing Lettings

i) Student Accommodation

Student accommodation is the provision of accommodation for students.

ii) Nursing Homes

Nursing homes are homes registered under Section 3 of the Care Standards Act 2000 and provide accommodation and nursing care to older people.

iii) Day Care Centres

Day Care Centres are centres which provide day services to frail older people and people with dementia.

1.26 Supported Housing Services

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

1.27 Supported Housing Schemes Managed by Agencies

Social housing capital grants are claimed by the Association as developer and owner of the property and included in the balance sheet of the Association. The treatment of other income and expenditure in respect of supported housing projects depends on the nature of the partnership arrangements between the Association and its managing agents and on whether the Association carries the financial risk.

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

1.28 Liquid Resources

Liquid resources are readily disposable current asset investments. They include some money market deposits, held for more than 24 hours, which can be withdrawn without penalty only on maturity or by giving notice of more than one working day.

1.29 Current Asset Investments

Investments are stated at market value.

1.30 Provisions for liabilities and charges

The group provides for contractual liabilities only these exist at the balance sheet date.

1.31 Recycled Capital Grants

On the occurrence of certain relevant events, primarily the sale of dwellings, the Housing Corporation can direct the Group to recycle capital grant (SHG) or to make repayment of the recoverable amount. The group adopts a policy of recycling, for which a separate fund is maintained. The amounts are reposted as part of creditors due within one year or after one year as appropriate.

1.32 Sinking Fund

Provisions are made for major maintenance by way of a sinking fund. The adequacy of these is reviewed annually.

1.33 Major Repairs

Major repairs expenditure on housing properties is capitalised to the extent that the repairs are improvements in accordance with the SORP, to the extent that the expenditure results in an increase in the rental stream over the life of the property. An increase in the rental stream may arise through an increase in rental income, a reduction in future maintenance or a significant extension to the life of the property. Other major repairs expenditure is charged to the Income and Expenditure account as incurred.

Servite Houses

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

2 PARTICULARS OF TURNOVER, COST OF SALES, OPERATING COSTS AND OPERATING SURPLUS

Group - continuing activities

	<-----2006----->		
	Turnover	Operating Costs	Operating Surplus
	£'000	£'000	£'000
Social Housing Lettings (Note 3)	64,381	(52,678)	11,703
Other social activities			
Supporting people contract income	1,303	(1,351)	(48)
Development services	148	(246)	(98)
Development costs not capitalised	8	(382)	(374)
Development for sale	-	-	-
Other income and expenditure	-	-	-
Total other social housing activities	1,459	(1,979)	(520)
Non social housing activities			
Servite Development Services Ltd	-	(72)	(72)
Student accommodation	3,249	(2,270)	979
Registered nursing homes	1,850	(1,847)	2
Day care centres	167	(162)	5
Market rent schemes	13	(5)	8
Other	-	-	-
Total non social housing activities	5,279	(4,356)	922
Total	<u>71,119</u>	<u>(59,014)</u>	<u>12,105</u>

	<-----2005----->		
	Turnover	Operating Costs	Operating Surplus
	£'000	£'000	£'000
Social Housing Lettings (Note 3)	43,325	(32,397)	10,928
Other social activities			
Supporting people contract income	1,272	(1,542)	(270)
Development services	-	(45)	(45)
Development costs not capitalised	22	(770)	(748)
Development for sale	-	-	-
Other income and expenditure	-	-	-
Total other social housing activities	1,294	(2,357)	(1,063)
Non social housing activities			
Servite Development Services Ltd	-	(62)	(62)
Student accommodation	2,350	(1,827)	523
Registered nursing homes	1,690	(1,259)	431
Day care centres	430	(320)	110
Market rent schemes	-	-	-
Other	25	(12)	13
Total non social housing activities	4,495	(3,480)	1,015
Total	<u>49,114</u>	<u>(38,234)</u>	<u>10,880</u>

Servite Houses

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

2 PARTICULARS OF TURNOVER, COST OF SALES, OPERATING COSTS AND OPERATING SURPLUS

Association - continuing activities

	<-----2006----->		
	Turnover	Operating Costs	Operating Surplus
	£'000	£'000	£'000
Social Housing Lettings (Note 3)	64,381	(54,582)	9,799
Other social activities			
Supporting people contract income	1,303	(1,351)	(48)
Development services	148	(246)	(98)
Development costs not capitalised	8	(382)	(374)
Development for sale	-	-	-
Other income and expenditure	-	-	-
Total other social housing activities	1,459	(1,979)	(520)
Non social housing activities			
Servite Development Services Ltd	-	-	-
Student accommodation	3,249	(2,270)	979
Registered nursing homes	1,850	(1,847)	3
Day care centres	167	(162)	5
Market rent schemes	13	(5)	8
Other	-	-	-
Total non social housing activities	5,279	(4,284)	995
Total	<u>71,119</u>	<u>(60,845)</u>	<u>10,274</u>

	<-----2005----->		
	Turnover	Operating Costs	Operating Surplus
	£'000	£'000	£'000
Social Housing Lettings (Note 3)	43,325	(32,645)	10,680
Other social activities			
Supporting people contract income	1,272	(1,542)	(270)
Development services	-	(45)	(45)
Development costs not capitalised	22	(770)	(748)
Development for sale	-	-	-
Other income and expenditure	-	-	-
Total other social housing activities	1,294	(2,357)	(1,063)
Non social housing activities			
Servite Development Services Ltd	196	-	196
Student accommodation	2,350	(1,827)	523
Registered nursing homes	1,690	(1,259)	431
Day care centres	430	(320)	110
Market rent schemes	-	-	-
Other	25	(13)	12
Total non social housing activities	4,691	(3,419)	1,272
Total	<u>49,310</u>	<u>(38,421)</u>	<u>10,889</u>

Servite Houses

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

3 PARTICULARS OF INCOME AND EXPENDITURE FROM SOCIAL HOUSING LETTINGS

	GROUP							2005	
	<----- 2006 ----->								
	General needs housing	Supported housing	Key worker accommod ation	Residential care homes	Care PFI contracts	Temporary housing	Shared ownership	Total	Total
Turnover from social housing lettings									
Rent receivable net of identifiable service charges	31,747	3,424	3,202	10,476	3,914	765	843	54,371	35,532
Charges for support services	2,045	-	-	473	-	-	-	2,518	2,062
Service income receivable	4,117	1,383	-	-	-	26	101	5,627	5,340
Gross rents receivable	37,909	4,807	3,202	10,949	3,914	791	944	62,516	42,934
Less rent losses from voids	(353)	(249)	(108)	(661)	-	(113)	(30)	(1,514)	(1,385)
Net rents receivable	37,556	4,558	3,094	10,288	3,914	678	914	61,002	41,549
Revenue grants from local authorities and other agencies									
Revenue grants from the Housing Corporation	-	3	-	1,350	-	-	-	1,353	1,699
Sundry income	1,297	105	79	443	20	-	82	2,026	77
Turnover from social housing lettings	38,853	4,666	3,173	12,081	3,934	678	996	64,381	43,325
Expenditure on social housing letting activities									
Services	5,809	1,441	782	1,360	177	19	110	9,698	7,751
Support	3,283	-	-	7	-	1	1	3,292	2,129
Management	5,661	2,882	664	9,472	3,290	351	257	22,577	11,613
Routine Maintenance	7,695	341	213	414	37	122	16	8,838	6,577
Rent losses from bad debts	293	57	-	168	-	68	1	587	326
Major repairs expenditure	5,160	45	96	217	-	21	-	5,539	1,953
Amortisation of acquisition reserve	(1,072)	-	-	-	-	-	-	(1,072)	-
Depreciation of housing properties	2,428	174	289	200	-	57	71	3,219	2,048
Operating costs on social housing lettings	29,257	4,940	2,044	11,838	3,504	639	456	52,678	32,397
Operating surplus on social housing lettings	9,596	(274)	1,129	243	430	39	540	11,703	10,928

Servite Houses

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

3 PARTICULARS OF INCOME AND EXPENDITURE FROM SOCIAL HOUSING LETTINGS

	ASSOCIATION							2005	
	<----- 2006 ----->								
	General needs housing	Supported housing	Key worker accommod- ation	Residential care homes	Care PFI contracts	Temporary housing	Shared ownership	Total	Total
Turnover from social housing lettings									
Rent receivable net of identifiable service charges	31,747	3,424	3,202	10,476	3,914	765	843	54,371	35,532
Charges for support services	2,045	-	-	473	-	-	-	2,518	2,062
Service income receivable	4,117	1,383	-	-	-	26	101	5,627	5,340
Gross rents receivable	37,909	4,807	3,202	10,949	3,914	791	944	62,516	42,934
Less rent losses from voids	(353)	(249)	(108)	(661)	-	(113)	(30)	(1,514)	(1,385)
Net rents receivable	37,556	4,558	3,094	10,288	3,914	678	914	61,002	41,549
Revenue grants from local authorities and other agencies									
Revenue grants from the Housing Corporation	-	3	-	1,350	-	-	-	1,353	1,699
Sundry income	1,297	105	79	443	20	-	82	2,026	77
Turnover from social housing lettings	38,853	4,666	3,173	12,081	3,934	678	996	64,381	43,325
Expenditure on social housing letting activities									
Services	6,039	1,441	782	1,360	177	19	110	9,928	7,751
Support	3,283	-	-	7	-	1	1	3,292	2,129
Management	5,661	2,882	664	9,472	3,290	351	257	22,577	11,861
Routine Maintenance	9,140	341	213	414	37	122	16	10,283	6,577
Rent losses from bad debts	293	57	-	168	-	68	1	587	326
Major repairs expenditure	5,389	45	96	217	-	21	-	5,768	1,953
Amortisation of acquisition reserve	(1,072)	-	-	-	-	-	-	(1,072)	-
Depreciation of housing properties	2,428	174	289	200	-	57	71	3,219	2,048
Operating costs on social housing lettings	31,161	4,940	2,044	11,838	3,504	639	456	54,582	32,645
Operating surplus on social housing lettings	7,692	(274)	1,129	243	430	39	540	9,799	10,680

Servite Houses

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

4 SUPPORTED HOUSING SCHEMES MANAGED BY AGENCIES

The income and expenditure account includes only that income and expenditure which relates to the Association because the agencies carry the financial risk. The Association owns 79 supported housing units (2005: nine) that are managed on its behalf, under management agreements by other bodies who contract with Supporting People Administering Authorities and carry the financial risk relating to the supporting housing units.

5 ACCOMMODATION IN MANAGEMENT

	Group & Association	
	2006 Number	2005 Number
Social Housing		
General needs housing	9,129	6,697
Supported housing	808	652
Residential homes	600	539
Key workers	910	880
Shared ownership	607	458
Leaseholds	<u>33</u>	<u>35</u>
Total Owned	12,087	9,261
Accommodation managed on behalf of others	<u>373</u>	<u>278</u>
Total managed	<u><u>12,460</u></u>	<u><u>9,539</u></u>
Non-social Housing		
Registered nursing homes	-	48
Student accommodation	3,082	811
Day centres	<u>-</u>	<u>1</u>
Total owned and managed	<u><u>3,082</u></u>	<u><u>860</u></u>
Total	<u><u>15,542</u></u>	<u><u>10,399</u></u>

6 SURPLUS ON SALE OF FIXED ASSETS

	Group & Association				
	Sales proceeds	Carrying value	Other cost	Total	2005
	£'000	£'000	£'000	£'000	£'000
Sale of second and subsequent tranches of shared ownership properties	1,416	(597)	(141)	678	356
Sale of other properties	-	-	-	-	147
Other sales	<u>292</u>	<u>(292)</u>	<u>-</u>	<u>0</u>	<u>-</u>
	<u><u>1,708</u></u>	<u><u>(889)</u></u>	<u><u>(141)</u></u>	<u><u>678</u></u>	<u><u>503</u></u>

7 INTEREST RECEIVABLE

	Group		Association	
	2006 £000	2005 £000	2006 £000	2005 £000
Interest receivable from subsidiaries	-	-	228	226
Interest receivable and similar income	<u>290</u>	<u>216</u>	<u>290</u>	<u>216</u>
Interest receivable and similar income	<u><u>290</u></u>	<u><u>216</u></u>	<u><u>518</u></u>	<u><u>442</u></u>

Servite Houses

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

8 INTEREST PAYABLE

	Group		Association	
	2006 £000	2005 £000	2006 £000	2005 £000
On bonds, loans and overdrafts	13,979	10,278	13,979	10,278
Interest capitalised	(1,619)	(826)	(1,619)	(826)
	<u>12,360</u>	<u>9,452</u>	<u>12,360</u>	<u>9,452</u>

Interest was capitalised at 5.75% (2005: 5.65%)

Interest payable included a figure of £nil (2005: £88,000) being set up costs written off on settlement of the loan.

9 OPERATING SURPLUS

	Group		Association	
	2006 £000	2005 £000	2006 £000	2005 £000
Operating Surplus is stated after charging:-				
Depreciation of tangible fixed assets	3,379	2,608	3,323	2,552
Auditors' remuneration:-				
In their capacity as auditors (inc VAT)	77	38	68	35
In respect of other services (inc VAT)				
Operating lease payments				
Land and vehicles	254	236	484	486
Motor vehicles and other equipment	205	54	205	54
Loss on sale of fixtures and fittings		3	-	3
	<u>24,195</u>	<u>13,871</u>	<u>21,703</u>	<u>13,871</u>

10 BOARD MEMBERS AND SENIOR STAFF

No fees were paid to the Board members during the year. The emoluments of the highest paid director, including car allowance, but excluding pension contributions, were £114,000. The emoluments of the highest paid director in the previous year amounted to £89,000

The emoluments of the senior staff including the above payment and pension contributions were £641,695 (2005: £514,000). Pension costs are shown as contributions paid on behalf of the senior staff.

No directors received compensation for loss of office during the year.

11 EMPLOYEE INFORMATION

	GROUP		ASSOCIATION	
	2006 Number	2005 Number	2006 Number	2005 Number
The number of persons (including senior staff) employed during the year was:				
Average full time equivalents	<u>874</u>	<u>668</u>	<u>802</u>	<u>668</u>
	£000	£000	£000	£000
Staff costs				
Wages and salaries	21,370	12,330	19,198	12,330
Social security costs	1,796	1,041	1,565	1,041
Pension costs (see note 26)	1,029	500	940	500
	<u>24,195</u>	<u>13,871</u>	<u>21,703</u>	<u>13,871</u>

Servite Houses

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

12 TAXATION

Analysis of tax credit for the period

	Group	
	2006	2005
	£000	£000
United Kingdom Corporation Tax on profits for the period		
Deferred tax: origination of timing differences	-	-
Tax credit on surpluses for the period	-	1
	-	1
	-	1

Factors affecting the tax charge for the period

The tax assessed for the period is different from that assessed at the standard rate of UK Corporation Tax (30%). The differences are explained below:

	Group	
	2006	2005
	£000	£000
Surplus on ordinary activities subject to taxation	713	2,148
Surplus on ordinary activities at the standard rate of Corporation Tax in the United Kingdom of 30% (2005: 30%)	214	644
Effects of:		
Expenses not deductible for tax purposes (mainly depreciation on non-qualifying assets)	15	15
Depreciation in excess of capital allowances	1	
Charitable income	(230)	(660)
Current tax charge / (credit) for the period	-	(1)

Servite Houses

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

13 TANGIBLE FIXED ASSETS - HOUSING PROPERTIES

Group	Housing Properties Under Construction £000	Housing Properties in Management £000	Shared Ownership Properties £000	Non-Social Housing Properties £000	Total £000
Cost					
At 1 April 2005	35,164	416,170	18,773	15,668	485,775
Additions	38,519	5,448	-	-	43,967
Acquisition of Riverhaven Ltd	827	200,729	-	-	201,556
Schemes Completed	(38,344)	26,067	12,277	-	-
First tranche sales	-	-	(5,661)	-	(5,661)
Disposals	-	(292)	(597)	-	(889)
At 31 March 2006	<u>36,166</u>	<u>648,122</u>	<u>24,792</u>	<u>15,668</u>	<u>724,748</u>
Social Housing and Other Grants					
At 1 April 2005	11,063	249,276	6,902	932	268,173
Additions	11,711	-	-	-	11,711
Acquisition of Riverhaven Ltd	119	90,035	-	-	90,154
Schemes Completed	(10,818)	7,105	3,713	-	-
Disposals	-	(134)	(230)	-	(364)
At 31 March 2006	<u>12,075</u>	<u>346,282</u>	<u>10,385</u>	<u>932</u>	<u>369,674</u>
Depreciation					
At 1 April 2005	-	9,607	240	1,278	11,125
Charge for the year	-	2,611	71	209	2,891
Disposals	-	(5)	(13)	-	(18)
At 31 March 2006	<u>-</u>	<u>12,213</u>	<u>298</u>	<u>1,487</u>	<u>13,998</u>
Net book value					
At 31 March 2006 - Group	<u>24,091</u>	<u>289,627</u>	<u>14,109</u>	<u>13,249</u>	<u>341,076</u>
At 31 March 2005 - Group	<u>24,101</u>	<u>157,287</u>	<u>11,631</u>	<u>13,458</u>	<u>206,477</u>

Servite Houses

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

13 TANGIBLE FIXED ASSETS - HOUSING PROPERTIES

Association	Housing Properties Under Construction £000	Housing Properties in Management £000	Shared Ownership Properties £000	Non-Social Housing Properties £000	Total £000
Cost					
At 1 April 2005	35,290	416,170	18,773	15,668	485,901
Additions	39,138	5,448	-	-	44,586
Acquisition of Riverhaven Ltd	827	200,729	-	-	201,556
Schemes Completed	(38,344)	26,067	12,277	-	-
First tranche sales	-	-	(5,661)	-	(5,661)
Disposals	-	(292)	(597)	-	(889)
At 31 March 2006	<u>36,911</u>	<u>648,122</u>	<u>24,792</u>	<u>15,668</u>	<u>725,493</u>
Social Housing and Other Grants					
At 1 April 2005	11,063	249,276	6,902	932	268,173
Additions	11,711	-	-	-	11,711
Acquisition of Riverhaven Ltd	119	90,035	-	-	90,154
Schemes Completed	(10,818)	7,105	3,713	-	-
Disposals	-	(134)	(230)	-	(364)
At 31 March 2006	<u>12,075</u>	<u>346,282</u>	<u>10,385</u>	<u>932</u>	<u>369,674</u>
Depreciation					
At 1 April 2005	-	9,607	240	1,278	11,125
Charge for the year	-	2,610	71	209	2,890
Disposals	-	(5)	(12)	-	(17)
At 31 March 2006	<u>-</u>	<u>12,212</u>	<u>299</u>	<u>1,487</u>	<u>13,998</u>
Net book value					
At 31 March 2006 - Association	<u>24,836</u>	<u>289,628</u>	<u>14,108</u>	<u>13,249</u>	<u>341,821</u>
At 31 March 2005 - Association	<u>24,227</u>	<u>157,287</u>	<u>11,631</u>	<u>13,458</u>	<u>206,603</u>

Additions to housing properties in the course of construction during the year includes capitalised interest of £1,619,000 (2005: £826,000). The aggregate amount of capitalised interest included in tangible fixed assets at 31 March 2006 was £28,925,000 (2005: £27,306,000).

Cost of properties included £2,917,000 (2005: £1,846,000) for administrative and other direct costs (including interest incurred in the year).

The Board is of the opinion that the open market vacant possession value of the housing properties is considerably in excess of cost.

Expenditure on works to existing housing properties

	Group		Association	
	2006 £000	2005 £000	2006 £000	2005 £000
Amounts capitalised	5,448	1,069	5,448	1,069
Amounts charged to income and expenditure account	5,160	1,953	5,389	1,953
	<u>10,608</u>	<u>3,022</u>	<u>10,837</u>	<u>3,022</u>

All properties and offices (note 14) comprise:

	Group		Association	
	2006 £000	2005 £000	2006 £000	2005 £000
Freehold land and buildings	710,670	474,564	711,415	474,690
Long leasehold land and buildings	-	-	-	-
Short leasehold land and buildings	80	86	80	86
	<u>710,750</u>	<u>474,650</u>	<u>711,495</u>	<u>474,776</u>

Servite Houses

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

14 TANGIBLE FIXED ASSETS - OTHER

GROUP	Leasehold Property and Freehold Offices £000	Computer & Office Equipment £000	Motor Vehicles £000	Fixtures & Fittings £000	Total £000
Cost					
At 1 April 2005	5,026	691	122	2,719	8,558
Addition	-	138	-	70	208
Addition on acquisition of Riverhaven	1,102	138	-	64	1,304
Disposals	-	(5)	-	-	(5)
	<u>6,128</u>	<u>962</u>	<u>122</u>	<u>2,853</u>	<u>10,065</u>
At 31 March 2006					
Depreciation					
At 1 April 2005	999	491	82	1,565	3,137
Charge for the year	141	138	11	198	488
Disposals	-	(1)	-	-	(1)
	<u>1,140</u>	<u>628</u>	<u>93</u>	<u>1,763</u>	<u>3,624</u>
At 31 March 2006					
Net book value					
At 31 March 2006	<u>4,988</u>	<u>334</u>	<u>29</u>	<u>1,090</u>	<u>6,441</u>
At 31 March 2005	<u>4,027</u>	<u>200</u>	<u>40</u>	<u>1,154</u>	<u>5,421</u>
ASSOCIATION					
Cost					
At 1 April 2005	1,420	569	122	2,719	4,830
Additions	-	138	-	70	208
Additions - Acquisition of Riverhaven	1,102	138	-	64	1,304
Disposals	-	(5)	-	-	(5)
	<u>2,522</u>	<u>840</u>	<u>122</u>	<u>2,853</u>	<u>6,337</u>
At 31 March 2006					
Depreciation					
At 1 April 2005	294	409	82	1,525	2,310
Charge for the year	85	138	11	198	432
Disposals	-	(1)	-	-	(1)
	<u>379</u>	<u>546</u>	<u>93</u>	<u>1,723</u>	<u>2,741</u>
At 31 March 2006					
Net book value					
At 31 March 2006	<u>2,143</u>	<u>294</u>	<u>29</u>	<u>1,130</u>	<u>3,596</u>
At 31 March 2005	<u>1,126</u>	<u>160</u>	<u>40</u>	<u>1,194</u>	<u>2,520</u>

Servite Houses

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

15 INVESTMENTS HELD AS FIXED ASSETS

	Group		Association	
	2006 £000	2005 £000	2006 £000	2005 £000
Subsidiary undertakings	-	-	4,020	4,025
Investment in Ealing Alliance (Holdings) Ltd	1	-	1	1
Other long term investments	1,677	-	1,677	-
	<u>1,678</u>	<u>-</u>	<u>5,698</u>	<u>4,026</u>

Servite Houses owns the entire issued share capital of £2 of Servite Development Services Limited, a company registered in England. In addition £4,021,000 (2005: £4,025,000), was loaned to Servite Development Services Limited to help finance its activities. This loan is a qualifying investment and interest on the loan was charged at commercial rates. Servite Development Services Limited is not a registered social landlord. The subsidiary owns an office block for commercial letting and is developing other residential properties.

Servite Houses owns 16% of the issued shares in Ealing Alliance (Holdings) Ltd, a company established as part of a PFI arrangement to redevelop care homes for The London Borough of Ealing. Ealing Care (Holdings) Ltd owns 100% of the share capital of Ealing Care Alliance Ltd, and as at 31 March 2006 the shareholders' funds were negative £509,562. This level of accumulated loss is lower than planned at that date, and is supported by long term equity and debt financing arrangements. If the Company were to be liquidated as at 31 March 2006 Servite Houses' share of accumulated losses would be £81,544.

Long-term investments at 31 March 2006 were valued at £1,677,314 (2005: £nil). Of the total, £1,119,054 (2005: £nil) relates to listed investments held under charge as long term security for repayment of bond financing. £474,510 (2005: £nil) relates to Resident Welfare Fund investments held in charity pooled equity funds. The remaining £83,750 (2005: £nil) is a deposit account held as security for semi-annual interest on bond financing.

16 PROPERTIES DEVELOPED FOR OUTRIGHT SALE

	Group		Association	
	2006 £000	2005 £000	2006 £000	2005 £000
Properties developed for outright sale	813	-	-	-

17 DEBTORS

	Group		Association	
	2006 £000	2005 £000	2006 £000	2005 £000
Amounts recoverable within one year				
Rent arrears (including fees for Residential Care)	4,773	3,682	4,773	3,682
Less: Provision for bad debts	(575)	(520)	(575)	(520)
	<u>4,198</u>	<u>3,162</u>	<u>4,197</u>	<u>3,162</u>
Loans to employees	113	107	113	107
Prepayments & accrued income	1,303	1,275	1,303	1,275
Other debtors	3,785	828	3,770	815
Amounts due from subsidiary undertaking	-	-	2,700	200
Amount due from Ealing Alliance (Holdings) Ltd	413	-	413	-
	<u>9,812</u>	<u>5,372</u>	<u>12,496</u>	<u>5,559</u>

18 CURRENT ASSET INVESTMENTS

	Group and Association	
	2006 £000	2005 £000
Cash at bank	52	52
Money market deposits	6,106	4,425
	<u>6,158</u>	<u>4,477</u>

Servite Houses

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

19 CREDITORS: Amounts falling due within one year

	Group		Association	
	2006 £000	2005 £000	2006 £000	2005 £000
Housing Loans due within one year	2,443	1,801	2,443	1,801
Trade creditors	3,837	1,414	3,483	1,413
Loan interest	1,832	1,079	1,832	1,079
Recycled Capital Grant Fund	460	299	460	299
Disposal proceeds fund	29	-	29	-
Other Creditors	2,251	1,680	1,851	1,680
Other taxation and social security	572	299	572	299
Accruals and deferred income	5,044	6,225	4,360	5,570
Capital contribution	1,566	2,617	1,566	2,617
Amounts owed to subsidiary undertaking/parent	-	-	3,422	549
	<u>18,034</u>	<u>15,414</u>	<u>20,018</u>	<u>15,307</u>

20 CREDITORS: Amounts falling due after more than one year

	Group		Association	
	2006 £000	2005 £000	2006 £000	2005 £000
Debt (see note 21)	225,394	162,567	225,394	162,567
Recycled capital grant fund	401	472	401	472
Leaseholder sinking funds	824	-	824	-
Disposal proceeds fund	579	460	579	460
Other creditors	-	900	-	900
	<u>227,198</u>	<u>164,399</u>	<u>227,198</u>	<u>164,399</u>

21 DEBT ANALYSIS

	Group		Association	
	2006 £000	2005 £000	2006 £000	2005 £000
Bank Loans	158,943	115,955	158,943	115,955
Fresh Plc	6,374	6,430	6,374	6,430
HACO Ltd	14,837	14,824	14,837	14,824
Housing Association Funding Plc	47,683	27,159	47,683	27,159
	<u>227,837</u>	<u>164,368</u>	<u>227,837</u>	<u>164,368</u>
Debt is repayable as follows				
Due within one year	2,443	1,801	2,443	1,801
Between one and two years	3,074	1,957	3,074	1,957
Between two and five years	19,267	8,905	19,267	8,905
After five years	203,053	151,705	203,053	151,705
	<u>227,837</u>	<u>164,368</u>	<u>227,837</u>	<u>164,368</u>

All loans other than the overdraft facility are secured by fixed charges on individual properties

The loans from Fresh Plc are repaid in half-yearly instalments over the estimated life of the scheme on which the loan was originally secured at fixed rates of interest ranging from 9.125% to 15.875% with the final repayment in 2052. The variable interest rates on the bank loans ranged between 4.881% and 8.704%. The fixed interest rates on the Housing Association Funding plc loans range between 6.350% and 8.550%

Interest rate swaps

The Association has entered into two RPI interest rate swaps, for £5m fixed at 2.83% until 8 July 2017 and for £5m fixed at 2.825% until 8 July 2017. The amount repayable at the end of the term escalates in line with movements in the published Retail Prices Index and the annual increase has been accrued in the financial statements. The market value of all other derivatives as at the 31st March 2006 was negative £4,710,703.

Servite Houses

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

22 PROVISION FOR LIABILITIES AND CHARGES

	Group		Association	
	2006 £000	2005 £000	2006 £000	2005 £000
Temporary housing dilapidation provision	603	-	603	-
Deferred tax	69	69	-	-
	<u>672</u>	<u>69</u>	<u>603</u>	<u>-</u>

23 PROVISION FOR DEFERRED TAX

	Group only	
	2006 £000	2005 £000
Accelerated capital allowances	<u>52</u>	<u>52</u>
Provision for deferred tax	<u>52</u>	<u>52</u>
Provision at 1 April 2005	69	70
Deferred tax credit/ (charge) for the period	<u>-</u>	<u>(1)</u>
Provision at 31 March 2006	<u>69</u>	<u>69</u>

24 NON EQUITY SHARE CAPITAL

	2006 £	2005 £
Shares of £1 each issued and fully paid		
At 1 April 2005	71	86
Shares issued on the acquisition of Riverhaven Ltd	31	-
Shares issued during the year	1	5
Shares surrendered during the year	<u>(4)</u>	<u>(20)</u>
At 31 March 2006	<u>99</u>	<u>71</u>

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

Servite Houses

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

25 RESERVES

GROUP	Revaluation	Acquisition	Restricted	Designated		General reserves	
			Amenity and benevolent funds	Charitable funds	Replacement of equipment	Total designated reserves	Income and expenditure account
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2005	-	-	576	6,379	7,464	13,843	29,122
Arising on acquisition of Riverhaven Ltd	-	79,259	-	-	-	-	-
Amortisation	-	(1,072)	-	-	-	-	-
Revaluation of fixed asset investments	122	-	-	-	-	-	-
Surplus for the year before transfers	-	-	-	-	-	-	713
Movement in the year	-	-	17	-	-	-	(17)
Transfer from income and expenditure account	-	-	-	-	-	-	-
Transfer to income and expenditure account	-	-	-	(6,379)	(7,464)	(13,843)	13,843
Balance at 31 March 2006	<u>122</u>	<u>78,187</u>	<u>593</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,661</u>

ASSOCIATION

	Revaluation	Acquisition	Restricted	Designated		General reserves	
			Amenity and benevolent funds	Charitable funds	Replacement of equipment	Total designated reserves	Income and expenditure account
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2005	-	-	576	6,379	7,464	13,843	30,339
Arising on acquisition of Riverhaven Ltd	-	79,259	-	-	-	-	-
Amortisation	-	(1,072)	-	-	-	-	-
Revaluation of fixed asset investments	122	-	-	-	-	-	-
Surplus for the year before transfers	-	-	-	-	-	-	1,308
Movement in the year	-	-	17	-	-	-	(17)
Transfer from income and expenditure account	-	-	-	-	-	-	-
Transfer to income and expenditure account	-	-	-	(6,379)	(7,464)	(13,843)	13,843
Balance at 31 March 2006	<u>122</u>	<u>78,187</u>	<u>593</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,473</u>

Servite Houses

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

26 ACQUISITION RESERVE

On 1 April 2005 Servite Houses acquired by virtue of control, Riverhaven Ltd. The details of the transaction are shown in the table below:

	Book value £000	Fair value adjustment £000	Fair value £000
Housing properties	47,223	64,179	111,402
Other tangible fixed assets	1,304		1,304
Investment	1,553		1,553
Cash	381		381
Debtors	1,571		1,571
Creditors	<u>(3,554)</u>		<u>(3,554)</u>
 Total assets less current liabilities	 48,478	 64,179	 112,657
Bank loans	(31,970)		(31,970)
Sinking funds and provisions	<u>(1,428)</u>		<u>(1,428)</u>
	<u>15,080</u>	<u>64,179</u>	<u>79,259</u>
 Acquisition reserve			 <u>79,259</u>
Consideration for assets acquired			<u>-</u>

Adjustments to the book values have been made to reflect the fair value of the assets

Movement on the acquisition reserve

Group and Association

	2006 £000	2005 £000
Acquisition of Riverhaven Ltd	79,259	-
Amortisation	(1,072)	-
	<u>78,187</u>	<u>-</u>

27 RECYCLED CAPITAL GRANT FUND

	Group		Association	
	2006 £000	2005 £000	2006 £000	2005 £000
Opening Balance	771	865	771	865
Inputs	265	137	265	137
Interest	32	41	32	41
Withdrawals	(178)	(301)	(178)	(301)
Other inputs/(withdrawals)	(29)	29	(29)	29
 Closing Balance	 <u>861</u>	 <u>771</u>	 <u>861</u>	 <u>771</u>

Servite Houses

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

28 CAPITAL COMMITMENTS

Group and Association
2006 **2005**
£000 **£000**

The Group and Association's commitments were as follows:-

Capital commitments

Capital expenditure that has been contracted for but has not been provided for in the financial statements	47,343	22,958	
Capital expenditure that has been authorised by the Board but has not been contracted for	<u>22,781</u>	<u>33,502</u>	
 Total	 <u><u>70,124</u></u>	 <u><u>56,460</u></u>	

It is anticipated that the above expenditure will be funded by loans, Social Housing Grant and the Association's general reserves. At 31 March 2006, the Group had cash and undrawn loan facilities of £54.4m (2005: £60m)

Operating leases

The payments which the Group and Association are committed to make in the following years under operating leases are as follows:-

	Group		Association	
	2006 £000	2005 £000	2006 £000	2005 £000
Land and buildings, leases expiring				
Within one year	-	-	126	-
Between one and five years	300	207	530	437
After five years	<u>226</u>	<u>47</u>	<u>226</u>	<u>47</u>
	<u><u>526</u></u>	<u><u>254</u></u>	<u><u>882</u></u>	<u><u>484</u></u>
 Office and gardening equipment				
Between one and five years	<u>205</u>	<u>54</u>	<u>205</u>	<u>54</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

29 PENSION OBLIGATIONS

Social Housing Pension Scheme

The Association participates in the Social Housing Pension Scheme (SHPS)

SHPS is a multi-employer defined benefit scheme. The Scheme is funded and is contracted out of the state scheme.

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 so that the Scheme can meet its pension obligations as they fall due.

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

As at the balance sheet date there were 191 active members of the Scheme employed by the Association. The Association continues to offer membership of the Scheme to its employees.

It is not possible in the normal course of events to identify 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 2002 by a professionally qualified actuary using the "projected unit credit" method. The market value of the Scheme's assets at the valuation date was £650 million.

The Association has subsequently been notified of the preliminary results of the triennial valuation carried out on 30 September 2005. This indicates an increase in the assets of the Scheme to £1,278 million and an increase in the shortfall of assets compared with liabilities to £283 million. This valuation, and any consequent alteration to future contribution rates, is currently the subject of consultation with participating employers and members. The outcome of this consultation will be made known in September 2006, and any consequent changes to contribution rates applied from 1 April 2007. The following notes therefore relate to the formal valuation of September 2002.

The financial assumptions underlying the valuation as at 30 September 2002 were as follows:

	% pa
- Rate of return on future contributions	6.6
- Rate of return on accumulated assets	7.2
- Rate of salary increases	4.5
- Rate of pension increases	2.5
- Rate of price inflation	2.5

The valuation revealed a shortfall of assets compared with the value of liabilities of £117 million (equivalent to a past service funding level of 85%).

The charge to the Association for the year was £549,843 (2005: £443,000) covering 191 employees (2005: 182). The contribution rate of the Association for the year ended 31 March 2006 was 11.7% and for the employees at rates varying between 4.1% and 6.1% depending on their age.

It is not possible to identify the share of underlying assets and liabilities belonging to individual participating employers.

Due to the nature of the scheme the income and expenditure account charge for the period under both SSAP 24 and FRS 17 represents the employer contribution payable.

If the valuation assumptions are borne out in practice this pattern of contributions should be sufficient to eliminate the past service deficit by 31 March 2017.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

GROWTH PLAN

The Association participates in the Pensions Trust's Growth Plan.

The Growth Plan is a multi-employer pension Plan which is in most respects a money purchase arrangement but it has some guarantees. Contributions paid into the Growth Plan up to and including September 2001 were converted to defined amounts of pension payable from Normal Retirement Date. From October 2001 contributions were invested in personal funds which have a capital guarantee and which are converted to pension on retirement, either within the Growth Plan or by the purchase of an annuity.

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

The Trustee commissions an actuarial valuation of the Growth Plan every 3 years. The main purpose of the valuation is to determine the financial position of the Plan and so determine the future prospects for discretionary bonuses and / or investment credits.

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

The Association offers the Growth Plan as an AVC investment option for members of the Social Housing Pension Scheme. There was only one member in the Growth Plan. The members pay contributions at a rate of their choice. The Association does not pay any contributions to the Growth Plan.

The last formal valuation of the Plan was performed at 30 September 2002 by a professionally qualified actuary. The market value of the Plan's assets at the valuation date was £418 million. The financial assumptions underlying the valuation were as follows:

	%pa
Rate of return on accumulated assets	6.7
Bonuses on accrued benefits	-
Rate of price inflation	2.5

The valuation revealed that the assets of the Plan broadly equalled the accrued liabilities as at the valuation date.

The next actuarial valuation will be carried out as at 30 September 2005. The results of the valuation will be available before the end of September 2006.

Servite Houses

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

30 CONNECTED PARTY TRANSACTIONS

The Board of the Association are directors of Servite Houses Charitable Trust, and during the year the Association received grant in the amount of of £106,000 (2005: £317,000) from the Trust

31 LEGAL STATUS

The Association is registered under the Industrial and Provident Societies Act 1965 and is registered with The Housing Corporation as a social landlord.

32 CONTINGENT LIABILITIES

The Group and Association had no contingent liabilities at 31 March 2006 (2005: £nil)

33 RECONCILIATION OF OPERATING SURPLUS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	GROUP	
	2006	2005
	£000	£000
Operating surplus	12,105	10,880
Depreciation charges	3,379	2,608
Amortisation of acquisition reserve	(1,072)	-
(Decrease) in provisions	(770)	-
(Increase) in debtors	(2,924)	(1,308)
(Decrease)/ increase in creditors	(1,604)	1,115
Loss on sale of fixtures and fittings	4	3
Decrease / (increase) in stock of housing property and land	(813)	-
	<hr/>	<hr/>
Net cash inflow from operating activities	<u>8,305</u>	<u>13,298</u>

34 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	GROUP	
	2006	2005
	£000	£000
(Decrease)/ increase in cash	432	948
Cash acquired with acquisition of Riverhaven Ltd	381	-
Increase / (decrease) in current asset investments	1,681	(7,540)
Cash inflow from increase in debt	(31,499)	(14,662)
Loan acquired with acquisition of Riverhaven Ltd	(31,970)	-
Cash inflow of receipts from Servite Development Services Ltd	-	159
Non cash movements relating to amortisation of loan set up costs and derivatives	-	(476)
Net debt at 31 March 2005	(158,215)	(136,644)
	<hr/>	<hr/>
Net debt at 31 March 2006	<u>(219,190)</u>	<u>(158,215)</u>

35 ANALYSIS OF NET DEBT

Group

	1 April 2005	Cash flow	Other movements	31 March 2006
Cash at bank and in hand	1,676	432	381	2,489
Current asset investments	4,477	1,681	-	6,158
Loans	<u>(164,368)</u>	<u>(31,499)</u>	<u>(31,970)</u>	<u>(227,837)</u>
Changes in net debt	<u>(158,215)</u>	<u>(29,386)</u>	<u>(31,589)</u>	<u>(219,190)</u>