

Magna Housing Group Limited

Financial Statements

31 March 2009

Magna Housing Group Limited

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2009

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Magna Housing Group Limited

Registered No. 28717R

BOARD MEMBERS

Chairman	C R Rolls (100%) D J F Rushton (100%)	(Resigned 24 July 2008) (From 24 July 2008)
Vice Chairman	C Hoskisson (80%)	(From 24 July 2008)
Other Members	R Bugler (100%) P Davy (80%) P Denning (57%) P Feilden MBE (100%) C Hoskisson J I Page (33%) D J F Rushton * G Smith (90%) A E Thomas (100%) E G Wakeham OBE (40%)	(Appointed 24 July 2008) (Until 24 July 2008) (Resigned 24 July 2008) (Until 24 July 2008)

Figures in brackets show percentage attendance at Board meetings during the year.

* D J F Rushton was Chairman of the Group Audit Committee until 10 June 2008 and was succeeded on that date by D E Penny. With the exception of the period beginning 14 February 2008, when Mr Rushton was co-opted onto the Board, until 10 June 2008, the Chairman of the Audit Committee was not a member of any Board.

SENIOR EXECUTIVE OFFICERS

Group Chief Executive	G Colls	
Group Finance Director	R Ardrey	
Group Director of Operations	D E Wheatley	
Group Director of Governance	C G Lakeman	(Resigned 7 May 2008)
Secretary	C G Lakeman D E Wheatley	(Resigned 7 May 2008) (Appointed 22 May 2008)
Deputy Secretary	M G Taylor	(Appointed 25 June 2009)

AUDITORS

PricewaterhouseCoopers LLP
31 Great George Street
Bristol
BS1 5QD

PRINCIPAL FUNDERS

Bank of Scotland)
Lloyds TSB Bank plc) (Merged on 19 January
2009 to become Lloyds
Banking Group plc)
Royal Bank of Scotland plc
Barclays Bank PLC
Abbey National plc

PRINCIPAL BANKERS

Barclays Bank PLC
Windsor Court
3 Windsor Place
Cardiff
CF10 3ZL

REGISTERED OFFICE

Hollands House
Poundbury Road
Dorchester
Dorset
DT1 1SW

Magna Housing Group Limited

REPORT OF THE BOARD INCORPORATING THE OPERATING AND FINANCIAL REVIEW

for the year ended 31 March 2009

The Board presents its report, incorporating the Operating and Financial Review, and audited financial statements for the year ended 31 March 2009.

EXPLANATION OF TERMS

This report uses the following terms in the way described.

The Association: Magna Housing Group Limited.

Magna Housing Group: The Magna Group of businesses, consisting of Magna Housing Group Limited, Magna Housing Association Limited, Magna West Somerset Housing Association Limited, Magna Careline Limited and Charter (S.W.) Limited.

‘Magna’: As for Magna Housing Group.

‘The Group’: As for Magna Housing Group.

‘Magna Group’: As for Magna Housing Group.

‘The Board’: The Board of Magna Housing Group Limited.

CORPORATE GOVERNANCE

The Board is responsible for the proper conduct of the Association’s affairs. It consists of a maximum of 9 Members, all non-executive. In addition, for part of the year there was a co-optee, also a non-executive. They bring substantial relevant knowledge and experience. Each receives bona fide expenses only. None receives a fee for his/her work. Each Member acts in a personal capacity. The Board met 10 times during the year and had an average attendance of 81%. The dates and frequency of its meetings are co-ordinated with those of other Boards and Committees in the Magna Group in the interests of good governance.

The Board has 3 Committees, dealing in turn with finance, audit, and remuneration. Each has Terms of Reference and reports to the Board, primarily by means of its minutes.

Magna has a policy on the qualities it looks for in new shareholders and the obligations of Board Members. Magna seeks shareholders with the skills, experience and other abilities which will enable them to help run the Association properly, and Board Members who, in addition, recognise the obligation upon them to uphold the Purpose and Objectives of Magna Housing Group.

The Audit Committee acts as an audit committee for the whole Group. It reviews reports from management, from the internal auditors and from the external auditors, and seeks to obtain reasonable assurance that control procedures are in place and are being followed. This includes a review of the major risks facing the Group. The Group Audit Committee approves an annual internal audit plan, considers recommendations and agrees appropriate responses and action with the Senior Executive Officers. The Committee meets not fewer than four times during the year. The Chairman of the Group Audit Committee is not a member of the Association’s Board or any other Board or Committee within the Group, with the exception of the period noted on page 2. The internal auditors also attend meetings and they have unrestricted access to the Chairman of the Committee. The Senior Executive Officers attend meetings when required. The Board receives annually a summary of any issues which concerned the Audit Committee sufficiently for it to ask for them to be drawn to the attention of any Board in Magna. The Board also formally considers internal control once during the year in addition to the statement on internal control contained in these Financial Statements. The minutes of the Committee are formally recorded and are reported to the Parent Board.

The Chairman of the Association chairs the Magna Housing Group Limited Remuneration Committee which makes recommendations to the Board on the remuneration of Senior Executive Officers throughout the Group.

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The Board delegates the day-to-day management of the Association to the Group Chief Executive and other senior staff. They are accountable to the Board, carrying out its instructions and providing it and its Committees with comprehensive reports and advice on the Association's affairs, including its performance across a broad range of measures. No employee is a member of the Board or any Committee.

The Board acts in accordance with a Code of Conduct to help ensure probity. It has policies and procedures on sensitive areas such as tendering and procurement, again to help ensure probity. It uses internal audit to check compliance with these and other policies and procedures which have the same aims.

The Board makes an annual self-assessment of compliance with the Regulatory Code and reports the outcome to the relevant regulatory body.

Legal and other agreements, including a Scheme of Delegation, are in place between members of the Magna Group to help ensure the proper functioning and governance of the Group.

The Board has established a Risk Management Policy which identifies, and reviews the effectiveness of, critical risk controls in Magna.

MEMBERS OF THE BOARD AND SENIOR EXECUTIVE OFFICERS

The present Members of the Board and the Senior Executive Officers of the Association are set out on page 2. All the Members and Senior Executive Officers served throughout the year except as noted on page 2.

OBJECTIVES AND STRATEGY

During 2008/09, the Group produced a revised Strategy for the period 1 April 2009 to 31 March 2010. Highlights are as follows:

Our Purpose is *why we exist*:

To help people meet their housing and related needs and aspirations.

Our Strategic Objectives are *what we aim to do*:

1. To have good leadership and governance
2. To develop, motivate and reward staff to achieve, innovate and take responsibility
3. To be excellent in our services, and always improving
4. To achieve value for money in the use of our resources
5. To be the partner for choice for the communities and others we work with
6. To grow and diversify
7. To limit our impact on the environment

Our Behaviours describe *how we do it*:

1. We are passionate about performance
2. We are committed to our customers
3. We empower our people
4. We treat people properly
5. We are energetic and innovative
6. We are open and honest

The Strategic Objectives are each supported by detailed Operational Targets which set out what we are going to do and when we will do it by. These in turn influence the Budget.

Magna Housing Group Limited

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BUSINESS ANALYSIS

The Magna Group Structure

Magna Housing Group Limited is the parent body of the Magna Housing Group. It is an Industrial and Provident Society and is a 'not for profit' organisation. It is a Registered Social Landlord, registered with the Tenant Services Authority (TSA) and affiliated to the National Housing Federation. The structure of the Group is designed to encourage maximum local autonomy consistent with sound central control of the Group, reinforced by a scheme of delegation. In particular, the subsidiary Associations borrow in their own right and own their housing and other assets.

Magna Housing Group Limited has ultimate responsibility for the Group's affairs. It also provides central services to all members of the Group.

The subsidiaries of Magna Housing Group Limited are:

Magna Housing Association Limited, which was registered in 1989 as West Dorset Housing Association Limited, and received the transfer of housing stock from West Dorset District Council on 27 May 1993. It changed its name to Magna Housing Association Limited on 28 March 1995. At 31 March 2009 the Association managed 5,993 units, had Housing Properties valued at £184.1 million, and loans drawn of £108.5 million.

Magna West Somerset Housing Association Limited received the transfer of housing stock from West Somerset District Council on 30 March 1998. At 31 March 2009 the Association managed 2,127 units, had Housing Properties valued at £69.6 million, and loans drawn of £48.1 million.

Charter (S.W.) Limited is the Group's commercial development arm, designed to pursue activities outside the normal remit of the existing Associations and return an agreed share of its profits to them.

Magna Careline Limited is a subsidiary of Magna Housing Association Limited and operates a 24 hour community alarm and control centre.

Principal Activities

The principal activities of the Group are the management, construction and acquisition of non-market housing in Dorset, Devon and Somerset. It aims to do this to a high standard and thereby achieve its Purpose: To help people meet their housing and related needs and aspirations.

Housing Stock

At 31 March 2009, the Group had the following mix of housing stock in management:

	2009	2008
	No	No
General Needs	5,709	5,616
Sheltered	1,894	1,893
Supported	308	320
Shared Ownership	190	153
Fixed Equity	19	19
	<hr/>	<hr/>
	8,120	8,001
	<hr/>	<hr/>

Most of the housing stock is post-war semi-detached houses and sheltered schemes specifically designed for older persons. Accommodation for supported tenants consists of a range of purpose-built and adapted

Magna Housing Group Limited

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accommodation. The Group owns 336 units of pre-cast reinforced concrete (PRC) construction. These properties were upgraded as part of catch-up works following transfer and provision is made in the Associations' Business Plans for further works to these properties in accordance with a planned programme.

The Group completed a 100% Stock Condition Survey in 2004 and expenditure in accordance with this commenced on 1 April 2005. This will ensure that the Group meets fully the Decent Homes Standard by the required date of 2010, and its other statutory and health and safety obligations. The cost of meeting the Decent Homes Standard has significantly increased the level of maintenance expenditure, to the point where the Group has incurred, and is projected to incur deficits for each year up to and including the year ended 31 March 2010. Business Plan projections show increasing levels of surplus thereafter to extinguish the accumulated deficits carried on the balance sheet.

REVIEW OF THE YEAR

Magna had a successful 2008/09, completing a high proportion of the tasks it set itself at the beginning of the year.

It continued discussions with another housing association about forming a new group consisting of it and Magna. A short-notice inspection of some Magna Housing Association services produced results ranging from satisfactory to excellent, accompanied by a judgement of 'promising' for prospects for improvement.

We celebrated the 10th anniversary of the founding of Magna West Somerset, and its many achievements and successes since.

Charter continued to enhance the versatility of the Group, as did ahUK, a company providing low-cost housing for shared equity sale without recourse to public grant, or rent on the unsold equity, and in which Magna has a 50% stake. We made progress in agreeing a radical new course for Magna Careline and giving it the governance systems and structure to match.

Performance continued to improve or remain stable. Where it did not, we know why and action is being taken.

Magna's development team was very active, significantly increasing the number of new homes on site and in the pipeline. Careful management, combined with Magna's underlying strengths, enabled Magna to absorb the effects of the recession as it first struck and then gathered pace in 2008/09.

Finally, Magna revised the wording of its Purpose in 2008/09 and agreed a new, one-year Strategy for 2009/10. The short currency of the Strategy acknowledges the current volatile financial, economic and political climate, and the need to conclude in 2009/10 discussions begun last year on forming a new housing group with another housing association.

OPERATING REVIEW

Operational Performance

Management and the Board receive, monthly and quarterly respectively, a detailed performance indicator pack. Achievement against targets approved by the Board is monitored rigorously and actions are instigated to influence or correct future performance as appropriate.

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A selection of aggregate key performance indicators is presented below:

	2009	2008
Current rent arrears (as % of rental income)	3.2%	3.6%
Voids rental loss (as % of monthly rental)	0.6%	0.8%
General needs dwellings average re-let time (days)	21	26
Sheltered and Supported dwellings average re-let time (days)	23	46
Percentage of all repairs completed within target (%)	95.9%	96.2%
Average SAP rating	61.3	59.4
Dwellings failing Decent Homes Standard (%)	10.7%	14.5%
Tenant Satisfaction overall (Survey February 2008) (%)	85.2%	85.2%
Complaints received (Number)	116	107
Complaints resolved internally (%)	100%	100.0%

Financial Performance

The Consolidated Income and Expenditure Account and Balance Sheet record the following key numbers:

	2009	2008
	£000	£000
Income and Expenditure Account:		
Turnover	36,762	34,943
Operating Surplus	2,918	3,575
Interest Payable	7,442	7,504
Deficit for the year after transfers to Reserves	(7,092)	(478)
Balance Sheet:		
Housing Properties (at valuation)	253,704	228,850
Housing Loans	156,580	146,160
Revaluation Reserve	129,226	107,936
Accumulated Income and Expenditure Account (deficit)	(27,521)	(20,429)

Turnover increased by 5.2% in the year. However, the rental income in 2008 was boosted by around £556,000 in respect of a '53rd week'. 102 properties have been added from development activities. The Association's rents continue to be influenced by the Rent Restructuring programme, which requires rents to reach their target by 31 March 2012, or 2013 in the case of sheltered and supported properties. The overall rent increase was 4.4% from 1 April 2008, calculated from the September 2007 RPI increase plus 0.5%, subject to the effect of Rent Restructuring on each property.

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The operating surplus decreased by £657,000. The biggest impact was in maintenance costs where the Group has seen a higher level of responsive repairs, with additional kitchen and bathroom replacements being carried out. Major repairs expenditure continued at a high level following the implementation of a new Stock Condition Survey in 2005 requiring additional expenditure over a five year period to meet the Decent Homes Standard by 2010.

As stated below, the Association has, for the first time, adopted the Statement of Recommended Practice, "Accounting by Registered Social Landlords 2008". Turnover and operating costs have been restated to include the effects of taking a surplus on first tranche shared ownership sales. The impacts of these changes are disclosed in Note 27.

In 2008 one of the subsidiary Associations disposed of 71 properties to another social landlord, realising a surplus on disposal of £655,000 on those properties in that year. On 31 March 2009 one of the Associations completed a stock swap with Redland Housing Association, where 53 Magna units in North Somerset were 'swapped' for 57 Redland units principally in West Somerset, for a net consideration of £20,000 paid. There were no other exceptional disposals in either year.

As a result of the factors referred to above, the deficit for the year of £4,264,000 is £1,713,000 more than 2008. The 'Credit Crunch' has also hit asset values in the Pension Funds and the effect on the Group's share is an Actuarial deficit of £3,785,000, together with the adverse effect of a change in pension scheme accounting methodology amounting to £246,000. This compares with a credit of £1,532,000 in 2008.

The Income and Expenditure Account deficit is projected to continue for a further year until the high level of planned maintenance falls after 2010 once all of the Group's properties have met the Decent Homes Standard. The Associations' Business Plans forecast rapidly increasing surpluses thereafter.

The Balance Sheet shows the effects of increased development activity and a strengthening Business Plan. A number of new developments were started in the final quarter of the year which will result in a higher number of annual completions over the next few years. This, together with a higher annual valuation, has increased the value of Housing Properties by around £25 million. Similarly, Debtors includes £7.8 million of Social Housing Grant receivable at the year end. Capital Commitments include £78.1 million of contracted developments, at cost, to be delivered over the next 6 years compared with £4.1 million the previous year. The Association's financial strength and its participation in the Source Development Partnership have been rewarded by both development opportunities and £39.4 million of Social Housing Grant receivable against its commitments.

THE FUTURE

Magna will work to its 2009/10 Strategy, striving at all times to meet its Purpose. The recent decision to end discussions on the formation of a new Group with another housing association enables Magna's plans for 2009/10 to include pensions reform, simplification of the Group, office accommodation, making a success of Careline's new strategy and carefully adapting the work of Charter and ahUK to current market conditions.

Magna analyses closely the policy climate as it develops. This allows us to be prepared, and better able to cope with what is expected of us, and better able to exploit, and create, opportunities.

We cannot predict the future entirely, but can confidently say that Magna will create its future, from the many choices available to it, by reference to what we want to achieve and how we want to achieve it, and no other extraneous factors.

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ACCOUNTING POLICIES

The accounting policies are set out in note 1 to the financial statements. These are considered by the Association and Group Boards each year to confirm that they remain appropriate to the Association and the Magna Housing Group. The following comments will assist with an understanding of the financial statements.

Housing Properties are stated at valuation. Depreciation is calculated on the value of the buildings on an Existing Use Value for Social Housing (EUVSH) basis. This is incorporated in Operating Costs with a transfer to Revaluation Reserve below the Deficit for the Year, converting this back to depreciation on a cost basis. Magna Housing Group has revised its strategy for development and is putting more resource into identifying development opportunities and converting these into additional development. As a result the Group's Business Plans provide for increasing numbers of development units for the period through to 2010/11, when it is anticipated that the Group will be delivering as large a development programme as the capacity in its Business Plans will permit.

The Group has adopted the requirements of the Statement of Recommended Practice (SORP) 2008 in the 2009 financial statements. This brings some changes compared with the '2005 SORP' previously adopted. The main effect on the Association is in relation to the treatment of shared ownership sales and this has been treated as a 'change of accounting policy'. The new treatment requires the profit on first tranche sales to be accounted for at that time, compared with the previous treatment where the proceeds of first tranche sales were deducted from the initial cost, such that no profit was normally recognised on the initial sales but only on sales of subsequent tranches. Standard accounting practice requires previous years to be restated as though the new accounting treatment had applied. The effect of the change for years up to 31 March 2007 has been treated as a prior year adjustment, the year ended 31 March 2008 has been restated and the year ended 2009 records shared ownership sales treated in accordance with the 2008 SORP. The Accounting Policies have been amended to record the new treatment and the effects of the change are set out in note 27.

TREASURY MANAGEMENT

The two subsidiary Associations borrow the funds they require in their own right. Treasury activities are controlled and monitored by the Group Finance Director, reporting to the Finance Committees in the first instance, with advice from external consultants as required. They are carried out in accordance with a Treasury Management Policy and annual Treasury Strategy Statements approved by the Boards. The purpose of treasury management is to minimise the cost of borrowing and maximise the receipts from deposits, whilst ensuring that exposure to financial risk is minimised. The key risks in this area are interest rate risk, liquidity risk and funding risk. Treasury management activity is subject to review by internal audit on a regular basis.

Cash flow requirements are reviewed weekly and monitored daily. The Group will normally carry only sufficient funds for current working capital requirements. As the Business Plans predict net cash outflows for the foreseeable future, funds will be drawn from available facilities with any significant excess cash balances repaid through revolving facilities.

Interest rate exposure is managed through the use of interest rate fixes. The Group took advantage of excellent fixed rates available in early 2006, in conjunction with the refinancing of its facilities, and at the year end approximately 70% (2008: 75%) of its drawn funds were fixed. The element of fixed rate funds is intended to reduce over time as future draw-downs are made into variable borrowing. The Group has committed to a further £20 million of forward-fixings which, when taken with maturities of existing fixes and additional draw-downs, provide a good fixed to floating profile over the Business Plan period.

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EMPLOYEES

The Association's ability to meet its targets depends upon the quality and commitment of its employees. The Board is pleased to record here its appreciation of their hard work, skill and commitment, without which the Association could achieve little. The Association informs and consults its staff and encourages them to air their views so that they feel a true involvement in the running of the business.

At the year end, the Group employed 373 (2008: 347) and the Association employed 82 (2008: 75) full and part-time employees.

EQUALITY AND DIVERSITY

Magna Housing Group is committed to providing equal access to opportunities in the provision of housing and services, the employment of staff and in the appointment of contractors and Members of its Board, Committees and Tenants' Panels.

INTERNAL CONTROL AND RISK MANAGEMENT

This report covers the whole system of internal control during the year 2008/09 as required in Housing Corporation Circular 07/07, and is not restricted to internal financial control.

The Board acknowledges that it is responsible for the Group's system of internal control and for reviewing its effectiveness. The Board recognises that such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable, and not absolute, assurance against material mis-statement or loss.

The Board confirms that the process for identifying, evaluating and managing the significant risks faced by the Group is continuous, has been in place for the year under review and up to the date of approval of the annual report and financial statements, and is regularly reviewed.

The Board has reviewed the effectiveness of the system of internal control by several means, including the Group's annual review of the Risk Management Policy, consideration of the work of the Audit Committee, regular reports on performance against targets, and compliance reports by external bodies and a review of the fraud register.

The Board pursues policies and practices which are designed to achieve effective internal control, and describes the most important in this report.

Magna Group exercises control in the first instance by establishing and following a methodical process of deciding its Purpose, Strategic Objectives, Behaviours and Operational Targets, as well as Budgets.

The Board follows a Risk Management Policy last reviewed and updated in December 2008. This lists key risks and how they are controlled. A Scheme of Delegation in Magna requires the Parent Board to take primary responsibility for the production of a Risk Management Policy applicable throughout the Group. The Risk Management Policy itself is subject to periodic internal audit.

Magna views risk primarily as anything which does, or may, hinder its ability to achieve its business aims. Hence, its main risks may be readily summarised as the risk of failure to achieve its Purpose and Strategic Objectives. The quality and effectiveness of the controls in place to manage those risks are further tested and strengthened by consideration of over 20 specific risks, such as breach of Schedule One of the Housing Act 1996, breach of Lenders' covenants, bad press coverage. The overall aim of the Risk Management Policy is to enable Magna to do the right thing in the right way.

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Magna reviewed several times during 2008/09 the risks created by the adverse general financial and economic climate, and implemented suitable controls where feasible.

The Board takes out insurance in respect of many of the identified risks.

Responsibility for key controls is mainly allocated by policies and procedures. These are controlled and maintained to a high standard, and distributed to staff in paper and electronic formats.

Magna operates a whistle-blowing system which encourages staff to raise anonymously with external consultants any concerns which they feel they cannot raise through the normal internal channels.

Control is further reinforced by the production of comprehensive performance data, followed by analysis and action.

The Internal Audit Plan reflects the Risk Management Policy so that internal audit resources are directed towards testing the risks and their controls which the policy identifies. The Plan is devised and implemented by professional, independent auditors, who have unrestricted right of access to the Chairman of the Audit Committee, and is approved by the Audit Committee.

Management places emphasis on the benefits which arise from control which is in-bred and instinctive in addition to that achieved by following procedures. Magna aims to produce an open organisation in which information of all sorts flows freely in the belief that the more open an organisation is, the more robust it is, as it is all the more likely to uncover in good time weaknesses of any type. Recruitment, selection, training and appraisal policies seek to reinforce this approach.

On behalf of the Board, the Audit Committee receives quarterly from the Group Chief Executive a report on any material instances of weak internal control. The Audit Committee itself is a Committee of the Board of Magna Housing Group Limited. It acts as the Audit Committee for all Associations in the Group to minimise the risk of gaps occurring in audit coverage across the Group which may arise if each Association had a separate audit committee.

The Board considers reports from the external auditors, and from other external bodies, such as the TSA, on compliance. Board Members undergo both collective and individual appraisal, and view this as an important risk control.

INTERNAL FINANCIAL CONTROL

The Board is responsible for ensuring that the Group has established and maintains an effective system of internal financial control to ensure the reliability of financial information, the maintenance of proper accounting records and the safeguarding of assets against unauthorised use or disposition. The operation of internal financial control is delegated to the Senior Executive Officers on a day to day basis. However the Board reviews the operation of those controls in the following ways:

The operation of a clearly defined organisational structure based upon a system of delegation and authorisation, which includes Members of the Board where appropriate;

Detailed procedures seek clearly to define operations, controls and authorisation levels and limitations so as to ensure the completeness, accuracy and reliability of transactions and information;

The effectiveness of the system of internal financial control is reviewed through the Group Audit Committee;

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The Group maintains 40-year Business Plans, which are updated annually. Detailed annual Budgets and Cash Flow Statements are maintained, all of which are reviewed and approved by the Board;

All new initiatives, major commitments and investment projects are subject to formal appraisal and authorisation procedures by the Board.

The Board acknowledges that any system of internal control can only provide reasonable, but not absolute, assurance against material misstatement or loss. However the Board seeks to ensure that the system of internal financial control established within the Association and the effectiveness of the review procedures it operates should reduce to a minimum the exposure to these risks.

REGULATORY ENVIRONMENT

As a housing association, the Association is regulated by the TSA and the Homes and Communities Agency, and has to comply with the Regulatory Code. The TSA assesses performance against three main criteria – governance, management and viability. Our latest ‘Regulatory Judgements’ in all three areas are positive. As with many other associations of similar size and complexity, we have been judged as “medium risk” and enjoy a regulatory relationship with the TSA in accordance with that assessment.

Housing associations are also subject to regular inspections by the Audit Commission to assess the level and quality of service provided to tenants. MHA was subject to a short notice inspection in 2008/09. The assessment of the quality of services ranged from satisfactory to excellent, accompanied by a judgement of ‘promising’ for prospects for improvement.

FRAUD

Magna Housing Group complies with the TSA’s requirements on fraud. A Group-wide fraud policy requires a register to be maintained of all actual and suspected fraud.

OFFICERS’ AND MEMBERS’ INSURANCE

The Group maintains insurance to cover the legal and other costs of all the Board Members and senior staff of the Group.

CONCLUSION ON INTERNAL CONTROL

The Audit Committee has received the Group Chief Executive’s report on internal control. In the light of that, and using other sources of assurance available to it, the Board has reviewed the effectiveness of the system of internal control. The Board is satisfied that there is sufficient evidence to confirm that systems of internal control existed and operated throughout the year, that those systems were aligned to a continuous process for the management of the significant risks facing the Group, and that those controls are subject to professional, independent testing and assessment. The Board believes that this will remain true up to (and beyond) the date of the approval and signing of each Board’s annual report and annual financial statements. The Board is aware of no weaknesses which have resulted in material mis-statement or loss and which have required disclosure in the financial statements.

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STATEMENT OF BOARD'S RESPONSIBILITIES

The Industrial and Provident Societies Act requires the Board to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Association as at the end of the financial year and of the income and expenditure of the Association for the year ended on that date.

In preparing those financial statements, the Board is required to:

Select suitable accounting policies and apply them consistently;

Ensure that judgements and estimates are reasonable and prudent;

State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;

Indicate where the financial statements are prepared other than on the basis that the Association is a going concern.

The Board is responsible for ensuring that arrangements are made for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Association and for maintaining a satisfactory system of internal control over its transactions and its assets and liabilities. The Board is also responsible for ensuring that arrangements have been made to safeguard the assets of the Association and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

STATEMENT OF COMPLIANCE

The Board confirms that this Operating and Financial Review has been prepared in accordance with the principles set out in Part 2 of the SORP 2008, Accounting by Registered Social Landlords.

GOING CONCERN

After reviewing the Group's Budgets for 2009/10 and its long term Business Plans, the Board is satisfied that the financial statements may be prepared on a going concern basis.

CHARITABLE DONATIONS

The Group made charitable donations totalling £77,112 (2008: £74,571) (Association £nil; 2008: £nil) during the year.

APPOINTMENT OF AUDITORS

A resolution to reappoint PricewaterhouseCoopers LLP will be proposed at the Annual General Meeting.

By order of the Board

D J F Rushton

Chairman

31 July 2009

G Colls

Group Chief Executive

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MAGNA HOUSING GROUP LIMITED

We have audited the group and parent company financial statements (the financial statements) of Magna Housing Group Limited for the year ended 31 March 2009 which comprise the Group and Association Income and Expenditure Accounts, the Group and Association Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognised Surpluses and Deficits, the Group Note of Historical Cost Surpluses and Deficits and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of the Board and Auditors

The Board's responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Board's Responsibilities on page 13 of the financial statements.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Association as a body in accordance with Section 9 (1) of the Friendly and Industrial and Provident Societies Act 1968 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2006.

In addition we report to you if, in our opinion, a satisfactory system of control over transactions has not been maintained, if the Association has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the 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 which includes the statement of internal control. We review whether the statement of internal control has been prepared in accordance with Housing Corporation Circular '07/07 Internal controls assurance'. We are not required to consider whether the Board's statement on internal control fairly presents the Association's system of internal control, or to form an opinion on the effectiveness of the Association's system of internal control. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of 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 judgements 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MAGNA HOUSING GROUP LIMITED (Continued)

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's and Association's affairs as at 31 March 2009 and of the Group's and Association's deficit and Group's cash flows 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, Schedule 1 to the Housing Act 1996 and The Accounting Requirements for Registered Social Landlords General Determination 2006.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Bristol

Magna Housing Group Limited

CONSOLIDATED AND ASSOCIATION INCOME AND EXPENDITURE ACCOUNTS for the year ended 31 March 2009

	<i>Note</i>	<i>Group</i>		<i>Association</i>	
		<i>2009</i>	<i>Restated 2008</i>	<i>2009</i>	<i>2008</i>
		<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
TURNOVER (INCLUDING SHARE OF JOINT VENTURE)		36,887	34,973	4,315	4,137
Less share of joint venture turnover	11	(125)	(30)	-	-
Group and Association turnover	2	<u>36,762</u>	<u>34,943</u>	<u>4,315</u>	<u>4,137</u>
Operating costs	2	(33,844)	(31,368)	(4,369)	(4,088)
GROUP AND ASSOCIATION OPERATING SURPLUS/(DEFICIT)		2,918	3,575	(54)	49
Surplus on disposal of properties	2	387	1,195	-	-
Pension scheme – Other finance income (charge)	24	(379)	(56)	(70)	(19)
Interest receivable and similar income	4	149	196	6	-
Interest payable and similar charges	5	(7,442)	(7,504)	(25)	(30)
		<u>(4,367)</u>	<u>(2,594)</u>	<u>(143)</u>	<u>-</u>
Share of operating profit of joint ventures	11	107	43	-	-
DEFICIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(4,260)	(2,551)	(143)	-
Taxation on deficit on ordinary activities	8	(4)	-	(9)	4
(DEFICIT)/SURPLUS FOR THE YEAR		<u>(4,264)</u>	<u>(2,551)</u>	<u>(152)</u>	<u>4</u>
Transfer from designated reserve	20	400	-	-	-
Transfer from revaluation reserve	20	803	541	-	-
Pension scheme actuarial (loss)/gain	24	(3,785)	1,532	(573)	161
Change in pension scheme accounting methodology	24	(246)	-	(38)	-
		<u>(7,092)</u>	<u>(478)</u>	<u>(763)</u>	<u>165</u>
INCOME AND EXPENDITURE ACCOUNT AT BEGINNING OF YEAR	20	(20,429)	(19,951)	(855)	(1,020)
INCOME AND EXPENDITURE ACCOUNT AT END OF YEAR	20	<u>(27,521)</u>	<u>(20,429)</u>	<u>(1,618)</u>	<u>(855)</u>

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

Magna Housing Group Limited

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED SURPLUSES AND DEFICITS

for the year ended 31 March 2009

		<i>Group</i>	
		<i>2009</i>	<i>Restated</i>
	<i>Note</i>	<i>£000</i>	<i>2008</i>
			<i>£000</i>
Deficit for the year		(4,264)	(2,551)
Unrealised surplus on revaluation of properties	20	22,093	19,918
Pension scheme actuarial (loss)/gain	24	(3,785)	1,532
Change in pension scheme accounting methodology	24	(246)	-
		<hr/>	<hr/>
Total recognised surpluses for the year		13,798	18,899
		<hr/> <hr/>	<hr/> <hr/>

CONSOLIDATED NOTE OF HISTORICAL COST SURPLUSES AND DEFICITS

for the year ended 31 March 2008

		<i>Group</i>	
		<i>2009</i>	<i>Restated</i>
	<i>Note</i>	<i>£000</i>	<i>2008</i>
			<i>£000</i>
Deficit on ordinary activities before taxation		(4,260)	(2,551)
Transfer from designated reserve	20	400	-
Realisation of property revaluation surpluses of previous years	20	108	145
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	20	695	396
Pension scheme actuarial (loss)/gain	24	(3,785)	1,532
Change in pension scheme accounting methodology	24	(246)	-
		<hr/>	<hr/>
Historical cost deficit on ordinary activities before taxation		(7,088)	(478)
		<hr/> <hr/>	<hr/> <hr/>
Historical cost deficit for the year after taxation		(7,092)	(478)
		<hr/> <hr/>	<hr/> <hr/>

Magna Housing Group Limited

CONSOLIDATED BALANCE SHEET at 31 March 2009

		2009	<i>Restated</i> 2008
	<i>Note</i>	<i>£000</i>	<i>£000</i>
TANGIBLE FIXED ASSETS			
Housing properties	9	253,704	228,850
Other tangible assets	10	3,430	3,424
Goodwill on acquisition of joint venture	11	164	218
Investment in joint ventures:			
Share of gross assets	11	2,092	1,592
Share of gross liabilities	11	(26)	(26)
		<u>2,066</u>	<u>1,566</u>
		259,364	234,058
CURRENT ASSETS			
Stocks	12	30	88
Low Cost Home Ownership properties	13	1,482	1,232
Land and properties held for sale	14	515	1,000
Debtors	15	10,138	3,470
Cash at bank and in hand		4,662	6,523
		<u>16,827</u>	<u>12,313</u>
CREDITORS: amounts falling due within one year	17	(8,416)	(7,505)
NET CURRENT ASSETS		<u>8,411</u>	<u>4,808</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>267,775</u>	<u>238,866</u>
CREDITORS: amounts falling due after more than one year			
Loans	18	156,580	146,160
Pension liability	24	9,490	4,799
CAPITAL AND RESERVES			
Called-up share capital	19	-	-
Designated reserve	20	-	400
Revaluation reserve	20	129,226	107,936
Income and expenditure account	20	(27,521)	(20,429)
		<u>267,775</u>	<u>238,866</u>

These financial statements were approved by the Board on 31 July 2009 and were signed on its behalf by:

D J F Rushton	Chairman
A E Thomas	Finance Committee Chairman
G Colls	Group Chief Executive

Magna Housing Group Limited

CONSOLIDATED BALANCE SHEET at 31 March 2009

M G Taylor Deputy Secretary

Magna Housing Group Limited

ASSOCIATION BALANCE SHEET at 31 March 2009

		2009	2008
	<i>Note</i>	<i>£000</i>	<i>£000</i>
TANGIBLE FIXED ASSETS			
Other tangible assets	10	802	804
Investments	11	545	545
		<u>1,347</u>	<u>1,349</u>
CURRENT ASSETS			
Debtors	15	232	506
Cash at bank and in hand		-	-
		<u>232</u>	<u>506</u>
CREDITORS: amounts falling due within one year	17	<u>(1,001)</u>	<u>(1,268)</u>
NET CURRENT LIABILITIES		<u>(769)</u>	<u>(762)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>578</u>	<u>587</u>
CREDITORS: amounts falling due after more than one year			
Pension liability	24	1,651	897
Loans from subsidiaries	18	545	545
CAPITAL AND RESERVES			
Called-up share capital	19	-	-
Income and expenditure account	20	(1,618)	(855)
		<u>578</u>	<u>587</u>

These financial statements were approved by the Board on 31 July 2009 and were signed on its behalf by:

D J F Rushton Chairman
A E Thomas Finance Committee Chairman
G Colls Group Chief Executive
M G Taylor Deputy Secretary

Magna Housing Group Limited

CONSOLIDATED CASH FLOW STATEMENT for the year ended 31 March 2009

	<i>Group</i>	
	<i>2009</i>	<i>Restated</i>
	<i>£000</i>	<i>2008</i>
		<i>£000</i>
NET CASH INFLOW FROM OPERATING ACTIVITIES (Note I)	473	6,348
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Interest received	60	196
Interest paid	(7,425)	(7,550)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	(7,365)	(7,354)
TAX PAID	-	(21)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
Acquisition and construction of housing properties	(19,015)	(11,880)
Social Housing Grants received	12,712	2,108
Sale of housing properties	2,038	6,038
Sale of freehold land	9	7
Purchase of other tangible fixed assets	(477)	(806)
Acquisition of investments	(500)	(1,348)
CASH OUTFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	(5,233)	(5,881)
Cash outflow before use of liquid resources and financing	(12,125)	(6,908)
FINANCING		
Increase in bank loans	10,420	10,820
Net cash inflow from financing	10,420	10,820
(Decrease)/increase in cash in the year	(1,705)	3,912
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT (Note II)		
(Decrease)/increase in cash in the year	(1,705)	3,912
Increase in bank loans	(10,420)	(10,820)
Change in net debt resulting from cash flows	(12,125)	(6,908)
Net debt at 1 April 2008	(139,996)	(133,088)
Net debt at 31 March 2009	(152,121)	(139,996)

Magna Housing Group Limited

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT for the year ended 31 March 2009

I. RECONCILIATION OF OPERATING SURPLUS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2009 £000	<i>Restated</i> 2008 £000
Operating surplus	2,918	3,575
Depreciation on housing properties	1,893	1,582
Depreciation on other fixed assets	462	433
Impairment provision	500	296
Goodwill amortised	54	54
SORP adjustments	-	1,232
Property demolished	8	-
Aborted schemes and write off of other fixed assets	102	27
Decrease/(increase) in low cost home ownership	1,319	(1,232)
Decrease in pension liability and non cash pension movements in the year	281	182
Decrease/(increase) in stocks	58	(23)
Increase in debtors	(6,475)	(801)
(Decrease)/increase in creditors	(647)	1,023
NET CASH INFLOW FROM OPERATING ACTIVITIES	<u>473</u>	<u>6,348</u>

II. ANALYSIS OF NET DEBT

	<i>At 1 April</i> 2008 £000	<i>Cashflow</i> £000	<i>Non cash</i> <i>movement</i> £000	<i>At 31 March</i> 2009 £000
Cash at bank and in hand	6,164	(1,705)	-	4,459
Debt due after one year:				
Bank loans	(146,160)	(10,420)	-	(156,580)
	<u>(139,996)</u>	<u>(12,125)</u>	<u>-</u>	<u>(152,121)</u>

Magna Housing Group Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2009

1. ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of housing properties, and in accordance with applicable Accounting Standards, the Industrial and Provident Societies Act 1965 to 2002, the Accounting Requirements for Registered Social Landlords General Determination 2006 and the Statement of Recommended Practice, "Accounting by Registered Social Landlords" 2008, issued by the National Housing Federation.

A summary of the more significant accounting policies is set out below:

Consolidation

The consolidated financial statements incorporate the financial statements of all members of the Group.

Change to accounting policies

The Group has, for the first time, adopted the Statement of Recommended Practice, "Accounting by Registered Social Landlords 2008". As a consequence, a change has been made to the accounting for shared ownership properties. Under the revised policy, the sales proceeds of the first tranche of a shared ownership property are treated as turnover and the cost is based on the proportion of equity sold included within cost of sales. These are accounted for within the Income and expenditure account of the period of sale. Under the former policy sales proceeds were netted against the cost of the property held as a fixed asset. The impacts of these changes are disclosed within Note 27.

Turnover

Turnover represents rental and service charge income receivable, first tranche sales of shared ownership properties, fees and revenue grants from the Housing Corporation, local authorities and other agencies, net of voids.

Fixed assets - housing properties

Completed housing properties held for letting have been valued on an Existing Use Value – Social Housing (EUV-SH) basis. Housing properties are revalued annually. The aggregate surplus or deficit on revaluation is the difference between the valuation and the cost of the property less capital grants received and depreciation. The aggregate surplus or deficit on revaluation is transferred to a revaluation reserve.

Housing properties in the course of construction are stated at cost. The development cost of housing properties includes the cost of acquiring land and buildings and the valuation of contracted works completed to date, together with acquisition and development costs, including directly attributable internal costs. Interest cost is capitalised on net loans drawn during the development period.

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

Expenditure on schemes which are subsequently aborted is written off in the year in which it is recognised that the schemes will not be developed to completion.

Any impairment in the value of housing properties is charged to the income and expenditure account in the year in which it is first recognised.

Investments

Investments in shares in group companies are stated at the lower of cost and net realisable value.

1. ACCOUNTING POLICIES (Continued)

Magna Housing Group Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2009

Land held for sale

Land acquired for development, where the development of that land is in doubt, or where a decision has been made for its disposal, is shown as a current asset.

Maintenance expenditure

Expenditure incurred by the Group on general repairs to its housing stock is expensed to the income and expenditure account in the year in which it is incurred. Maintenance expenditure which is capable of generating increased future rents is treated as an improvement to the housing properties concerned and is capitalised.

Social Housing Grant and other grants

Grants for capital expenditure are deducted from the cost of the fixed assets to which they relate as they become receivable. Social Housing Grant is repayable under certain circumstances, primarily following the sale of a property, where it cannot be recycled into acquiring replacement property. Social Housing Grant received in excess of property cost in respect of housing properties in the course of construction is shown as a current liability.

Depreciation

Housing properties

Depreciation is charged so as to write down the valuation or cost (net of Social Housing Grant) of freehold housing properties, other than freehold land, to their estimated residual value on a straight line basis over their expected useful economic lives over the following periods:

Depreciation is provided on the following basis:

General needs and supported houses and flats	100 years
Defective properties	50 years or less
Leasehold properties	Over the term of the lease

Capitalised improvements, which enhance the economic benefits of the asset, are depreciated over the expected useful economic lives of the properties.

Shared Ownership

Completed shared ownership housing properties and housing properties under construction are stated at cost from which Social Housing Grant is deducted. The residual value of housing properties, excluding the cost of the relevant land, is considered to exceed the net book value of such properties, comprising their cost less grant received thereon. In these circumstances, no depreciation falls to be provided on housing properties.

Other fixed assets

Depreciation is provided on the following basis:

Freehold and long leasehold properties	2% per annum, straight line
Office equipment, fixtures and fittings	20% per annum, straight line
Computer systems	16.7% per annum, straight line
Other computer equipment	16.7%-33.3% per annum, straight line
Telephone equipment held for rental	10% per annum, straight line
Motor Vehicles	25% per annum, straight line

1. ACCOUNTING POLICIES (Continued)

Magna Housing Group Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2009

Major and cyclical repairs

No provision is made for major repairs except to the extent that they represent contractual liabilities. Due to the establishment of regular programmes of repair and maintenance, the Group does not make provision for cyclical repairs, but charges actual costs to income and expenditure account as they are incurred.

Goodwill

Goodwill is calculated as the amount by which the cost of a business entity as a whole exceeds the aggregate fair values of its identifiable assets and liabilities at the date of acquisition. Positive goodwill arising is capitalised as an asset in the balance sheet.

Goodwill is amortised over its useful economic life, which the Board has determined as 5 years.

Stocks

Stocks of maintenance materials are stated at the lower of cost and net realisable value.

Leases

Where the Group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a "finance lease". The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included in creditors. Rentals payable are apportioned between the finance element, which is charged to the income and expenditure account, and the capital element, which reduces the outstanding obligation for future instalments.

All other leases are accounted for as "operating leases" and the rental charges are charged to the income and expenditure account on a straight-line basis over the life of the lease.

Taxation

The current charge or credit for taxation is based on the deficit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet date, with the following exception:

Deferred tax assets are recognised only to the extent that the Board considers that it is more likely than not that there will be suitable taxable surpluses from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or subsequently enacted at the balance sheet date.

Designated reserve

Excess Right to Buy proceeds may be set aside to invest into new housing properties. A Subsidiary Board determines annually the amount to be transferred into the designated reserve and takes separate decisions about the use of that reserve.

Pension costs

The Group participates in three defined benefit pension schemes. In accordance with Financial Reporting Standard 17, pension scheme assets, liabilities and revenue movements are incorporated into the Balance Sheet and Income and Expenditure Account in respect of the Dorset and Somerset County Local Government Funds. The Social Housing Pension Scheme is a multi-employer scheme where the share of assets and liabilities is not established and this is disclosed by way of note only. Contributions to the pension schemes are charged to the income and expenditure account so as to spread the cost of pensions

1. ACCOUNTING POLICIES (Continued)

Magna Housing Group Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2009

over the service lives of employees in the schemes. Exceptional deficit funding contributions by the employer are expensed in the year in which they are made.

Value Added Tax

The Group is registered for Value Added Tax (VAT), but a large portion of its income, including rents, is exempt for VAT purposes which gives rise to a partial exemption calculation. The majority of the VAT it incurs on non-employee expenditure cannot be reclaimed. Expenditure is therefore shown inclusive of VAT. Where the Group recovers VAT this is credited to the Income and Expenditure Account.

2. TURNOVER, OPERATING COSTS AND OPERATING SURPLUS

Group:

	<i>Turnover</i> £000	<i>Operating Costs</i> £000	<i>Operating Surplus</i> £000
YEAR ENDED 31 MARCH 2009			
Continuing activities:			
Social housing lettings (Page 26)	32,537	(29,642)	2,895
Other social housing activities			
- Supporting People contract income	693	(582)	111
Shared ownership first tranche sales	1,813	(1,318)	495
Other activities	1,719	(1,204)	515
Indirect & abortive development costs and impairment	-	(1,044)	(1,044)
Goodwill amortised	-	(54)	(54)
	<u>36,762</u>	<u>(33,844)</u>	<u>2,918</u>
YEAR ENDED 31 MARCH 2008 (RESTATED)			
Continuing activities:			
Social housing lettings (Page 26)	31,607	(27,993)	3,614
Other social housing activities			
- Supporting People contract income	600	(518)	82
Shared ownership first tranche sales	1,538	(1,248)	290
Other activities	1,198	(820)	378
Indirect & abortive development costs and impairment	-	(735)	(735)
Goodwill amortised	-	(54)	(54)
	<u>34,943</u>	<u>(31,368)</u>	<u>3,575</u>

Association:

The Association incurs administrative costs, which it recharges in full to its subsidiaries.

Magna Housing Group Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2009

2. TURNOVER, OPERATING COSTS AND OPERATING SURPLUS (Continued)

<i>Group:</i>	<i>General housing £000</i>	<i>Supported housing £000</i>	<i>Shared ownership £000</i>	<i>2009 Total £000</i>	<i>2008 Total £000</i>
Rent receivable net of identifiable service charges	21,611	8,481	88	30,180	29,326
Charges for support services	1	885	-	886	962
Service income	348	1,122	1	1,471	1,319
TURNOVER FROM SOCIAL HOUSING LETTINGS	21,960	10,488	89	32,537	31,607
Management	1,945	1,483	15	3,443	3,315
Support services	-	933	-	933	885
Services	377	1,100	5	1,482	1,358
Routine maintenance	2,477	2,122	-	4,599	4,404
Planned maintenance	1,929	1,570	1	3,500	3,938
Major repairs expenditure	8,640	3,729	12	12,381	11,026
Bad debts	99	71	-	170	336
Property lease charges	188	78	-	266	285
Depreciation on housing properties	1,360	532	2	1,894	1,581
Pension operating charge (Note 24)	448	526	-	974	865
OPERATING COSTS OF SOCIAL HOUSING LETTINGS	17,463	12,144	35	29,642	27,993
OPERATING SURPLUS/(DEFICIT) ON SOCIAL HOUSING LETTINGS	4,497	(1,656)	54	2,895	3,614
Void losses	100	95	-	195	238

Magna Housing Group Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2009

2. TURNOVER, OPERATING COSTS AND OPERATING SURPLUS (Continued)

SURPLUS ON DISPOSAL OF PROPERTIES	<i>Group</i>		<i>Association</i>	
	<i>2009</i>	<i>Restated 2008</i>	<i>2009</i>	<i>2008</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Sale proceeds	2,047	4,989	-	-
Cost of sales – at valuation	(1,660)	(3,794)	-	-
	<u>387</u>	<u>1,195</u>	<u>-</u>	<u>-</u>

3. OPERATING SURPLUS/(DEFICIT)

Operating surplus is stated after charging:

Depreciation:

Housing fixed assets	1,893	1,582	-	-
Other fixed assets	462	433	285	266
Impairment on land for resale	500	296	-	-
Goodwill amortised	54	54	-	-
Hire of vehicles and office equipment payable under operating leases	629	590	107	106
Auditors' remuneration:				
In their capacity as auditors	41	36	7	7
In respect of other services	21	24	8	8
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

4. INTEREST RECEIVABLE AND SIMILAR INCOME

Bank interest	149	196	6	-
	<u>149</u>	<u>196</u>	<u>6</u>	<u>-</u>

5. INTEREST PAYABLE AND SIMILAR CHARGES

On bank loans, overdrafts and other loans wholly repayable in more than five years	7,546	7,743	25	30
Less development interest capitalised at 4.6% (2008: 5.8%)	(104)	(239)	-	-
	<u>7,442</u>	<u>7,504</u>	<u>25</u>	<u>30</u>

Magna Housing Group Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2009

6. STAFF COSTS

	<i>Group</i>		<i>Association</i>	
	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Wages and salaries	7,921	7,470	2,056	2,068
Social security costs	659	585	185	166
Pension costs	848	852	244	249
	<u>9,428</u>	<u>8,907</u>	<u>2,485</u>	<u>2,483</u>

The average number of full time equivalent employees, during the year, was: the Group 361 (2008: 334), the Association 75 (2008: 78)

7. DIRECTORS' EMOLUMENTS

The remuneration paid to the Directors (the Board, the Group Chief Executive and other Senior Executive Officers) was:

	<i>Group</i>		<i>Association</i>	
	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Emoluments (including pension contributions and benefits in kind)	<u>370</u>	<u>493</u>	<u>370</u>	<u>493</u>
Emoluments paid to the highest paid director (the Group Chief Executive), excluding pension contributions	<u>124</u>	<u>115</u>	<u>124</u>	<u>115</u>

The Senior Executive Officers are employed by Magna Housing Group Limited. The decrease in the total emoluments is as a result of the resignations of the Group Business Development Director, on 30 September 2007, and the Group Director of Governance on 7 May 2008, who have not been directly replaced.

The Group Chief Executive is an ordinary member of the Local Government Pension Scheme run by Dorset County Council, and no enhanced or special terms applied.

Board Members give their services voluntarily and receive no emoluments. Tenant Members of the Group and subsidiary Boards have tenancies on normal commercial terms.

	<i>Group</i>		<i>Association</i>	
	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Total expenses reimbursed to the Members not chargeable to United Kingdom income tax	<u>18</u>	<u>16</u>	<u>8</u>	<u>6</u>

Magna Housing Group Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2009

8. TAXATION

Group:

	2009 £000	2009 £000	2008 £000	2008 £000
UK Corporation tax				
UK corporation tax on deficit before taxation		25		2
Adjustments in respect of previous years		(2)		(19)
Total current tax		23		(17)
Deferred tax				
Timing differences	(19)		17	
Adjustments in respect of previous years	-		-	
Total deferred tax		(19)		17
Current tax charge for the year		4		-

Factors affecting the tax charge for the year

The assessed tax on the deficit for the year is higher than the standard rate of corporation tax in the UK. The differences are explained below:

	2009 £000	Restated 2008 £000
Deficit on ordinary activities before taxation	(4,260)	(2,551)
Deficit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2008: 30%)	(1,193)	(765)
Effect of:		
Disallowed expenses and non-taxable income	(150)	(39)
Accelerated capital allowances	1,336	462
Short term timing differences	-	13
Tax losses brought forward	(2,934)	(2,663)
Tax losses carried forward	2,269	2,934
Capital gains	37	180
Adjustments in respect of previous years	663	(120)
Deferred tax rate changes	(18)	17
Group relief	(10)	(22)
Small companies rate	-	7
Marginal relief	(3)	(4)
Current tax charge for the year	4	-

Estimated tax losses of £8,104,000 are available within the Group for carry forward to future years.

Magna Housing Group Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2009

8. TAXATION (Continued)

Association:

	2009 £000	2009 £000	2008 £000	2008 £000
UK Corporation tax				
UK corporation tax on deficit before taxation		25		-
Adjustments in respect of previous years		-		(19)
Total current tax		<u>25</u>		<u>(19)</u>
Deferred tax				
Timing differences	(16)		15	
Adjustments in respect of previous years	-		-	
Total deferred asset		<u>(16)</u>		<u>15</u>
Current tax charge/(credit) for the year		<u>9</u>		<u>(4)</u>

Factors affecting the tax charge/(credit) for the year

The assessed tax on the deficit for the year is higher than the standard rate of corporation tax in the UK. The differences are explained below:

	2009 £000	2008 £000
Deficit on ordinary activities before taxation	-	-
Deficit on ordinary activities multiplied by the standard rate of Corporation tax in the UK of 28% (2008: 30%)	-	-
Effect of:		
Disallowed expenses and non-taxable income	34	28
Accelerated capital allowances	4	(3)
Short term timing differences	-	1
Deferred tax	(16)	15
Marginal relief	(3)	(4)
Group relief	(10)	(22)
Adjustments in respect of previous years	-	(19)
Current tax charge/(credit) for the year	<u>9</u>	<u>(4)</u>

Magna Housing Group Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2009

9. TANGIBLE FIXED ASSETS - HOUSING PROPERTIES

<i>Group:</i>	<i>Housing properties held for letting £000</i>	<i>Completed shared ownership housing properties £000</i>	<i>Housing properties under construction £000</i>	<i>Total £000</i>
Net book value or valuation:				
At 1 April 2008– as restated (note 27)	223,924	3,237	1,689	228,850
Additions – existing properties	972	-	-	972
Additions – housing properties	5,494	3,191	9,358	18,043
Social Housing Grant received	(2,168)	(175)	(10,369)	(12,712)
Disposals	(1,647)	-	-	(1,647)
Property demolished	(8)	-	-	(8)
Aborted schemes	-	-	(102)	(102)
Transfer to Low Cost Home Ownership	-	(1,569)	-	(1,569)
Social Housing Grant in advance	-	-	1,692	1,692
Schemes completed in year	1,117	966	(2,083)	-
Transfer to Current Assets	(15)	-	-	(15)
Depreciation charge for the year – valuation basis	(1,893)	-	-	(1,893)
Surplus on revaluation	22,093	-	-	22,093
At 31 March 2009	247,869	5,650	185	253,704

Net book value or valuation at 31 March 2009 is represented by:

Gross cost	169,651	7,938	7,455	185,044
Social Housing Grant	(41,705)	(2,288)	(7,270)	(51,263)
Depreciation on cost net of Grant	(9,303)	-	-	(9,303)
	118,643	5,650	185	124,478
Revaluation reserve	129,226	-	-	129,226
	247,869	5,650	185	253,704

Housing properties held for letting were professionally valued during April 2009 by Savills (L&P) Limited (Chartered Surveyors) as at 31 March 2009, on the basis of their Existing Use Value for Social Housing (EUV-SH). The valuation was undertaken in accordance with the RICS Asset Valuation Manual. In determining this valuation, the valuers have made use of discounted cash flow methodology. Discount rates of 5.5% (2008: 5.5%) have been used, based on a constant price model. The valuations incorporate the impact of Housing Corporation Rent Influencing guidance, which sets target rents for each property. The target rents set are assumed to grow by RPI plus 0.5% per annum. Housing properties held for shared ownership and properties under construction are included at cost, from which Social Housing Grant is deducted.

Magna Housing Group Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2009

9. TANGIBLE FIXED ASSETS – HOUSING PROPERTIES (Continued)

Housing Properties includes leasehold properties which are held on leases ranging from 2 to 99 years. Properties held on short and long leases have values of £765,000 (2008: £646,307) and £3,835,195 (2008: £3,561,011) respectively. The net book value of properties held on short leases is £501,788 (2008: £422,619) and that of properties held on long leases, £1,402,456 (2008: £1,179,201). All other housing properties are held on freehold tenure.

Association:

Magna Housing Group Limited does not hold any housing properties.

10. TANGIBLE FIXED ASSETS – OTHER

Group:

	<i>Freehold property £000</i>	<i>Maintenance equipment £000</i>	<i>Computer equipment £000</i>	<i>Office equipment, motor vehicles fixtures and fittings £000</i>	<i>Total £000</i>
Cost:					
At 1 April 2008	2,734	126	2,884	3,100	8,844
Additions	-	70	316	91	477
Disposals	-	-	(75)	(9)	(84)
At 31 March 2009	2,734	196	3,125	3,182	9,237
Depreciation:					
At 1 April 2008	540	89	2,094	2,697	5,420
Charge for year	50	22	278	112	462
Disposals	-	-	(75)	-	(75)
At 31 March 2009	590	111	2,297	2,809	5,807
Net book value:					
At 31 March 2009	2,144	85	828	373	3,430
At 31 March 2008	2,194	37	790	403	3,424

Magna Housing Group Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2009

10. TANGIBLE FIXED ASSETS – OTHER (Continued)

<i>Association:</i>	<i>Computer equipment £000</i>	<i>Office equipment, fixtures and fittings £000</i>	<i>Total £000</i>
Cost:			
At 1 April 2008	1,887	102	1,989
Additions	273	10	283
Disposals	(13)	-	(13)
At 31 March 2009	2,147	112	2,259
Depreciation:			
At 1 April 2008	1,138	47	1,185
Charge for year	266	19	285
Disposals	(13)	-	(13)
At 31 March 2009	1,391	66	1,457
Net book value:			
At 31 March 2009	756	46	802
At 31 March 2008	749	55	804

11. INVESTMENTS

	<i>Group</i>		<i>Association</i>	
	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>
	<i>No</i>	<i>No</i>	<i>No</i>	<i>No</i>
Ordinary shares of £1 each:				
Affordable Homes UK Limited	-	-	545,000	545,000
Charter (S.W.) Limited	-	-	2	2
	-	-	545,002	545,002

AFFORDABLE HOMES UK LIMITED (ahUK)

On 22 December 2006 the Association paid £545,000 for 1,000 shares in Affordable Homes UK Limited which commenced trading on that day. The share capital of ahUK is held 50% by Magna Housing Group Limited and 50% by John Cottingham and it is treated as a joint venture in these financial statements.

ahUK's principal activity is the provision of low cost home ownership without grant. ahUK charges a commission for enabling the first and future sales of fixed equity dwellings.

The cumulative nature of ahUK's business is such that losses are anticipated in its early years.

Magna Housing Group Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2009

11. INVESTMENTS (CONTINUED)

CHARTER (S.W.) LIMITED ('The Company')

The Association holds 2 £1 ordinary shares in Charter (S.W.) Limited, which represents 100% of the voting shares in issue at 31 March 2009 and 2008. The Company commenced trading on 3 April 2006 as the vehicle for the Group's commercial activities. Magna Housing Association Limited and Magna West Somerset Housing Association Limited subscribed for a total of 700,000 £1 A Ordinary, non-voting shares, in the Company during the year. Charter (S.W.) Limited made a loss of £40,000 for the year (2008: loss £92,000). Its budget for 2009/10 forecasts a profit for that year.

Part of its business activity includes property development with third parties through joint venture limited liability partnerships.

	<i>Group</i>	
	<i>2009</i>	<i>2008</i>
	<i>£000</i>	<i>£000</i>
Goodwill - ahUK:		
Magna share of fair value of net assets of ahUK on acquisition (50%)	273	273
Consideration	545	545
	<u>272</u>	<u>272</u>
Goodwill arising on acquisition	272	272
Goodwill amortised in earlier years	(54)	-
Goodwill amortised in the year	(54)	(54)
	<u>164</u>	<u>218</u>
	<u><u>108</u></u>	<u><u>54</u></u>
Accumulated goodwill amortised		
Investment in joint ventures:		
Share of gross assets:		
ahUK	251	244
Charter (S.W.) Limited joint ventures	1,841	1,348
	<u>2,092</u>	<u>1,592</u>
	<u><u>26</u></u>	<u><u>26</u></u>
Share of gross liabilities:		
ahUK	26	26
Charter (S.W.) Limited joint ventures	-	-
	<u>26</u>	<u>26</u>
	<u><u>26</u></u>	<u><u>26</u></u>

Magna Housing Group Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2009

11. INVESTMENTS (CONTINUED)

	<i>Group</i>	
	<i>2009</i>	<i>2008</i>
	<i>£000</i>	<i>£000</i>
Share of joint venture turnover:		
ahUK	125	30
Charter (S.W.) Limited joint ventures	-	-
	<u>125</u>	<u>30</u>
	<u><u>125</u></u>	<u><u>30</u></u>
Share of operating profit/(loss) of joint ventures:		
ahUK	7	(32)
Charter (S.W.) Limited joint ventures – Interest receivable	100	75
	<u>107</u>	<u>43</u>
	<u><u>107</u></u>	<u><u>43</u></u>

12. STOCKS

	<i>Group</i>		<i>Association</i>	
	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Stocks of maintenance materials	30	88	-	-
	<u>30</u>	<u>88</u>	<u>-</u>	<u>-</u>
	<u><u>30</u></u>	<u><u>88</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

13. LOW COST HOME OWNERSHIP

First tranche of shared ownership properties under construction or for sale, as restated (Note 27)	1,482	1,232	-	-
	<u>1,482</u>	<u>1,232</u>	<u>-</u>	<u>-</u>
	<u><u>1,482</u></u>	<u><u>1,232</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

14. LAND AND PROPERTIES HELD FOR SALE

Land held for resale	500	1,000	-	-
Rental properties for disposal	15	-	-	-
	<u>515</u>	<u>1,000</u>	<u>-</u>	<u>-</u>
	<u><u>515</u></u>	<u><u>1,000</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

The Group acquired a plot of land for affordable housing development, but intends to sell this in the open market. At 31 March 2009 no formal offer has been accepted and the land has been included in the balance sheet at a valuation which represents its net realisable value. A further impairment provision of £500,000 has been included in note 3. The disposal of two existing units of rental stock has been approved and these are stated at original transfer cost to the Group. The sales of these units were completed after the year end.

Magna Housing Group Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2009

15. DEBTORS

	<i>Group</i>		<i>Association</i>	
	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Gross rent arrears	1,684	1,460	-	-
Less provision for doubtful debts	(790)	(550)	-	-
	894	910	-	-
Social Housing Grant receivable	7,786	1,360		
Other debtors	838	615	26	23
Prepayments and accrued income	525	560	127	239
Deferred tax asset (Note 16)	44	25	46	30
Cash in transit	51	-	-	-
Amounts owed by subsidiaries	-	-	33	214
	10,138	3,470	232	506

16. DEFERRED TAX

	<i>Group</i>		<i>Association</i>	
	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 April 2008	(25)	(42)	(30)	(45)
Provided during the year	(19)	17	(16)	15
At 31 March 2009	(44)	(25)	(46)	(30)

The deferred tax asset consists of:

<i>Group:</i>	<i>Provided</i>		<i>Unprovided</i>	
	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Depreciation in excess of capital allowances	(30)	(18)	(64)	(67)
Short term timing differences	(10)	(7)	(40)	(44)
Losses	(4)	-	(2,269)	(2,933)
Pension	-	-	(2,446)	(1,440)
Net deferred tax asset	(44)	(25)	(4,819)	(4,484)

There are unrecognised deferred tax assets of £4,819,000 (2008: £4,484,000) for the Group. The assets are not recognised as it is considered that there will not be suitable tax profits against which the reversal of the underlying differences can be set in the foreseeable future.

Magna Housing Group Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2009

16. DEFERRED TAX (Continued)

Association:

	<i>Provided</i>		<i>Unprovided</i>	
	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Capital allowances in excess of depreciation	(39)	(24)	-	17
Short term timing differences	(7)	(6)	-	20
Net deferred tax asset	<u>(46)</u>	<u>(30)</u>	<u>-</u>	<u>37</u>

17. CREDITORS: amounts falling due within one year

	<i>Group</i>		<i>Association</i>	
	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Bank overdraft	203	359	203	359
Trade creditors	1,280	1,191	123	183
Rents received in advance	669	645	-	-
Corporation tax	23	2	25	-
Other taxes and social security	277	288	81	65
Social Housing Grant in advance	1,692	-	-	-
Maintenance sinking fund	1,466	1,363	-	-
Recycled Capital Grant Fund	28	219	-	-
Other creditors	359	257	33	32
Accruals and deferred income	2,419	3,181	132	229
Amounts due to subsidiaries	-	-	404	400
	<u>8,416</u>	<u>7,505</u>	<u>1,001</u>	<u>1,268</u>

18. CREDITORS: amounts falling due after more than one year

LOANS

	<i>Group</i>		<i>Association</i>	
	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Housing loans (all due after more than five years)	156,580	146,160	-	-
Inter-company loans	-	-	545	545
	<u>-</u>	<u>-</u>	<u>545</u>	<u>545</u>

Magna Housing Group Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2009

18. CREDITORS: amounts falling due after more than one year (Continued)

LOANS

At 31 March 2009 the Group had facilities of £210,000,000 with consortia led by Lloyds Banking Group plc and Royal Bank of Scotland plc for remaining terms of 27 years at rates varying with LIBOR, with options to fix. £156,580,000 had been drawn down of which £109,500,000 was fixed for periods between 1 and 23 years at interest rates between 4.56% and 5.63%, inclusive of margin. The borrowings are secured by fixed charges over the housing property assets of the Association. A list of all funders to the Group is set out on page 2.

The inter-company loan represents moneys advanced by subsidiaries to enable the investment in ahUK referred to in note 11. There is no repayment date for these loans, but they are potentially repayable within 5 years.

Amounts repayable, not by instalments:

	<i>Group</i>		<i>Association</i>	
	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Repayable within five years	-	-	545	545
Repayable after five years	156,580	146,160	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

19. CALLED-UP SHARE CAPITAL

	<i>Association</i>	
	<i>2009</i>	<i>2008</i>
	<i>£</i>	<i>£</i>
<i>Allotted, issued and fully paid:</i>		
Shares of £1 each in issue at beginning of year	20	21
Shares of £1 issued during the year	-	2
Surrendered during the year	(2)	(3)
Shares in issue at end of year	<u>18</u>	<u>20</u>

Each Member of the Association holds a non-equity share of £1 in the Association. The shares carry no rights to dividends and are non-redeemable. They carry the right to vote at meetings of the Association on the basis of one share one vote. No rights to participate in the net assets of the Association in the event of a winding up are conferred by the shares.

Magna Housing Group Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2009

20. RESERVES

<i>Group:</i>	<i>Designated reserve £000</i>	<i>Revaluation reserve £000</i>	<i>Income and expenditure account £000</i>	<i>Total £000</i>
At 1 April 2008	400	107,936	(21,104)	87,232
Prior Year Adjustment (Note 27)	-	-	675	675
	<u>400</u>	<u>107,936</u>	<u>(20,429)</u>	<u>87,907</u>
Deficit for the year	-	-	(4,264)	(4,264)
Transfer from designated reserves	(400)	-	400	-
Transfer to the income and expenditure account:				
on disposal of housing properties	-	(108)	108	-
on depreciation relating to revaluations	-	(695)	695	-
Revaluation of housing properties held for letting	-	22,093	-	22,093
Pension scheme actuarial loss	-	-	(3,785)	(3,785)
Change in pension scheme accounting methodology	-	-	(246)	(246)
	<u>-</u>	<u>129,226</u>	<u>(27,521)</u>	<u>101,705</u>
At 31 March 2009	<u>-</u>	<u>129,226</u>	<u>(27,521)</u>	<u>101,705</u>

Association:

	<i>Income and expenditure account £000</i>
At 1 April 2008	(855)
Deficit for the year	(152)
Pension scheme actuarial loss	(573)
Change in pension scheme methodology	(38)
	<u>(1,618)</u>
At 31 March 2009	<u>(1,618)</u>

21. COMMITMENTS

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

	<i>Group</i>		<i>Association</i>	
	<i>2009 £000</i>	<i>2008 £000</i>	<i>2009 £000</i>	<i>2008 £000</i>
Contracted	78,131	4,138	-	-
Authorised but not contracted	2,171	5,308	261	236
	<u>80,302</u>	<u>9,446</u>	<u>261</u>	<u>236</u>

Magna Housing Group Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2009

21. COMMITMENTS (Continued)

	<i>Group</i>		<i>Association</i>	
	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Capital commitments will be funded by:				
Grant	39,490	1,742	-	-
Capital contributions from shared owners and others	7,462	952	-	-
Drawings on agreed loan facilities	33,350	6,752	261	236
	<u>80,302</u>	<u>9,446</u>	<u>261</u>	<u>236</u>

The Group has entered into development commitments on schemes for development over periods of up to 6 years, with grants allocated by the Homes and Communities Agency. This long term commitment has not been available in previous years, such that commitments have, hitherto, been in relation to the current year's programme only.

At 31 March 2009 the Group had annual commitments under non-cancellable operating leases as follows:

	<i>Group</i>		<i>Association</i>	
	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
LAND AND BUILDINGS				
Leases expiring:				
within one year	12	25	-	-
between two and five years	9	6	-	-
in over five years	323	348	-	-
	<u>344</u>	<u>379</u>	<u>-</u>	<u>-</u>
OTHER				
Leases expiring:				
within one year	58	75	4	6
between two and five years	408	345	74	82
in over five years	-	-	-	-
	<u>466</u>	<u>420</u>	<u>78</u>	<u>88</u>
	<u>810</u>	<u>799</u>	<u>78</u>	<u>88</u>

Magna Housing Group Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2009

22. HOUSING STOCK

The number of units in management at the year end, were as follows:

	<i>General Housing</i>	<i>Sheltered Housing</i>	<i>Supported Housing</i>	<i>Shared Ownership</i>	<i>Fixed Equity</i>	<i>Total</i>
	<i>No.</i>	<i>No.</i>	<i>No.</i>	<i>No.</i>	<i>No.</i>	<i>No.</i>
<i>2009</i>						
Housing accommodation in management:						
Owned	5,643	1,894	254	190	19	8,000
Managed for others	66	-	54	-	-	120
	<u>5,709</u>	<u>1,894</u>	<u>308</u>	<u>190</u>	<u>19</u>	<u>8,120</u>
Managed by others	<u>29</u>	<u>-</u>	<u>88</u>	<u>-</u>	<u>-</u>	<u>117</u>
<i>2008</i>						
Housing accommodation in management:						
Owned	5,538	1,893	274	153	19	7,877
Managed for others	78	-	46	-	-	124
	<u>5,616</u>	<u>1,893</u>	<u>320</u>	<u>153</u>	<u>19</u>	<u>8,001</u>
Managed by others	<u>29</u>	<u>-</u>	<u>75</u>	<u>-</u>	<u>-</u>	<u>104</u>

23. CONTINGENT LIABILITIES

The Board is not aware of any material contingent liabilities at the balance sheet date.

24. PENSION ARRANGEMENTS

The Group participates in three defined benefit pension schemes as an "Admitted Body":

- (i) Local government scheme administered by Dorset County Council;
- (ii) Local government scheme administered by Somerset County Council; and
- (iii) The Social Housing Pension Scheme.

Dorset County Council Pension Fund

A full actuarial triennial valuation was completed as at 31 March 2007 and was updated to 31 March 2009, using suitable approximate methods, by a qualified independent actuary.

GROUP

The total pension cost for the Group for the year in respect of this Fund was £434,432 (2008: £456,189). The cost is assessed in accordance with advice from a qualified actuary. Employers' contributions to the Fund of £37,323 (2008: £37,671) were included in creditors and paid after the year end. The employers' contributions certified by the actuary to the Fund in respect of the year ending 31 March 2010 will be from 173% to 225% of members' contributions.

Magna Housing Group Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2009

24. PENSION ARRANGEMENTS (Continued)

ASSOCIATION

The total pension cost for the Association for the year in respect of this Fund was £103,956 (2008: £107,528). The cost is assessed in accordance with advice from a qualified actuary. Employer's contributions to the Fund of £8,934 (2008: £8,887) were included in creditors and paid after the year-end. The employer's contributions certified by the actuary to the Fund in respect of the year ending 31 March 2010 will be 173% of members' contributions.

GROUP AND ASSOCIATION

The financial assumptions underlying the valuation were as follows:

	2009	2008	2007
Price inflation	3.0% per annum	3.7% per annum	3.3% per annum
Salary inflation	4.5% per annum	5.2% per annum	5.1% per annum
Pension increases	3.0% per annum	3.7% per annum	3.3% per annum
Discount rate	6.7% per annum	6.6% per annum	5.4% per annum

The consolidated pension information for the Association and Magna Housing Association, together with Magna West Somerset Housing Association, which is in the Somerset County Council Pension Fund is set out below.

Somerset County Council Pension Fund

Magna West Somerset is a member of the Somerset County Council Pension Fund. The total pension cost for that Association for the year in respect of this Fund was £234,506 (2008: £222,716). The cost is assessed in accordance with advice from a qualified actuary. Employer contributions to the Fund of £20,164 (2008: £17,928) were included in creditors and paid after the year-end. The employer's contributions proposed by the actuary to the Fund in respect of the year ending 31 March 2010 will be 251.4%, of members' contributions.

The main financial assumptions adopted as at 31 March 2009 were:

	2009	2008	2007
Price inflation	3.0% per annum	3.7% per annum	3.3% per annum
Salary inflation	4.5% per annum	5.2% per annum	5.1% per annum
Pension increases	3.0% per annum	3.7% per annum	3.3% per annum
Discount rate	6.7% per annum	6.6% per annum	5.4% per annum

THE GROUP - COMPRISING DORSET AND SOMERSET COUNTY COUNCIL FUNDS

The Group's share of the fair values of each main class of assets held by the Fund as at 31 March 2009 and the expected rates of return for the ensuing year are set out in the following table:

Fair value:	2009	2008	2007
	£000	£000	£000
Equities	10,560	13,837	15,968
Gilt	3,239	4,271	3,744
Other bonds	1,476	1,918	1,644
Property	1,510	2,238	2,813
Cash/other	1,351	2,320	1,123
Total	<u>18,136</u>	<u>24,584</u>	<u>25,292</u>

Magna Housing Group Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2009

24. PENSION ARRANGEMENTS (Continued)

Expected Return:	2009		2008		2007	
	Dorset %	Somerset %	Dorset %	Somerset %	Dorset %	Somerset %
Equities	7.0	7.3	7.3	6.9	7.2	7.2
Gilts	4.0	4.0	4.5	4.3	4.4	4.6
Other bonds	6.5	6.5	6.6	6.6	5.4	5.4
Property	6.6	6.4	6.8	5.9	6.7	6.2
Cash/other	3.0	3.0	5.0	5.0	5.0	5.0
Total	<u>6.0</u>	<u>6.6</u>	<u>6.4</u>	<u>6.5</u>	<u>6.5</u>	<u>6.7</u>

The Group's share of the net assets and liabilities of the Dorset and Somerset County Council Pension Funds is set out below:

	2009 £000	2008 £000	2007 £000	2006 £000
Share of assets	18,136	24,584	25,292	23,764
Share of estimated liabilities	(27,626)	(29,383)	(31,385)	(30,718)
Association's share of deficit in the Fund	<u>(9,490)</u>	<u>(4,799)</u>	<u>(6,093)</u>	<u>(6,954)</u>

AMOUNT CHARGED TO OPERATING SURPLUS

Current service cost	(974)	(865)	(932)	(822)
Curtailments and settlements	-	-	(8)	(25)
Total operating charge	<u>(974)</u>	<u>(865)</u>	<u>(940)</u>	<u>(847)</u>

ACTUARIAL (LOSSES)/GAINS

Actuarial (losses)/gains recognised in Statement of Recognised Surpluses and Deficits - £000	(3,785)	1,532	1,154	633
Actuarial (losses)/gains recognised in Statement of Recognised Surpluses and Deficits as a percentage of scheme liabilities at the balance sheet date - %	(13.7%)	5.2%	3.7%	2.1%

AMOUNT CHARGED TO OTHER FINANCE INCOME

	2009 £000	2008 £000
Expected return on pension scheme assets	1,578	1,665
Interest on pension scheme liabilities	(1,957)	(1,721)
Net return	<u>(379)</u>	<u>(56)</u>

Magna Housing Group Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2009

24. PENSION ARRANGEMENTS (Continued)

The movement in the net deficit for the year to 31 March 2009 is as follows:

	2009		2008	
	£000	£000	£000	£000
Net deficit at 1 April 2008		(4,799)		(6,093)
Adjustment for change in methodology		(246)		-
		<u>(5,045)</u>		<u>(6,093)</u>
Movement in the year:				
Operating charge - Current service cost	(974)		(865)	
Past service costs	(81)		-	
Contributions	772		683	
Unfunded pension payments	2		-	
Other finance income (charge)	(379)		(56)	
Total finance income		<u>(660)</u>		<u>(238)</u>
Actuarial (loss)/gain		(3,785)		1,532
Net deficit at 31 March 2009		<u><u>(9,490)</u></u>		<u><u>(4,799)</u></u>

THE ASSOCIATION – THE DORSET FUND

The Association's share of the fair values of each main class of assets held by the Fund as at 31 March 2009 and the expected rates of return for the ensuing year are set out in the following table:

	2009		2008		2007	
	<i>Fair</i>	<i>Expected</i>	<i>Fair</i>	<i>Expected</i>	<i>Fair</i>	<i>Expected</i>
	<i>Value</i>	<i>Return</i>	<i>Value</i>	<i>Return</i>	<i>Value</i>	<i>Return</i>
	£000	%	£000	%	£000	%
Equities	1,592	7.0	2,071	7.3	2,421	7.2
Gilts	554	4.0	730	4.5	627	4.4
Other bonds	202	6.5	289	6.6	256	5.4
Property	235	6.6	357	6.8	453	6.7
Cash	230	3.0	399	5.0	182	5.0
Total	<u>2,813</u>	<u>6.0</u>	<u>3,846</u>	<u>6.4</u>	<u>3,939</u>	<u>6.5</u>
	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>

Under the Dorset County Council Pension Fund, it is not possible separately to identify each main class of assets with a particular member of the Scheme. The above assets as a whole are allocated to participating bodies on a consistent and reasonable basis. The assets have been valued using estimated bid values for 2009. In previous years mid market values were used. The difference is immaterial and prior year figures have not been adjusted.

24. PENSION ARRANGEMENTS (Continued)

Magna Housing Group Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2009

The Association's share of the net assets and liabilities of the Fund is set out below:

	2009 £000	2008 £000	2007 £000	2006 £000
Share of assets in Dorset County Council Pension Fund	2,813	3,846	3,939	3,729
Estimated liabilities in Dorset County Council Pension Fund	(4,464)	(4,743)	(4,949)	(4,833)
Association's share of deficit in the Fund	<u>(1,651)</u>	<u>(897)</u>	<u>(1,010)</u>	<u>(1,104)</u>

AMOUNT CHARGED TO OPERATING SURPLUS/(DEFICIT)

Current service cost	(163)	(137)	(146)	(136)
Curtailments and settlements	-	-	-	(5)
Total operating charge	<u>(163)</u>	<u>(137)</u>	<u>(146)</u>	<u>(141)</u>

ACTUARIAL (LOSSES)/GAINS

Actuarial (losses)/gains recognised in Statement of Recognised Surpluses and Deficits - £000	(573)	161	139	86
Actuarial (losses)/gains recognised in Statement of Recognised Surpluses and Deficits as a percentage of scheme liabilities at the balance sheet date - %	(12.8%)	3.4%	2.8%	1.8%

AMOUNT CHARGED TO OTHER FINANCE INCOME

	2009 £000	2008 £000
Expected return on pension scheme assets	246	258
Interest on pension scheme liabilities	(316)	(277)
Net return	<u>(70)</u>	<u>(19)</u>

24. PENSION ARRANGEMENTS (Continued)

Magna Housing Group Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2009

The movement in the net deficit for the year to 31 March 2009 is as follows:

	2009		2008	
	£000	£000	£000	£000
Net deficit at 1 April 2008 as reported		(897)		(1,010)
Adjustment for change in methodology		(38)		-
		<u>(935)</u>		<u>(1,010)</u>
Movement in the year:				
Operating charge - Current service cost	(163)		(137)	
Past service costs	(14)		-	
Contributions	104		108	
Other finance income	(70)		(19)	
Total Finance Income		<u>(143)</u>		<u>(48)</u>
Actuarial (loss)/gain		(573)		161
Net deficit at 31 March 2009		<u>(1,651)</u>		<u>(897)</u>

Social Housing Pension Scheme

The Group and the Association participate 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 set out in the "SHPS House Policies and Rules Employer Guide".

There are three benefit structures available. The Association has continued to operate the final salary, with a 1/60th accrual rate, benefit structure for active members.

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 future investment returns.

During the accounting period the Association paid contributions at the rate of 16.4%. Member contributions varied between 4.1% and 6.1% depending on their age.

As at the balance sheet date there were 45 active members of the Scheme employed by the Group and 36 active members employed by the Association. The annual pensionable payroll for the Group in respect of

Magna Housing Group Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2009

24. PENSION ARRANGEMENTS (Continued)

those members was £1,074,854 (Association: £888,840). The Group and the Association continue to offer membership of the Scheme to their employees.

The total pension cost for the Group for the year in respect of this Scheme was £176,697 (2008: £181,317 (Association: £146,191; 2008: £148,686). Employer contributions to the Scheme of £16,999 (2008: £15,453) were included in creditors and paid after the year end (Association £14,363; 2008: £13,035).

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 2008 by a professionally qualified actuary using the Projected Unit Method. The market value of the Scheme's assets at the valuation date was £1,527 million. The valuation revealed a shortfall of assets compared with the value of liabilities of £663 million, equivalent to a past service funding level of 70%.

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

Valuation Discount Rates:

- Pre retirement	7.8% per annum
- Non pensioner post retirement	6.2% per annum
- Pensioner post retirement	5.6% per annum
- Pensionable earnings growth	4.7% per annum
- Price inflation	3.2% per annum

Pension increases:

- Pre 88GMP	0.0% per annum
- Post 88 GMP	2.8% per annum
- Excess over GMP	3.0% per annum

The long-term joint contribution rate that will apply from April 2010 required from employers and members to meet the cost of future benefit accrual was assessed at 17.8% of pensionable salaries.

Following consideration of the results of the actuarial valuation it was agreed that the shortfall of £663 million would be dealt with by the payment of deficit contributions of 7.5% of pensionable salaries, increasing each year in line with salary growth assumptions, from 1 April 2010 to 30 September 2020, dropping to 3.1% from 1 October 2020 to 30 September 2023. These deficit contributions are in addition to the long-term joint contribution rates noted above.

25. GROUP MEMBERS

Magna Housing Group Limited (#), is the Parent Association of the Group.

Magna Housing Group Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2009

All Group bodies are incorporated in England and Wales.

The Association provides corporate services to other Group bodies which are recharged to them through a management charge.

Subsidiaries which are registered under the Industrial and Provident Societies Acts 1965 to 2002:

Magna Housing Association Limited * #

Magna West Somerset Housing Association Limited * #

Magna Careline Limited * (a subsidiary of Magna Housing Association Limited)

Notes * The Parent Association exerts dominant influence over these subsidiaries by controlling the composition of their Boards. # Registered Social Landlord.

Subsidiary registered under the Companies Act 1985

Charter (S.W.) Limited

This company is a wholly owned subsidiary of Magna Housing Group Limited.

26. LEGISLATIVE PROVISIONS

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

27. PRIOR YEAR ADJUSTMENT

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

The effects of the change in policy is summarised below:

Income and Expenditure Account Restatement for the Year Ended 31 March 2008

	<i>2008</i>
	<i>£000</i>
Turnover as previously stated	33,405
Add: proceeds from sale of Low Cost Home Ownership first tranches	1,538
	—
Turnover as restated (Note 2)	34,943
	—
Operating costs as previously stated	30,120
Add: cost of sales of Low Cost Home Ownership first tranches	1,248
	—
Cost of sales as restated (Note 2)	31,368
	—

Magna Housing Group Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2009

27. PRIOR YEAR ADJUSTMENT (CONTINUED)

Balance sheet fixed asset housing properties	<i>2009</i>	<i>2008</i>
	<i>£000</i>	<i>£000</i>
Low Cost Home Ownership housing properties at beginning of year as previously stated	3,794	1,552
Add: accumulated first tranche surpluses from prior year 2008	290	-
Add: accumulated first tranche surpluses from 2007 and prior years	385	385
Less: transfer to current assets representing costs of Low Cost Home Ownership attributable to the making of first tranche sales 2008	(539)	-
Less: transfer to current assets representing costs of Low Cost Home Ownership attributable to the making of first tranche sales in 2007 and prior years	(693)	(693)
	<hr/>	<hr/>
Fixed asset Low Cost Home Ownership properties at the beginning of the year, as restated (Note 9)	3,237	1,244
	<hr/>	<hr/>
 Balance sheet current assets	 <i>2009</i>	 <i>2008</i>
	<i>£000</i>	<i>£000</i>
Low Cost Home Ownership housing properties at beginning of year as previously stated	-	-
Add: transfer from fixed asset housing properties 2008	1,787	-
Add: transfer from fixed asset housing properties 2007 and prior years	1,979	1,979
Less: transfer to operating costs when sold in 2008	(1,248)	-
Less: transfer to operating costs when sold in 2007 and prior years	(1,286)	(1,286)
	<hr/>	<hr/>
Current asset Low Cost Home Ownership properties at the beginning of year, as restated (Note 13)	1,232	693
	<hr/>	<hr/>
 Balance sheet revenue reserves	 <i>2009</i>	 <i>2008</i>
	<i>£000</i>	<i>£000</i>
Surplus from Low Cost Home Ownership first tranche Sales representing:		
accumulated first tranche proceeds	1,538	1,672
accumulated cost of sales	(1,248)	(1,287)
2008 opening adjustment	385	-
	<hr/>	<hr/>
Prior year adjustment to opening revenue reserves	675	385
	<hr/>	<hr/>